

Proposed Approach to Formulating a Permanent Medallion System for San Francisco

Introduction

It is the responsibility of the Taxi Advisory Council to recommend to the MTA a long-term Medallion Reform Program. (Transportation Code Section 1116(k). Now that the Pilot Program is winding down, Council should begin that discussion. All options should be on the table for a permanent program. Any significant changes to the Pilot Program (such as the recommendation made at the meeting of Sept. 26 to lower the age for medallion sellers to 60) would constrain the discussion and preempt some of the choices that might be made. Therefore, I believe the pilot program should be maintained as-is until a permanent system is put in place. I would however, support a provision allowing medallion holders who have turned 70 or become disabled since the program began to enter the program while a permanent system is under discussion.

Approach

Because of the importance of this issue to drivers and the industry at large, a comprehensive and systematic approach to developing such a system is needed. I am putting forward not a “business plan”, but a series of basic questions whose answers could provide the framework for the new system. The details can follow. I believe this methodical approach will be most likely to produce solidly grounded recommendations.

As I pose these questions, I have given my own responses. I recognize that others will have different answers, and that other questions could undoubtedly be asked.

Questions

- 1) *Should medallions continue to be sold under the new system?***
Although I have opposed the sale of medallions, I recognize that this is an established fact and not likely to change. I also note that the Council has made a preliminary recommendation for the continuation of medallion sales. So I will assume this will be a permanent feature of the system.

- 2. *Assuming medallions are to be sold, should the sales price remain fixed, or should they be sold at market value?*** The price should remain fixed. An auction system could result in outlandish prices, such as those in New York City, where the price is now \$700,000-\$1 million, depending on the type of medallion. I believe these medallions are greatly over-valued, and that the bubble may one day burst.

- 3. *Assuming a fixed medallion sales price, what should that price be?***
Though I would like to see medallions sold for as little as possible, I recognize that medallion purchasers have a stake in the maintenance of the price they paid. But I do not believe the price should be raised. The

current price was devised to allow medallion purchasers to make loan payments from the proceeds of their medallion fees (assuming a gates-and-gas operation). Another reason for maintaining the fee at its present level is that the holder who received a medallion under the Prop K system made no investment, and any proceeds of sale are an unexpected bonus. There is no good reason for increasing that windfall. The medallion purchaser is also aware of the conditions of purchase and sale, so keeping the current price affordable for other drivers should harm no one's expectations.

4. *Should medallions be issued exclusively to qualified cab drivers?*

They should. This is one aspect of the system that should be retained, as it has provided a door of opportunity to workers who otherwise would be in a dead-end job. To the extent that medallions are issued to cab companies or others, drivers will be denied that opportunity. It is also of value to the public to have the person responsible for the cab behind the wheel. For that reason, a driving requirement should apply to all medallion holders.

5. *Should a certain number or percentage of medallions remain non-transferable and be permanently reserved for issuance to qualified drivers?*

Yes. This will honor the long years of driving and legitimate expectations of people on the waiting list and allow drivers whose financial or life circumstances (e.g., their age) make purchase impossible or impractical.

6. *If some medallions are to be permanently non-saleable, how can that be accomplished?*

I believe the best approach would be to allow current medallion holders the choice, under conditions to be determined, of either selling their medallions or relinquishing them in exchange for a continuing income. The income would be financed through a fund to which all K-system medallion holders would contribute. (Since K medallion holders have no investment in the medallion, requiring this contribution in exchange for the right to sell or retire is reasonable.) The MTA would establish guidelines for an approximate ratio of saleable to non-saleable medallions, and would seek to maintain that goal through either the issuance or sale of returned, revoked or new medallions. Medallions of holders who opt not to sell would remain permanently non-transferable, subject to the need to maintain the desired ratio.

7. *How is the Driver Fund to be implemented?*

An elected or appointed Board of Directors, composed of drivers, should oversee the fund and determine how it is to be used. Fund financing should be enhanced by tapping other sources of contributions, including drivers, companies, medallion holders, and enhanced portion of medallion sales proceeds, etc. Only that way will the Fund have sufficient resources to provide meaningful improvements in drivers' lives.

8. Should the MTA have a financial stake in medallion sales? It should not. The agency's role as a regulator is tainted by its financial interest in medallion sales. I believe money now going to the agency from medallion sales should be redirected to the Driver Fund. If the MTA is unwilling to give up its share of revenues from the private sale of medallions, at least it should relinquish the benefit it gains from direct sales, since that clearly constitutes a conflict of interest in the light of its regulatory functions.

