

SAN FRANCISCO TAXI MEDALLION SALES PILOT PROGRAM

03/14/2011

SFMTA Sales to Buyers: (\$250,000 less 5% = 237,500): **(19)** **\$4,496,077.43**

Seller to Buyer 15% to SFMTA: (15% of \$250,000 = \$37,500): **(37)** **\$1,387,500.00**

5% Sale Price to Drivers' Fund: (5% of \$250,000 = \$12,500 each): **(56)** **\$ 700,000.00**

Total Medallions Transferred: 56 Total Funds Deposited: \$6,583,577.43

Taxi Wrap Fund Balance: **\$ 100,820.00**

MEDALLION TRANSFERS

Medallion Holder to New Buyer: **37**

SFMTA held Medallion to New Buyer: **19**

56

MEDALLION SELLERS QUALIFICATIONS

Medallion Sellers Over 70 Years of Age: **48**

Medallion Sellers Less than 70 with Permanent Disability: **8**

56

MEDALLION SALES PILOT PROGRAM STATISTICS UPTO C.O.B. 24th FEBRUARY

Medallion Sales Investigations Since Last Report: **5**

Medallion Sales Qualification Approved Since Last Report : **11**

Medallion Sales Transactions Closed Since Last Report: **7**

New Medallion Sales Investigation Opened Since Last Report : **6**

NUMBER OF MEDALLION HOLDERS AGE 60 TO 64 235

NUMBER OF MEDALLION HOLDERS AGE 65 TO 69 174

IF PROGRAM AGE EXPANDED TO AGE 60 409



**TAXI MEDALLION SALES PILOT PROGRAM
 QUALIFIED LENDER SUMMARY
 As of February 28, 2011**

Summary of Total Activity Since Program Launch on August 4, 2010

Number of Medallion Loan Applications submitted:	Total	% of Total
Number Approved:	65	98.5%
Number Declined:	0	0.0%
Number Withdrawn:	1	1.5%
Total	66	100.0%
Number of Applications In Process:	25	
Total Finalized Medallion Sales Financed:	Total	% of Total
Number of Sales Finalized that required financing	45	
Total Funds Disbursed to SFMTA	\$ 4,850,000	43.1%
Total Funds Disbursed to Medallion Sellers	\$ 6,400,000	56.9%
Total	\$ 11,250,000	100.0%
Total Loan Fees Paid To Lender	\$ 22,275	
Down Payment Assistance:	Total	% of Total
Borrowers with 20% Cash Down Payment	30	66.7%
Borrowers needing Down Payment Assistance	15	33.3%
Total	45	100.0%
Total Amount of Down Payment Assistance	\$ 525,000	
Average Down Payment Assistance Amount	\$ 35,000	
Pilot Program Medallions By Color Scheme:	#	% of Total
Arrow Cab	1	2.2%
Bay Cab	5	11.1%
Big Dog City	0	0.0%
Black & White Checker	2	4.4%
DeSoto Cab Cooperative	2	4.4%
Fog City Cab	0	0.0%
Green Cab	0	0.0%
Luxor Cab	10	22.2%
National/Veteran's Cab Company	1	2.2%
Regents Cab	1	2.2%
Royal Cab	2	4.4%
SF Taxicab Company	1	2.2%
Town Taxi	7	15.6%
Yellow Cab Cooperative	13	28.9%
Total	45	100.0%
Total Gas and Gate Leases	20	44.4%
Total Owner/Operator (Affiliate) Leases	25	55.6%
Total	45	100.0%

For Questions Concerning This Report, Please Contact:

Rebecca Reynolds Lytle, Vice President of Lending
 SAN FRANCISCO FEDERAL CREDIT UNION
 770 Golden Gate Ave., San Francisco, CA 94102
 Tel: 415.359.2926 / email: rebecca_lytle@sanfranciscofcu.com

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FOR DISCUSSION AT MARCH 14, 2011 TAXI ADVISORY COUNCIL MEETING

Report of the SFMTA Taxi Advisory Council
on the
Taxi Medallion Sales Pilot Program Report

Introduction

The San Francisco Municipal Transportation Agency (SFMTA) Taxi Advisory Council (TAC) has convened twice per month since August, 2010 to analyze the problems and benefits that may result from the Taxi Medallion Sales Pilot Program (Program) based on data collected from various sources described in this report. With over 50 permits transferred under the Program to date, the industry is beginning to be able to see the impacts of medallion sales. We have made significant headway in identifying the issues and recommending solutions for problems that are anticipated as a result of the Program. As with any significant shift in business paradigm the industry is going to go through a state of uncertainty as it adapts to the new economic model. The industry perceives this change as an opportunity to address some of the challenges that the industry has faced for many years.

