

## **DRAFT**

May 2004

Honorable Gavin Newsom  
City Hall, Room 200  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

**SUBJECT:** Proposal to Reform Proposition K (1978)

Dear Mr. Mayor:

San Francisco voters approved the current taxi regulatory measures governing the taxicab industry when they passed Proposition K in 1978.

While Prop K is often heralded for promoting the individual taxicab driver and ensuring that experienced drivers continue to drive, Prop K is often criticized for its rigidity, particularly in reference to elderly and disabled permit holders.

Members of the taxicab industry are interested in reforming Proposition K to amend some of these problems, while creating a system that would generate revenue for the city.

### **EXECUTIVE SUMMARY**

Under the proposed reform, San Francisco would hold a public auction for available taxicab permits limiting the participants to qualified taxicab drivers as defined by the existing permit applicant list. Some of the proposed details are as follows:

- Allow the transfer taxicab permits (i.e. medallions) provided that the persons and entities holding permits as of the effective date of the proposal may purchase transfer rights to their permits from the City for fifty (50) percent of market value at the time of purchase. The Controller would determine market value annually.
- Permit holders would be able to sell transfer rights to eligible driver-applicants on the permit waiting list at an auction conducted by the City.
- After the initial purchase of transfer rights by existing permit holders, any purchaser of transfer rights would pay the City a transfer fee equal to ten percent of the sale price.

- Five percent of the funds generated by the City would be used by the City to promote the welfare of drivers of taxicabs and other motor vehicles for hire. For example, the funds may pay for health and disability insurance programs for drivers.

## **BACKGROUND**

### **I. WHAT IS THE PROFIT TO THE CITY AND COUNTY OF SAN FRANCISCO?**

This answer depends on (a) how much the City would charge for a transfer fee, and (b) how many permit holders would chose to purchase the transfer rights.

There are 1,381 medallions, 1,306 regular medallions and 75 ramp medallions.

There are 468 pre-K medallions, and 913 post-K medallions, consisting of 1,198 permit holders. Many pre-K permit holders possess more than one medallion.

**In the proposal, the transfer fee for the current permit holders would be set at fifty percent of the medallion's market value.**

The proponents of the proposal argue that current permit holders should not have bear the cost of the entire market value because of their pre-existing investment in the permit. The current permit holders have already invested time and money for the right to operate the medallions. For example, the pre-K (1978) permit holders purchased their medallions at market rate, then lost the right to transfer the medallions after Proposition K passed in 1978. The post-K permit holders placed their names on the permit waiting list. The first post-K permit was issued in 1982. However, currently the wait for a medallion is approximately 10 to 15 years. In addition, once the post-K permit holder receives a permit, the permit holder is required to drive full-time.

**The next issue is determining the medallion's market value.**

Market value is based on ten-year projections of the permit holder's current income from the medallion. According to the Taxi Commission's driver survey performed in December 2003, approximately 70 percent of permit holders are contractual relationships whereby they receive a lease fee from the color scheme<sup>1</sup> to operate the permit holder's medallion.

In estimating the average permit holder's income from a medallion, the calculations are based on the assumption that the permit holder receives \$1,800 per month as a lease fee from the color scheme. These numbers are difficult to ascertain because permit holders and color schemes enter into private contractual agreements. Some color schemes offer less lease fees and some offer more. Hence, the Taxi Commission assumes that permit

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<sup>1</sup> The term "color scheme" can be used interchangeably with "taxi company" or "taxicab company."

holders are generating \$22,800 annually. This income excludes revenues generated from the meter.

The following projections of income are based on today's dollar and do not take into consideration inflation and discounts. This is due to the volatility of the national economy and the taxicab medallion market. With the threat of terrorist attacks and downturns in the economy affecting tourism and conventions, the market value of the medallion could easily deflate. For this reason, the market value is based on today's dollar.

For a regular permit, a five-year projection of lease fee income equals \$114,000 (i.e. \$22,800 (x) 5 years). A ten-year projection equals \$228,000. If market rate value is based on a 10-year projection, then 50 percent of \$228,000 is \$114,000. Hence, the transfer fee should be \$114,000.

More likely than not, the market value for a ramp medallion is less than a regular medallion because of the increased operational costs needed to operate a ramped medallion.

Ramp permit holders receive approximately \$1,200 per month, which is \$14,400 annually. A five-year projection of the ramp permit holder's income is \$72,000. A ten-year projection equals \$144,000. Under the proposal, 50 percent of market value would be \$72,000.

**How many permit holders would take advantage of the rights to transfer?**

The Taxi Commission assumes that not every permit holder would opt to purchase a transfer right. Following is an illustration of percentages of permit holders opting to purchase transfer rights and the profit to the City based on 50 percent of the projected market value.