Impacts

Although the above is not presented as a plan per se, the responses I have proposed would have the following impacts:

- i. **Drivers:** Medallions would continue to be issued exclusively to qualified drivers. Drivers would have two paths to obtaining a medallion: through purchase or issuance. Those who have waited long years on the list and cannot afford to buy a medallion would still have hope of getting one.
- ii. **Permit holders:** K permit holders would have the choice of selling or relinquishing the medallion in exchange for continuing income. They would be giving up a portion of their current earnings for that privilege.
- iii. **Cab companies:** Cab companies would continue to operate as they currently do, leasing medallions or providing color scheme services.
- iv. **SFMTA:** The MTA would be precluded from profiting from regulatory decisions concerning taxi medallions. This will remove a conflict of interest and ensure that regulatory decisions are being made for the right reasons.
- v. **Service to the public:** The public will benefit from allowing drivers who cannot afford a medallion to be issued one, as this will retain experienced drivers in the industry. Keeping the medallion price fixed at its current level would also provide the public with some protection against rate increases predicated on the level of indebtedness of medallion holders. And the public will continue to benefit from the fact that the person responsible for the cab is behind the wheel.

Transition plan

A transition would occur as medallion holders chose either to sell their medallions or relinquish them for a continuing income. Once medallions have been designated for sale or reissuance, they would generally remain as such.

Submitted by Mark Gruberg
10/15/11

To: Taxi Advisory Council, et al
From: Carl Macmurdo
Re: Taxi medallion distribution
Date: October 2011

Proposal for future taxicab medallion distribution

Background information and commentary

San Francisco taxi service is lacking at times, and fleet increases are inevitable. In terms of defining a permitting mechanism for issuing future medallions, a major conflict exists between the following possibilities:

- (1) perpetuating the legacy system created under Proposition K of 1978, wherein over 3,000 persons have entered their names onto an expectation list hoping to obtain a non-purchased taxi medallion, and
- (2) effectuating the concept that future medallion issues might rightfully be sold by SFMTA as a valuable city asset, and that failure to do so actually is irresponsible public policy.

Four years ago, Mayor Newsom announced to the media that the city needed to begin selling taxicab medallions, rather than giving them away. The Mayor's Public Policy Director, Julian Potter, met with Jim Gillespie (now general manager at Yellow Cab), Martin Smith (former taxicab commission president, now a manager at Luxor Cab), and myself. Ms. Potter asked us to find a way to transition from the waiting list system to a new one allowing medallion sales. She stated that top listers needed to be accommodated equitably in the transition, rather than having the city "pull the rug out" from beneath them. The proposal below intends to create an equitable transition policy.

Over time, the Prop. K permitting mechanism has become dysfunctional. As shown in the attached excerpt from data compiled by the taxi commission in 2004, many new medallion holders are at or beyond logical retirement age when their names finally make it to the top of the waiting list. Because regulators have determined that full-time driving is an essential requirement for holding a Prop. K medallion, many elderly permittees are pressured to drive beyond their physical capability. This ill-advised policy has caused many problems --- major accidents, taxi company insurance liability losses, reduced public service, etc. At least two K permittees committed suicide --- rather than endure the ordeal, expense, and humiliation of revocation hearings --- after having had their medallions revoked because disabilities prevented them from meeting city-mandated driving requirements. Two lawsuits have resulted in about eight years of litigation basically regarding whether the city is in violation of Federal disability law.

The Americans with Disabilities Act lawsuit appeal recently pending before the Ninth Circuit was settled by allowing the two disabled named plaintiffs to sell their medallions to other taxi drivers under the Medallion Sales Pilot Program ("Pilot"). Notably, about

150 taxi drivers have purchased medallions under the auspices of Proposition A of 2007, so that 10% of permittees now hold “Prop. A” medallions.

This paper also addresses ancillary concerns related to medallion distribution ---- developing a small menu of additional exit options for the aging current generation of Prop. K and pre-K permittees, plus possibly increasing standards for new medallion holders.

Proposal

(note: attached is a chart describing new medallion issuance from 1978 to present.)