There are four primary participants in the San Francisco taxi industry:

1. Taxi companies or “color schemes”
2. Taxi drivers, both on and off the taxi medallion waiting list
3. Lenders financing medallion purchases
4. Taxi customers

This report will summarize how each of them has been affected by the Program. The report will conclude with recommendations of the TAC to the SFMTA Board of Directors regarding how to modify the program to mitigate negative effects on the industry and the public that might result from the Program.

Background on the San Francisco Taxi Industry

[Insert basic educational description of medallions, gas and gates, long term lease, affiliate operation later.]

Taxi Companies (“Color Schemes”)

Two major effects that the Pilot Program is having on taxi companies are:

1. Leasing arrangements: There has been a rapid shift from gas and gates operation (taxis managed by a company) to affiliate operation (taxis managed by individuals and affiliated with a company only by paint color and use of the company’s radio service).
2. Medallion movement: Transfer of medallions has increased the movement of medallions between companies.

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Leasing Arrangements

According to a report on the need for regulation of taxi medallion leasing in 2003 [**confirm year**], only a few medallions were operated as affiliates at that time. A survey of all color schemes conducted by SFMTA Taxi Services at the end of 2010 revealed that [**insert medallion operation survey results**]. See Appendix A.

The Program has greatly accelerated this trend toward affiliate leasing. As of March 1, 2011, Taxi Services reported that 56 percent (25 medallions) of medallion purchasers chose to operate as affiliates and 44 percent (20 medallions) of medallion purchasers are operating their medallions as gas and gates. The 44.4% of purchasers who are operating their medallion as gas and gates were forced into that manner of operation because of a requirement by the lender (later enacted by the SFMTA Board in the regulations) that any buyer who uses the down payment assistance program has to operate as a gas and gates medallion until there is sufficient equity to meet the full down payment requirement (*i.e.* \$50,000 or 20 percent of the purchase price). If the Program is expanded to include more medallions without any protection of the gas and gates system there will be a mass exodus of permits from gas and gates operation to affiliate operation, to the detriment of all participants in the industry.

Gas and gates operation provides greater financial stability to companies because it is more profitable. It also allows companies to protect their brand and business goodwill because they have greater control over choosing drivers and acquiring and maintaining the vehicles.

Under an affiliate arrangement the medallion holder pays the color scheme a minimal fee to rent dispatch services and the right to use the trade dress (color scheme) of the taxi company. All other management decisions are made by the individual medallion holder, or in many cases, an illegal medallion broker who handles all the business operation for several medallion holders. What type of vehicle to buy, driver selection, driver schedules, limits on driving hours, if any, and charges to drivers are all within the exclusive control of the individual medallion holder, and the vehicle, the medallion holder and the drivers may never actually set foot on company property.

The Program is accelerating a transition to affiliate operation from gas and gates in the industry for two main reasons. First, the buyers under the Program are electing the most profitable medallion arrangement possible in order to facilitate repayment of their loans. Second, many of the buyers are younger drivers (age 38-40 years old). Those younger medallion holders are likely to work more shifts than are required to satisfy their driving requirement. Older medallion holders, by contrast, are more likely to lease their medallions to the taxi companies as gas and gates and drive a smaller number of shifts for the purpose of satisfying their driving requirement.

To summarize, the loss of gas and gates shifts will affect the primary industry participants of the different types of medallion operations as follows:

Taxi Companies: Gas and gates operation provides greater control over quality of vehicles and drivers and financial stability from higher per-vehicle revenues. Loss of gas and gates medallions to affiliates will reduce company revenues and quality control.

SFMTA: For various reasons it is easier for the SFMTA to monitor regulatory compliance of gas and gates drivers and vehicles than of affiliates.

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Drivers: Experienced, high quality gas and gates drivers are losing all the good shifts to affiliate drivers.

Taxi Customers: Loss of highly qualified gas and gates drivers to the industry and the introduction of new, inexperienced affiliate drivers, as well as the purchase of lesser quality vehicles would result in a decline of the quality of taxi service to the public.

