

DRAFT

THIS PRINT COVERS CALENDAR ITEM NO. : _____

**SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY**

DIVISION: Taxis and Accessible Services

BRIEF DESCRIPTION:

Requesting the Board to adopt amendments to Transportation Code Sections 1103 and 1116 to authorize transferring taxi medallions to the first 150 qualified taxi drivers on the taxi medallion waiting list (“waiting list”) at a discounted medallion price, and to provide that the SFMTA will no longer issue taxi medallions to drivers on the medallion waiting list for the cost of an application fee.

SUMMARY:

- Between 1978 and 2012, taxi medallions were distributed to drivers in the order of their seniority on the waiting list at the cost of an initial application fee to get one’s name placed on the waiting list (ranging from \$200 in 1999 to \$450 in 2009), and a subsequent application fee when the name rose to the top of the list and the qualifications of the applicant were examined.
- As part of the Taxi Medallion Sales Pilot Program (“Pilot Program”), 60 medallions were distributed to the waiting list, to match the 60 medallions that were sold by the SFMTA (as opposed to being transferred by an existing medallion holder).
- In addition, 232 medallions were transferred by individual medallion holders to drivers on the waiting list during the Pilot Program. Drivers were sent offer letters for these medallions in order of their seniority on the waiting list.
- On August, 21, 2012, the Board adopted amendments to the Transportation Code to convert the Pilot Program into a permanent medallion distribution program, titled the Medallion Transfer Program. As part of these amendments, the medallion price was raised from \$250,000 to \$300,000.
- The August 21 Transportation Code amendments did not address whether or not taxi medallions would continue to be distributed to the list for the cost of an application fee, as has been the practice under Proposition K. It also allowed, but did not require, the SFMTA to sell medallions that were returned to the SFMTA for any reason, and, with the approval of the SFMTA Board, to sell new medallions. At that hearing, many drivers on the list requested clarification on the status of the waiting list.
- The Board requested a recommendation from staff as to how to process medallion applicants on the waiting list under the newly adopted Medallion Transfer Program.
- Staff recommends that 150 medallions be transferred to the first 150 qualified applicants on the waiting list at a price of \$150,000 each, and that no further medallions be distributed to applicants on the waiting list for the cost of the application fee.

ENCLOSURES:

1. SFMTAB Resolution
2. Proposed Transportation Code amendments.

APPROVALS:

DATE

DIRECTOR OF DIVISION PREPARING ITEM _____

FINANCE _____

DIRECTOR _____

SECRETARY _____

ADOPTED RESOLUTION

BE RETURNED TO Chris Hayashi

ASSIGNED SFMTAB CALENDAR DATE: _____

PURPOSE

Requesting the Board to adopt amendments to Transportation Code Sections 1103 and 1116 to authorize transferring taxi medallions to the first 150 qualified taxi drivers on the taxi medallion waiting list (“waiting list”) at a discounted medallion price, and to provide that the SFMTA will no longer issue taxi medallions to drivers on the medallion waiting list for the cost of an application fee.

GOAL

- Goal 4: Create a workplace that delivers outstanding service.
- Objective 4.4: Improve relationships and partnerships with our stakeholders.

This proposal would improve the SFMTA’s relationship with taxi drivers by providing a transition from the 34 year-old system of medallion distribution under Proposition K to the newly-adopted Medallion Transfer Program.

DESCRIPTION

History of the Waiting List

Proposition K (“Prop K”) was passed by the voters on June 30, 1978. It required that San Francisco taxi medallions be issued only to working taxi drivers. The San Francisco Police Department accepted 183 applications for “Post-K” medallions on July 3, 1978.

The language of Prop K did not give clear procedural guidance, and the Police Department struggled to implement its requirement for public convenience and necessity hearings for the first few years. To resolve the matter, in December, 1982 the Police Commission adopted Resolution 1026 to establish biannual public convenience and necessity hearings. At that time, medallion applicants were required to re-file their applications prior to each hearing in order to be considered for a medallion.