Issue 200 new taxi medallions during the next two years, the first 100 (technically Prop. K medallions) to be issued without purchase to waiting list applicants. The 101st medallion (technically a Prop. A medallion) is discounted, so that only \$50,000 is collected from the purchaser, the 102nd permit selling for \$52,000 , and so on with the 200th medallion selling for \$248,000. All subsequent medallions will sell for \$250,000 , or whatever full, set price is in effect. At this point the waiting list for non-purchased medallions will have morphed via a graduated discount feature into a preference list for purchasing a medallion for the full, set price in effect. Logically, medallions which are returned to SFMTA for reasons such as permittee death can be utilized as part of the 100 total medallions needed to effectuate the transition to a sales model at the full, set price.

Proposed legislation, almost certain to be approved, will assign transfer rights to purchasers of Prop. A medallions. As noted later in this paper, it may evolve that K and pre-K medallion holders will be able to purchase transfer rights for a fee --- likely in the \$40,000 range. Noting that resale fee percentages in other jurisdictions are much lower than the 20% currently defined in the Transportation Code, San Francisco should reduce its rate significantly. In New York City, the resale fee is 5% for previously purchased medallions. A similar, relatively low resale fee rate should apply to Prop. A medallions and also to any K and pre-K medallions for which transfer rights are subsequently purchased.

Positive and negative effects of the proposal

Per taxi staff’s request, here is a description of how the above proposal might impact the five specified stakeholder groups:

(1) Drivers: 200 extra taxis will increase competition and may reduce income somewhat. Adding extra taxis will provide jobs for more taxi drivers. Those on the waiting list will have a greater opportunity to obtain medallions.

(2) Permit holders: Increasing medallion supply by 200 may slightly decrease the value of an individual medallion.

(3) Cab companies: Having extra medallions to operate is beneficial.

(4) SFMTA: The city will receive significant revenue.

(5) Overall service to the public: The additional taxis should improve availability and overall service.

Menu of additional possible exit strategies

Developing additional exit options for the approximately 1,000 K and 400 pre-K permittees will enhance medallion redistribution by improving incentives for qualified sellers. Here are some possibilities, which the Taxi Advisory Council or some other body might consider for policy development:

(1) A one-month annual application process window to commit to selling, with the heirs of the medallion holder being allowed to sell the medallion if the permittee dies prior to the sale being effectuated.

(2) A waiver of driving requirements for K permittees who agree to sell within a designated time frame, e.g., six years.

(3) Conditional purchase of transfer rights for K permittees who intend to drive full-time for years to come but also want to protect their heirs. The extra fee charged in such cases might be conditional as to the length of time the medallion can be retained prior to sale, or possibly linked to meeting full-time driving requirements. Similarly, pre-K's might be able to purchase transfer rights in exchange for agreeing to sell their medallions within a specified time frame.

(4) Allowing a very limited number of K permittees to contractually cede their medallions to the city upon death, in exchange for operating their medallions for life without driving requirements.

Increased standards for new medallion holders

The city may wish to improve medallion holder quality by setting higher standards for comprehensive geographical knowledge testing of prospective new medallion holders, having specific motor vehicle driving record standards, etc.

FIRST PROPOSAL: I propose that drivers who purchase a medallion be allowed to keep their place on the medallion list and receive an earned medallion when their name comes up.

- Drivers high on the list are left in limbo because the taxi industry is making rules as we go while at the same time drivers are losing their chance to buy a medallion while waiting for an earned medallion.

- When their name comes up on the earned medallion list, the driver could then sell the medallion that they purchased.

- The transfer fee should be reduced depending on how many years the medallion was owned.

SECOND PROPOSAL: I propose a way to deal with the earned medallion list. (The way it is now, the last person who received a medallion paid \$0. The next person on the list will have to pay \$250,000. It should be prorated according to the number of years on the list, or even better, a combination of years on the list and years actually driven.)

- Take the number of years that the first driver on the list has waited to get an earned medallion as of the date the list was closed.

- Divide \$250,000 by that number. Reduce the price of the medallion by that amount for each year a driver was on the list. If the first driver on the list had been waiting 15 years, that would be \$250,000 divided by 15 which would be \$16,667 per year. For example, if you had been waiting on the list one year when the list was closed, the price for a medallion would be \$233,000 for that person when their name comes up ($\$250,000 \text{ minus } \$16,667 = \$233,000$). (If a driver had been waiting on the list 12 years, the price would be reduced by $12 \times \$16,667 = \$200,000$, so the price would be \$50,000.)