Medallion movement

Drivers

San Francisco's taxi industry depends on its drivers. Drivers are the most important element that determines Quality of service and service levels to the public depend entirely upon drivers. San Francisco has a large number of drivers who have years or even decades of experience and who take great pride in the service they provide to the public. It is a difficult and dangerous job, and the only reward for long service that can improve the income and quality of life of a driver is the acquisition of a medallion.

The two main issues that the Program has created for drivers are: (1) a loss of shifts for gas and gates drivers, and (2) slower movement of the taxi medallion waiting list.

The loss of shifts is tied to the transition of medallion operation from company operated gas and gates medallions to owner-operated affiliates. When a buyer acquires a new medallion, that buyer does not continue to employ the gas and gates drivers who have relied on that vehicle for shifts. Instead, the buyer will arrange his or her own preferred drivers, who may be friends or family members, and the gas and gates drivers must seek work with other companies or wait and hope that another gas and gates medallion replaces the one that they used to drive.

The slowed distribution of earned medallions to the medallion waiting list is due to the fact that medallions that would have otherwise been distributed to drivers on the waiting list are being sold instead. The current Program policy on medallion distribution is that of the next 120 medallions that are returned to the SFMTA due to death or revocation (*i.e.* that are no longer held by a medallion holder) half must be distributed to the waiting list and half may be sold outright by the SFMTA. This effectively is cutting in half the medallions that are distributed to the wait list and is slowing the advancement of individuals on the waiting list toward getting their medallion as a result. As of March 8, 2011, there were 3,024 individuals on the waiting list. Historically, over the past ten years an average of approximately 75 medallions per year have been distributed to drivers on the waiting list: 50 from newly issued medallions, and 25 from medallions that are revoked or that come back for distribution because of the death of the medallion holder. According to SFMTA Taxi Services, for every medallion that is sold or distributed to a driver, there are 2.5 individuals disqualified for the permit, or who do not respond to the offer of a medallion. If this rate of qualification is carried forward, we can estimate that there are approximately *1,410 qualified individuals on the waiting list, and if we assume a continuing rate of 75 medallions per year, it would take 19 years to for the last person on the list to receive a medallion.*

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As a result of the Program Drivers on the waiting list are having very different experiences, depending on where they are on the waiting list. The younger drivers who are far down the list are excited and taking advantage of the opportunity to purchase a medallion rather than waiting a decade or more to receive it through seniority. Those who are higher on the list, among the top 300 names or so, are extremely anguished by the slowdown of medallion distribution. To those working drivers who have spent more than a decade following the rules to qualify for their medallion, it is not fair to expect them to come up with a down payment and undertake five to 12 years of debt payments to finally realize their dream. Those drivers who are at the top of the list begin to anticipate the income for their life needs, and it is devastating to them to have to wait longer than they expected to wait to be able to do things like having needed dental work done, to replace a vehicle, to purchase real estate or other similar personal needs that they thought would be resolved by their medallion income.

A driver who is far down the waiting list down on the waiting list elect to purchase their medallions the rationale being that in the same amount of time that it would take for them to receive it they can almost have the debt paid off.

In addition, the medallion brings something that a mere driver can never acquire on their own: job security. Because taxi companies depend on revenue from medallions that the medallion holders voluntarily bring to the company, medallion holders are very well-treated. They enjoy reduced gate fees, better vehicles and generally a massive improvement in the quality of life and the quality of the driver's work experience.

Lenders

The main concern that the lenders are having around the program is the risk involved in financing the taxi permits. The lenders are assessing the risk associated with the business (the taxi medallion) as well as the risk associated with the borrower (the driver) applying for the financing. In qualifying drivers, none have been turned down so far. Despite the fact that driver's incomes are not high, the purchase price coupled with the lending programs that have been made available to them allow them to qualify and continue with the purchase of their medallion which is extremely positive. Some minor derogatory credit history seems to be common among drivers. There are steps that the lenders have advised drivers to take in order to clear these items allowing them to qualify for financing. The vast majority of buyers have been able to complete these steps and qualify.

When assessing the risk involved with the taxi medallion, the lenders look at the written financial arrangement of the medallion GG vs. owner operator affiliate. This aspect of financing the medallion purchase has been complicated by the fact that no standard written lease arrangement exists today between the medallion holder and the taxi company for either the GG or owner operator affiliate arrangement. The GG arrangement is easier to finance because of the full suite of services offered and managed by the taxi company and their commitment to participating in the pilot program. By having the company in control of the operation of the medallion, lenders alleviate another layer of verification and monitoring in order to assure themselves that the taxi is being operated according to established rules and regulations and that the borrower is making sufficient income to repay the debt. When the taxi is being operated as an affiliate with a taxi company, there is more complication and more work to verify the financial arrangement and essentially who is paying for shifts. This is compounded by the fact that

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there is no standard written lease or operating arrange that exists today between the medallion holder and any additional drivers that he/she may hire to drive the shifts that medallion holder does not drive.