Medallion applicants objected to paying a new application fee and losing their applicant seniority at each new public convenience and necessity hearing. Accordingly, in May, 1983 the Police Commission created the taxi medallion waiting list by adopting Resolution 616. Resolution 616 superseded Resolution 1026, and provided that a medallion applicant need only file their application one time and their priority on “the list” would be preserved for all future public convenience and necessity hearings.

Between 1983 and 2012, taxi medallions were distributed to drivers in the order of their seniority on the waiting list. The cost to the taxi driver to acquire a medallion under this system consisted of an initial fee to get one’s name placed on the waiting list (ranging from \$200 in 1999 to \$450 in 2009), and a subsequent application fee when the name rose to the top of the list and the qualifications of the applicant were examined (from \$550 in 1999 to \$1,794.50 today). In order to receive a medallion, the driver must prove that he or she is a “full-time driver”, who has driven at least 800 hours per year during four out of the previous five years.

Between 2001 and 2012, medallions have been distributed to taxi drivers on the waiting list at the average rate of 65 per year. Until the waiting list was recently reduced by half (see below), approximately half of the applicants qualified to receive a medallion. Thus, distributing an average of 65 medallions per year moved the list an average of 130 spaces annually over the past 12 years. Currently, people who are receiving medallions under the existing waiting list system have been on the waiting list for 16 years.

By March 1, 2009, when the SFMTA acquired jurisdiction over taxi regulation, the waiting list had more than 3,300 names of applicants.

In December, 2009, the SFMTA closed the waiting list to new applicants in anticipation of the Taxi Medallion

Sales Pilot Program, which proposed using a system of driver permit seniority to distribute medallions after the waiting list was exhausted. Between 2009 and 2012 the waiting list was reduced to 2,800 through processing applications, *i.e.* issuing medallion permits to qualified individuals on the waiting list.

In August, 2012, SFMTA Taxi Services reduced the waiting list by about half by removing the names of people who did not hold driver permits, as is required by regulation. There are currently 1,439 names on the waiting list. Following this clean-up of the waiting list, applicants for medallions are qualifying at a rate of about 66 percent, meaning that there are probably approximately 950 qualified taxi driver applicants on the current waiting list. Over 550 of these applicants signed up for the waiting list between 1996-1998, when the Taxi Commission issued over 500 new medallions during Mayor Brown's administration. Accordingly, a third of all applicants, and by projection more than half of qualified applicants, have been on the waiting list for 14 years or more.

Medallion Transfers and the Waiting List

As part of the Pilot Program adopted by the Board in February of 2010, 60 medallions were distributed to the waiting list, to match 60 medallions transferred by the SFMTA, medallions that would have otherwise gone to individuals at the top of the list under the Prop K system. In addition, 232 medallions were transferred by individual medallion holders to drivers in order of their seniority on the waiting list during the Pilot Program.

The initial Pilot Program legislation prescribed the process for setting the Medallion Sale Price, and placed an upper limit of \$400,000 on the price. After consultation with private lenders and members of the taxi industry, the Director of Transportation set the price at \$250,000. That price was selected because it represented an amount that could be financed by the lending institutions and that could be repaid by a taxi driver using the income from the medallion permit.

On August, 21, 2012, the Board adopted amendments to the Transportation Code to convert the Pilot Program into a permanent medallion distribution program. As part of these amendments, the price, now called the Medallion Transfer Price, was raised from \$250,000 to \$300,000.

The August 21 Transportation Code amendments did not address whether or not the SFMTA would continue to distribute taxi medallions to the list for the cost of an application fee, as has been the practice under Proposition K. While the legislation allowed the SFMTA to continue to distribute returned medallions in that fashion, it also allowed the SFMTA to transfer returned medallions under the Medallion Transfer Program. The legislation also allowed the SFMTA, with the approval of the SFMTA Board, to transfer newly-issued medallions under the Medallion Transfer Program. At that hearing, many drivers on the list requested clarification on the status of applicants on the medallion waiting list.