- Transfer fees could also be prorated according to the number of years on the list.

- Over the last year, different segments of the taxi industry have been dealt with regarding medallions.

- Medallion holders over 70 years of age have received \$250,000 each for the sale of a medallion.

- Handicapped medallion holders have received \$250,000 each for the sale of a medallion.

- SFMTA has received revenue from transfer fees.

- SFMTA has received revenue from direct sales of medallions.

- 50 long time A-card holders will get peak time cabs.

- Many drivers have been allowed to jump the list to buy medallions.

- The one group that has been left out are the drivers on the list, especially drivers

- high on the list. This would provide fair access to taxi medallions for this group.

- Drivers would benefit by having the list move and eventually get a medallion through the medallion list or A-card seniority.
- Permit holders could still sell medallions.
- Cab companies would have drivers getting medallions joining their companies.
- SFMTA would get transfer fees.
- Service would be provided to the public by experience drivers who have proven their dedication and who now would have a stake in the success of the taxi industry

There were 711 San Francisco taxi medallions when Proposition K of 1978 became taxi law. As of August 2011, there are now 1,587 authorized medallions. The additional 876 medallions were issued after Public Convenience and Necessity hearings over the years, as conducted by the regulators (Police Commission and Taxi Commission). Now, the San Francisco Municipal Transportation Agency regulates the taxi industry. Here are the approximate dates of new medallion issuance since 1978:

1984 = 50 new medallions

1987 = 50

1992 = 50

1996 = 120

1998 = 300 (issued by the Board of Appeals)

2000 = 100

2007 = 50

2008 = 69

2011 = 87 (note: 50 regular medallions, 2 electrical vehicle permits, 50 part-time permits as a pilot program experiment)

Total = 876

Notes:

1978-2011 = 33 years.

876 new medallions issued in 33 years = 26.5 per year on average.

Data provided by Carl Macmurdo.

An Outline for Continuing the Pilot Plan

by
Ed Healy

I think the Pilot Plan as it is benefits most of the people in the industry and should continue with these modifications.

The Waiting List should continue until all the drivers on it have been given their earned medallions.

1. All new medallions issued as well as revocations should go to the drivers on the list.
2. This would be a just reward for their hard work and dedication.
3. This would help service by keeping experienced drivers in the business.
4. It would also help younger drivers who want to buy by keeping the Buyers List and Waiting list separate.
 - a. If the Waiting List disappeared many older drivers would opt to buy cabs thus keeping the younger waiting longer.
5. It would also continue a medallion system which is the fairest in the country.

The Age for Selling should be lowered to 65.

1. This is a normal retirement age.
2. It would limit the number taxis sold to about 100 or 150.
3. The industry cannot absorb too many more changes than this in year.

All taxicabs should be operated on a “gates and gas” basis.

1. No new issues should be allowed to be worked on Affiliate or Long Terms Lease.
2. Cabs that are currently being worked as LTL's or Affiliates should gradually be converted over, say, a two or three period in order to do as little harm as possible to the drivers working under these systems.
 - a. as much as possible, the drivers should be allowed to keep their shifts.
3. This would help the company because “G&G” are more profitable and would make their businesses more predictable.
4. It would help drivers by insuring that no more “G&G” shifts are lost.
5. Much of the corruption in this business (illegal subleasing) appears to be tied to the LTL's
 - a. G&G as easier for the MTA to police.

- b. It would be more difficult for drivers to be exploited by having to pay excessive fees to get a shift.
- 6. It would give better service to the public by insuring that cabs are driven by professional drivers instead guys without A-Cards.

The SFMTA should get only 10% for medallion instead of 15%. In other words, 10% of medallion sales should go to the MTA and 10% to the Driver's Fund.

- 1. This would still give the MTA something around \$3,750,000
 - a. $250,000 \times 10\% = 25,000 \times 150 = 3,750,000$.

All the money the SFMTA takes in should be put back into the cab industry.

- 1. This would include money to improve streets so cabs can flow faster and improve regulation of public events.
- 2. Cab drivers and taxi companies are already paying city taxes (nobody can avoid sales taxes). It's not right that we should pay more.
- 3. The money should go into improved training of drivers and enforcement against cab company corruption, illegal limos and so forth.
- 4. And so forth could include studies and methods of improving service to the public.
- 5. Any excessive money above the afore mentioned should go into the Drivers Fund.

