

**THIS PRINT COVERS CALENDAR ITEM NO. : 12**

**SAN FRANCISCO  
MUNICIPAL TRANSPORTATION AGENCY**

**DIVISION:** Taxis and Accessible Services

**BRIEF DESCRIPTION:**

Requesting the SFMTA Board of Directors to authorize the Director of Transportation to establish a down payment assistance program for medallion transfers.

**SUMMARY:**

- The SFMTA initiated the Taxi Medallion Sales Pilot Program (“Pilot Program”), in 2010, pursuant to which 292 San Francisco taxi medallions were transferred to new medallion holders for the price of \$250,000.
- Two financial institutions, the Montauk Credit Union and the San Francisco Federal Credit Union, became approved lenders for the Pilot Program. Under federal lending laws, the medallion loans were required to have at least 20 percent equity, or a \$50,000 down payment.
- In order to ensure that medallions were affordable to taxi drivers, the SFMTA implemented a down payment assistance program pursuant to which the medallion seller was required to maintain a portion of the sales proceeds as collateral for the loan until there was sufficient equity to meet federal requirements. Medallions that were acquired directly from the SFMTA under this program required a full down payment.
- 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.
- One of the features of the new Transfer Program is that medallions held by individuals that have not previously been transferred will not be transferred by the existing medallion holder. Instead, they will be surrendered to the SFMTA for consideration (\$200,000) and then transferred by the SFMTA. Accordingly, most medallions that are transferred will be transferred by the SFMTA and not by an individual.
- Of the 292 medallion transfer transactions completed at \$250,000, approximately 29 percent needed buyer assistance. Of the 136 medallion transfer transaction pending at \$300,000, approximately 60 percent have requested down payment assistance.

**ENCLOSURES:**

1. SFMTAB Resolution

**APPROVALS:**

**DATE**

DIRECTOR \_\_\_\_\_

11/13/12

SECRETARY \_\_\_\_\_

11/13/12

**ASSIGNED SFMTAB CALENDAR DATE:** November 20, 2012

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### **PURPOSE**

Requesting the SFMTA Board of Directors to authorize the Director of Transportation to establish a down payment assistance program for medallion transfers.

### **GOAL**

Goal 4: Create a workplace that delivers outstanding service.

Objective 4.4: Improve relationships and partnerships with our stakeholders.

This proposal would make taxi medallion permits more affordable for taxi drivers by providing a mechanism that enables drivers to purchase a medallion with a down payment of as little as five percent (\$15,000), instead of requiring a full down payment of 20 percent (\$60,000).

### **DESCRIPTION**

#### Background

The SFMTA initiated the Taxi Medallion Sales Pilot Program (“Pilot Program”), in 2010, pursuant to which 292 San Francisco taxi medallions were transferred to new medallion holders for the price of \$250,000. Of the medallions transferred under the Pilot Program, 232 were transferred by individual medallion holders, and 60 were transferred by the SFMTA.

Two financial institutions, the Montauk Credit Union and the San Francisco Federal Credit Union, became approved lenders for the Pilot Program. Under federal lending laws, the medallion loans were required to have at least 20 percent equity, or a \$50,000 down payment.

In order to ensure that medallions were affordable to taxi drivers, the SFMTA implemented a down payment assistance program pursuant to which the medallion seller was required to maintain up to \$37,500 of the sales proceeds in an interest-bearing certificate of deposit with the lender as collateral for the loan until there was sufficient equity to meet federal requirements. The medallion buyer was required to make a down payment of at least five percent (\$12,500). Approximately one third of medallion buyers received down payment assistance through this program.

Medallions that were acquired directly from the SFMTA did not include any down payment assistance because the SFMTA did not deposit any collateral with the lender. Accordingly, SFMTA-held medallions were only offered to buyers who had a full down payment of \$50,000.

#### Medallion Transfer Program

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 (“Transfer Program”). As part of these amendments, the medallion price was raised from \$250,000 to \$300,000.

One of the features of the new Transfer Program is that medallions held by individuals that have not previously been transferred will not be transferred by the existing medallion holder. Instead, they will be surrendered to the SFMTA for consideration (\$200,000) and then transferred to a new medallion holder by the SFMTA.

Accordingly, most medallions that are transferred will be transferred by the SFMTA and not by an individual. The 292 medallions that have already been transferred as part of the Pilot Program would not be subject to

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surrender to the SFMTA. Instead, they would be transferred directly by the current medallion holder.

Under the Transfer Program, there are two separate and distinct transactions that occur when the SFMTA initially transfers the ownership of a taxi medallion to a new medallion holder.

The first transaction is the *surrender* of an existing medallion from the medallion holder. The SFMTA pays an amount to the medallion holder in consideration for his or her surrender of the medallion back to the SFMTA. This is called the Medallion Surrender Payment. As of September 21, 2012, the Medallion Surrender Payment is \$200,000. This transaction is finalized when the SFMTA and the surrendering medallion holder execute a Medallion Surrender Agreement and the SFMTA completes the payment of the Medallion Surrender Payment to the surrendering medallion holder.