Waiting List Proposal

The challenge presented by the new Medallion Transfer Program is to transition between a 34 year-old system of medallion distribution under which no one had to make a personal financial investment, to a system where all new medallion owners will be required to pay \$300,000 for their medallion, including the requirement of coming up with a down payment for the medallion financing. Federal lending rules require at least 20% equity in business loans. Accordingly, a \$300,000 medallion will require a \$60,000 down payment.

A down payment assistance program was developed under the Pilot Program for any driver who acquires a medallion from an individual medallion holder. Pursuant to that program, 15 percent of the transfer proceeds (\$37,500) are held in the seller's name in a high-yield (four percent) certificate of deposit to subsidize the driver's down payment, and the driver remained responsible for at least five percent of the loan amount (\$12,500). Funds from the certificate of deposit are released to the seller when the borrower repays the loan principal, with the accrued interest periodically paid to the seller.

The SFMTA is working toward establishing a revolving fund that will provide collateral in order to continue providing down payment assistance to those drivers who acquire medallions directly from the SFMTA in the permanent Medallion Transfer Program.¹ However, even with down payment assistance, a minimum \$15,000 down payment will now be required of the driver due to the increase in the medallion transfer price. For a taxi driver who has relied in good faith upon the prior system for 16 years or more, it is likely to be difficult to suddenly identify \$15,000-\$60,000 of personal funds to make a down payment to purchase a medallion.

Staff recommends that the Board adopt a discounted medallion price for qualified applicants who are high on the waiting list, and who have had no notice that in order to acquire a medallion, it will now be necessary to save money for the down payment on a loan. Staff recommends that the first 150 qualified medallion applicants be offered a medallion at a discounted price.

Staff has confirmed with San Francisco Federal Credit that a discounted medallion price of up to \$230,000 would not require a down payment from the driver as there would be sufficient equity in the asset for the lender to proceed with loan. However, staff recommends that the discounted price be considerably lower than \$230,000 because the people who are very high on the waiting list also have relied upon the system that has been in place for decades to plan their personal affairs, and they were imminently expecting their income to double from the medallion revenue. The price should be low enough to allow these drivers to enjoy substantial new income above and beyond the medallion loan payments. Accordingly, staff recommends a discounted medallion price of \$150,000 to the first 150 applicants on the medallion waiting list. These sales would realize \$22,500,000 of new revenue to the SFMTA as compared to the proceeding under the existing "Prop K" medallion distribution system.

In order to facilitate this program, San Francisco Federal Credit Union has also agreed to waive its \$795 loan fee to further reduce the burden of the unexpected outlay of cash for this group of applicants. The other approved medallion lender, Montauk Credit Union, does not charge a loan fee.

The City Attorney has reviewed this report.

ALTERNATIVES CONSIDERED

This issue has been discussed in town hall meetings during most of calendar year 2012, and at nearly every meeting of the Taxi Advisory Council since 2011. Most recently, town hall meetings were conducted on October 9, 2012, and were well-attended. Many alternatives as to how to handle the applicant waiting list were considered. The proposal described herein was selected as the alternative that could provide the most significant benefit to the largest possible number of medallion applicants on the waiting list, while minimizing foregone SFMTA revenue.

Staff has consulted with the approved medallion lenders to identify pricing alternatives and their implications for financing. Other medallion transfer prices have been considered, ranging from \$60,000 to \$230,000. This price range was selected for analysis because as long as the discounted price is below \$230,000, the driver can secure a loan for the entire amount and would not need to make a down payment. With a current medallion transfer price of \$300,000, lenders can issue a loan for up to \$230,000 to finance the purchase of a medallion. Drivers who buy at this price would have 20% equity in the medallion upon purchase. See Table below:

¹ Montauk Credit Union, a medallion lender approved by the SFMTA, will not be able to participate in the down payment assistance program for medallions acquired directly from the SFMTA, because they are not permitted to accept municipal deposits under the laws of New York State.