There should be a Cab Driver's Bill of Rights that should include:

- 1. The right not to tip. A sign to this effect should be posted at every dispatching window and would include a number to call if this right is violated.
- 2. The assignment of all taxis to drivers who would have regular shifts.
- 3. A pro-rata reduction of the gate if the driver isn't (for whatever reason) allowed to work the entire shift for which he or she contracted.
- 4. Improved communication with taxi companies and the police in case of emergencies, harassment, assaults or robberies.
- 5. Improved training on the deal with or avoid the above situations.
- 6. Better training for new drivers.
- 7. The use of the Driver's Fund to help finance medical and retirement programs.
- 8. The rest to be decided by drivers.

From: Bose, Sonali [mailto:Sonali.Bose@sfmta.com]
Sent: Monday, October 10, 2011 12:13 PM
To: Chris Sweis
Cc: bkor@pacbell.net; Reiskin, Ed; Hayashi, Christiane; Harris, Michael
Subject: RE: Directives for TAC

Chris - we can make a joint presentation. The TAC Chair can present the TAC's recommendations at the Board meeting and staff can present our assessment and thoughts on the TAC's report/recommendations. Does that work?

From: Chris Sweis [royaltaxi@sbcglobal.net]
Sent: Monday, October 10, 2011 12:07 PM
To: Bose, Sonali
Cc: bkor@pacbell.net; Reiskin, Ed; Hayashi, Christiane; Harris, Michael
Subject: RE: Directives for TAC

Sonali,

Would the chair present the recommendations or would they be presented by staff? I will relay the request for a unified recommendation and do my best to make sure it is complied with.

Thanks,

Chris

From: Bose, Sonali [mailto:Sonali.Bose@sfmta.com]
Sent: Monday, October 10, 2011 11:19 AM
To: royaltaxi@sbcglobal.net
Cc: bkor@pacbell.net; Reiskin, Ed; Hayashi, Christiane; Harris, Michael
Subject: Re: Directives for TAC

Yes, your recommendation would be presented to the Board along with a staff report providing the Board with staff's thoughts on the TAC's recommendations.

Please confirm that there will be one joint report with a set of unified recommendations from the TAC and not multiple reports from individual TAC members with their recommendations. If there are multiple reports/recommendations that will present issues re: Board's consideration.

Sonali Bose
Finance & Information Technology

San Francisco Municipal Transportation Agency (SFMTA)
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From: Chris Sweis <royaltaxi@sbcglobal.net>
To: Bose, Sonali
Cc: bkor@pacbell.net <bkor@pacbell.net>; Reiskin, Ed; Hayashi, Christiane; Harris, Michael
Sent: Mon Oct 10 11:06:09 2011
Subject: RE: Directives for TAC

Sonali,

Thank you for the email, that should suffice. Can you also please clarify for me the "chain of command" that the TAC is to abide by? Initially we were under the impression that when a recommendation was made that we would present it to the board for consideration but we have since learned this is not the case. Can we make it the case? If not please clarify what happens to our recommendations and how they will be considered for adoption or not.

Thank you,

Chris Sweis

From: Bose, Sonali [mailto:Sonali.Bose@sfmta.com]
Sent: Monday, October 10, 2011 10:59 AM
To: royaltaxi@sbcglobal.net
Cc: bkor@pacbell.net; Reiskin, Ed; Hayashi, Christiane; Harris, Michael
Subject: Re: Directives for TAC

Chris - Will an email do?

Yes, when we met with Ed we agreed that the TAC should explore alternatives to the current Medallion Sales Pilot Program and provide recommendations. This effort should be completed by the end of December.

If you can also define a transition plan for whatever direction the TAC recommends for the industry by the end of December that would be helpful as well.

Let me know if you need something more formal. Thank you.

Sonali Bose
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From: Chris Sweis <royaltaxi@sbcglobal.net>
To: Bose, Sonali
Cc: Barry Korengold <bkor@pacbell.net>
Sent: Mon Oct 10 10:51:58 2011
Subject: Directives for TAC

Hi Sonali,

I relayed to the council members the direction for the TAC that we discussed a few weeks ago. Several of them asked that I bring them something in writing from you. Can you email me confirming that you would like us to explore alternatives to the current Medallion Sales Pilot Program? Can you also please confirm that you would like us to define a transition plan for whatever direction we recommend for the industry?

Thanks,

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