	Regular Medallion	(x) \$144,000	Ramp Medallion	(x) \$72,000	TOTAL
5%	65	\$ 7,410,000	4	\$ 288,000	\$ 7,698,000
10%	130	\$ 14,820,000	8	\$ 576,000	\$ 2,058,000
20%	261	\$ 29,754,000	15	\$1,080,000	\$ 30,834,000
30%	392	\$ 44,688,000	22	\$1,584,000	\$ 46,272,000
40%	522	\$ 59,508,000	30	\$2,160,000	\$ 61,668,000
50%	653	\$ 74,442,000	38	\$2,736,000	\$ 77,178,000
60%	784	\$ 89,376,000	45	\$3,240,000	\$ 89,700,000
70%	914	\$104,196,000	52	\$3,744,000	\$107,940,000
80%	1045	\$119,130,000	60	\$4,320,000	\$123,450,000
90%	1175	\$133,950,000	68	\$4,896,000	\$138,846,000
100%	1306	\$148,884,000	75	\$5,400,000	\$154,284,000

2004  
 Txc revenues  
 \$228K  
 value based  
 on 10 yrs of  
 projected  
 income at  
 \$180/med  
  
 Txc: Purchase  
 med @  
 1/2 of existing  
 value

If a permit holder has not purchased the transferrights to a permit and the permit is subsequently revoked, the City may sell the transfer rights to that permit at auction, without a transfer fee, and receive the full proceeds of the sale. If the City issues new permits pursuant to a determination of public convenience and necessity, the City may sell the transfer rights to those permits at auction, without a transfer fee, and receive the full proceeds of the sales.

## II. FINANCIAL IMPACT ON PERMIT HOLDERS

The proponents of the proposal argue that the permit holders who do have \$114,000 or \$72,000 would be able to borrow from financial corporations that specifically finance taxicab medallions and guarantee financing. Additionally, in other cities, many banks have entered into the medallion lending business.

The following terms are based on information provided by Medallion Financial Corporation, a publicly traded company that specializes in lending money to buyers of taxicab medallions in cities including New York City, Chicago, Boston, Newark, Philadelphia and Baltimore. Medallion Financial reports that loans are usually amortized over 15 years with a five-year balloon payment. Additionally, the borrower must put a 20 percent down payment. After five years, the medallion holder typically refinances for a more favorable ten or twenty year loan. The interest rate depends on each city and its regulations. Medallion Financial takes a security interest in the collateral (i.e. medallion) pursuant to the Uniform Commercial Code. If the permit holder defaults, Medallion Financial remarkets the transferability to a purchaser approved by the local regulator. Medallion Financial reports less than a one percent default rate.

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Medallion Financial will also take into consideration the ratio of the fair market value of the asset (i.e. transfer right) to the value of the loan that will finance the purchase. For example, if Medallion Financial is financing 50 percent of the fair market value of the transfer right instead of 80 percent, then the terms of the loan will be more favorable (i.e. lower interest rate and longer term of loan).

The interest rate in New York is 4%; Boston - 8%; and Chicago - 8%. Since the proposed ballot measure limits the sale of the medallion to taxicab drivers on the waiting list and is closed to outside investors, more likely than not, the San Francisco medallion's market value would be less. Hence, the interest rate would probably be 8% or higher. For example:

Regular medallion	Transfer fee: \$114,000
20 % Down Payment	\$22,800
Total Loan Amount	\$91,200
Annual Interest Rate	8%
Amortization	15 years
Term of Loan	5
Monthly payments	\$871.55

Balloon Payment	\$71,835.17
<b>Ramp medallion</b>	<b>Transfer fee: \$72,000</b>
20 % Down Payment	\$14,400
Total Loan Amount	\$57,600
Annual Interest Rate	8%
Amortization	15 years
Term of Loan	5
Monthly payments	\$550.46
Balloon Payment	\$45,369.04

According to the Mayor's Office of Community Development's Small Business Administration, the only other California lending institutions that may be interested in financing medallions are the State Guarantee Programs, such as the Safe Business Industrial Development (BID) Corporation. For loans over \$25,000, the permit holder must put 25 percent down. The interest rate is 6% percent and the term of the loan is seven years. For example:

<b>Regular medallion</b>	<b>Transfer fee: \$114,000</b>
25 % Down Payment	\$28,500
Total Loan Amount	\$85,500
Annual Interest Rate	6% <sup>3</sup>
Term of Loan	7
Monthly payments	\$1,280

<b>Ramp medallion</b>	<b>Transfer fee: \$72,000</b>
25 % Down Payment	\$18,000
Total Loan Amount	\$54,000
Annual Interest Rate	6% <sup>3</sup>
Term of Loan	7
Monthly payments	\$808.42

The permit holder's income is not solely based on the monthly lease fee payments. According to the Taxi Commission December 2003 Driver Survey, the average San Francisco taxicab drivers make approximately \$15,000 annually from the meter. This is a conservative estimate given that the drivers typically under-report their earnings. Therefore, the poorest permit holder makes approximately \$37,800 annually. If the permit holder takes home \$3,150 per month, the issue is whether or not that permit holder can afford anywhere from a \$1,280 to \$872 monthly payment.

**Should the City consider financing the medallions?**

For this proposal to be appealing to the taxi industry, there needs to be an easy entry and an easy exit into purchasing transfer rights. The easy exist already exists within the proposal given that the permit holder can sell his/her transfer right to the next available driver on the taxicab permit waiting list. However, some permit holders may not have

the down payments required to finance the medallion. I recommend that the City consider setting-up a revolving fund or some other similar program that can assist permit holders to obtain financing for 95 percent of the market value.

Respectfully submitted,

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Taxi Commission

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