Other vital concerns to the lenders are having proper insurance coverage in place, knowing and documenting who is driving the cab and ensuring that those drivers, are licensed SF cab drivers with an A-card, and a valid CA driver's license, and keeping track when drivers change. This information has to be updated every year and poses more risk for lenders because of the uncertainty in operation.

One step to help with the uncertainty for lenders is an industry wide uniform lease agreement. This would formalize the agreements that permit holders enter into for the permits that lenders are financing. The terms and responsibilities of each party between the permit holder and the cab company are clearly defined. In the case of an affiliate permit holder the terms and responsibilities between the permit holder and his or her drivers are clearly set out.

Additionally, in response to a TAC recommendation, lenders have added the condition that if a buyer is taking advantage of the down payment assistance program that the permit is required to be managed by the taxi company in a gas and gates arrangement until 20% equity is achieved. This ensures that the medallion purchaser is adequately invested in his business operation and has the resources necessary to maintain operations as an owner operator affiliate.

The Taxi Ridership

There are 2 main factors affecting the service that the San Francisco public receives. The number of taxi permits in the city and the quality of service provided by the industry. Initially the public will not feel any changes. The transition to saleable taxi medallions has no affect on the number of taxis serving the city however there is a concern with the quality of driver being introduced into the industry. As stated previously long-time, experienced drivers are sometimes being replaced with newer inexperienced drivers lacking the focus on providing higher service levels to the public. If the sale of medallions proliferates so too will the trend of cabs being operated as affiliates, opening the door to hiring drivers unfocused on service. The lack of focus on service will mean that passengers in outlying areas of the city such as the Richmond, the Sunset and the Bayview will be underserved. The focus will shift at times to servicing flags vs. phone orders. The experience within the taxi may go down.

A preventative measure to this is the preservation of taxi medallions being operated as Gas and Gates cabs. This puts a higher level of control in the hands of the taxi companies who have a motivation to provide higher quality service because the reputation of their brand is dependent on it. These are anticipated results of gas and gate drivers being displaced from their cabs and this is something that must be monitored as the pilot program goes on.

General recommendations the TAC is considering to improve the overall success of the program and the industry.

Leasing regulations

Lease cap

Uniform lease regulations

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Require minimum amount of experience before allowing drivers to drive pursuant to an affiliate lease

Preserve gas and gates system

Peak time permits limited to gas and gates shifts

Limit percentage of medallions that can be operated as affiliates, and/or issue 'gas and gates only' medallions

Waiting list movement

Raising the bar on medallion holder qualifications

There has been some discussion of increasing the qualification standards for buyers. The goal of this change would be to increase the quality of individuals that enter the permit holder ranks and in turn increase the quality of service that the riding public receives. Standards for knowledge of streets, routes and landmarks can be re-assessed and adjusted if need be to assure a commanding knowledge of San Francisco.

Another item to be assessed is the restrictions on motor vehicle records for buyers. Suggestions such as no more than 2 points on an individual's MVR can play a role in assuring that only individuals who hold a higher regard for driving safety become permit holders.

Another suggestion is creating an oral component to the testing to assure a minimal level of ability to communicate with passengers.

Qualifications for Sellers (not discussed yet)

Should we begin reducing the age for qualified buyers? Should we wait until we are done with the first batch? What happens to the current sellers who wanted to wait until the end to sell? Maybe an alternative is to allow permit holders to indicate that they want to sell (preserving value for their families in the event of death)...this is essentially what the reduction in age will do anyways since the list of initial permit holders selling has not been exhausted.

Changes made so far:

- No more medallion qualification hearings to speed up the list
- Requirement of 3 year gas and gate operation for buyers taking advantage of down payment assistance. As a part of assessing the risk associated with providing purchase loans for the taxi permits lenders look at how the permit will be operated in conjunction with the type of financing chosen for the purchase of that medallion. When only 5% of the purchase price is provided as down payment the buyer is showing a higher risk of
- To mitigate risk of non-payment when more aggressive financing options are chosen by buyers lenders have required that the medallion be managed and operated by the taxi companies