Price	Monthly Payment	Loan Term	Interest Rate	Payment/Net Income Ratio ²	Total Discount (150 medallions)
\$60,000	\$900	7 years	6.49 %	20%	\$36,000,000
\$100,000	\$1,065	12 years	7.74%	23.6%	\$30,000,000
\$150,000	\$827	5/30 balloon ³	5.25%	18.4%	\$22,500,000
\$200,000	\$1,102	5/30 balloon	5.25%	24.5%	\$15,000,000
\$230,000	\$1,267	5/30 balloon	5.25%	28.2%	\$10,500,000

The price of \$150,000 is recommended as the preferred price alternative by staff because it represents the lowest ratio to net income of a taxi driver, and minimizes the foregone revenue to the agency.

The recommendation to offer this price to at least 150 people on the waiting list relates to our estimation of the time it would take to save up for a down payment on a regularly priced medallion--for those with adequate lead time it would not be a hardship to prepare their financial lives for this substantial investment, but for those who could have otherwise expected a medallion under the Prop K system within two to three years it seems unfair to surprise them with the requirement that they produce a substantial down payment for a medallion in the short term.

FUNDING IMPACT

The proposed discount to the first 150 qualified applicants on the waiting list would yield \$22,500,000 of new revenue, and would represent a discount of \$22,500,000 as compared to transferring these medallions at the full price of \$300,000.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

None.

RECOMMENDATION

Staff recommends that the Board adopt amendments to Transportation Code Sections 1103 and 1116 to authorize transferring taxi medallions to the first 150 qualified taxi drivers on the taxi medallion waiting list at a discounted medallion price, and to provide that the SFMTA will no longer issue taxi medallions to drivers on the medallion waiting list at the cost of the application fee.

2 Projected net income of borrowers was calculated by the San Francisco Federal Credit Union based on industry-verified per shift income of \$287.73 less expenses, plus assumed medallion lease income of \$2,500 per month, for a net income of \$75,037 annually, less 28 percent tax rate, resulting in a \$54,027 annual or \$4,502 monthly income on average.

3 A “5/30 balloon” type loan was selected for this analysis in order to achieve the lowest possible monthly payment. With this type of loan, the borrower makes 60 monthly payments (five years). The monthly payment amount is amortized over 30-years (thus the 5/30). At the end of the five-year term, the remaining balance (or balloon) would need to be refinanced or paid in full. The borrower could also pay the loan down faster or pay it off early without any penalties, at any time.

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS

RESOLUTION No. _____

WHEREAS, Between 1978 and 2012, taxi medallions were distributed to drivers in the order of their seniority on the waiting list for the cost of an application fee; and,

WHEREAS, As part of the Taxi Medallion Sales Pilot Program (“Pilot Program”), during 2010 and 2011, 60 medallions were distributed to the waiting list, to match 60 medallions sold by the SFMTA; and,

WHEREAS, In addition to 60 medallions sold directly by the SFMTA as part of the Pilot Program, an additional 232 medallions were transferred to drivers on the waiting list by individual medallion holders; and,

WHEREAS, On August, 21, 2012, the Board adopted amendments to the Transportation Code to convert the Pilot Program into a permanent medallion distribution program; and,

WHEREAS, As part of the August, 21 amendments, the medallion price was raised from \$250,000 to \$300,000; and

WHEREAS, The August 21 Transportation Code amendments did not address whether or not taxi medallions would continue to be distributed to the list for the cost of an application fee, as has been the practice under Proposition K; and

WHEREAS, Members of the taxi industry have requested clarification on the status of the waiting list; now, therefore, be it

RESOLVED, That the San Francisco Municipal Transportation Agency Board of Directors adopts amendments to Transportation Code Sections 1103 and 1116 to authorize transferring taxi medallions to the first 150 qualified taxi drivers on the taxi medallion waiting list at a discounted medallion price, and to provide that the SFMTA will no longer issue taxi medallions to drivers on the medallion waiting list at the cost of the application fee.

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

Secretary to the Board of Directors
San Francisco Municipal Transportation Agency