The second transaction to occur is the *transfer* of the surrendered medallion to a new medallion holder. The SFMTA and the new medallion holder (or transferee) execute a Medallion Transfer Agreement. The transferee then pays to the SFMTA the amount that is established by the SFMTA as the Fixed Medallion Transfer Price. As of September 21, 2012, the Fixed Medallion Transfer Price is \$300,000. The transferee may pay this sum in full directly to the SFMTA or he or she may obtain financing for the transfer from an SFMTA-approved medallion lender. In order to finance a medallion transfer, the transferee must provide a minimum down payment of 20 percent of the current Medallion Transfer Price (\$60,000) or utilize any available down payment assistance allowed under the program.

Both transactions will be settled concurrently to provide the necessary cash flow for funding the surrender transaction.

In order to provide down payment assistance, staff recommends that the SFMTA be authorized to establish a Medallion Settlement Account and a Down Payment Assistance Loan Collateral Account with approved medallion lenders. The Medallion Settlement Account would be a non-interest bearing, zero balance account used to settle all surrender transactions and medallion transfers. The remaining balance would be provided to the SFMTA on a daily or other recurring basis as determined by SFMTA.

SFMTA would assist the transfer transaction by allowing a portion of the transfer proceeds equal to the amount of down payment assistance needed (up to \$45,000) to be deposited into an interest bearing account owned by the SFMTA. The SFMTA would then allow that account to be used as collateral for a down payment assistance loan made by the financial institution to the transferee. Down payment assistance loans are generally carry a seven year term but can be shorter based on the individual borrower's credit qualifications.

At the San Francisco Federal Credit Union, the funds deposited into the SFMTAs Down Payment Assistance Collateral Account would earn dividends at a variable rate of 0.75 percent to 1.00 percent above the seven-year US Treasury Index, which as of 9/13/12 is one percent. Each month, the Collateral Account would be evaluated against the principal balance outstanding on all down payment assistance loans and the portion of the balance in the Collateral Account that is no longer needed as collateral would be transferred to the SFMTA Medallion Settlement Account. The remaining balance in the Settlement Account would be provided to SFMTA on a daily or other recurring basis as determined by SFMTA.

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The following is an example of the settlement entries for these concurrent transactions:

	<u>Debits</u>	<u>Credits</u>
<b>Transaction 1</b>		
<b>\$200,000 Medallion Surrender Transaction</b>		
Paid by check, wire or deposit to surrendering medallion holder		\$200,000
Debited from Medallion Settlement Account (A)	(\$200,000)	
<b>Transaction 2</b>		
<b>\$300,000 Medallion Transfer Transaction</b>		
Credited To Medallion Settlement Account (B)		\$300,000
Debited From medallion secured loan to borrower	(\$240,000)	
Debited from borrower's account for down payment	(\$60,000)	
<b>Net Medallion Transfer Proceeds</b> (remaining in Medallion Settlement Account) (A) - (B)		<u><u>\$100,000</u></u>

Of the 136 medallion transfer transaction pending at the Medallion Transfer Price of \$300,000, approximately 60 percent have requested down payment assistance. Staff recommends that the SFMTA be authorized to offer down payment assistance under the Transfer Program at the same level as was available under the Pilot Program. That means the potential purchaser of the medallion would have to have a minimum of five percent of the Transfer Price (\$15,000) from their own funds and could utilize up to 15 percent of the Transfer Price (\$45,000) from the Down Payment Assistance Program.

The following is an example of the settlement entries that would occur for a medallion transfer transaction with down payment assistance:

	<u>Debits</u>	<u>Credits</u>
<b>\$200,000 Medallion Surrender Transaction</b>		
Paid by check, wire or deposit to surrendering medallion holder		\$200,000
Debited From Medallion Settlement Account (A)	(\$200,000)	
<b>\$300,000 Medallion Transfer Transaction</b>		
Credited to Medallion Settlement Account (B)		\$255,000
Credited to Down Payment Assistance Loan Collateral Account (C)		\$45,000
Debited from medallion secured loan to borrower	(\$240,000)	
Debited from borrower's account for down payment	(\$15,000)	
Debited From down payment assistance secured loan to borrower	\$45,000	
<b>Net Medallion Transfer Proceeds</b>		<u><u>\$100,000</u></u>
Balance remaining in Medallion Settlement Account (B) – (A)		\$55,000
Balance remaining in Down Payment Assistance Loan Collateral Account (C)		\$45,000

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This down payment assistance program would be available through the San Francisco Federal Credit Union. The other approved medallion lending institution, the Montauk Credit Union, is currently prohibited by New York state law from receiving municipal deposits and would not be able to participate in this program. However, the Montauk Credit Union would be able to continue providing down payment assistance for medallion transfers by individuals by retaining a portion of the transfer proceeds in the same manner as it does today.

The City Attorney has reviewed this report.

**ALTERNATIVES CONSIDERED**

This proposal has been discussed with the Office of the Treasurer and Tax Collector as well as the Office of the Controller. Among the alternatives considered was to use the Drivers Fund to collateralize the buyer assisted loans. However, the Drivers Fund would only have funding to collateralize loans for two years, and use for this purpose could restrict use of this Fund for other purposes in the short term. Accordingly, use of the Drivers Fund for this purpose is not recommended.

Another alternative would be to decide not to offer down payment assistance for medallion transfers. However, the lack of down payment assistance would likely prevent many taxi drivers from having an opportunity to acquire a medallion permit.

**FUNDING IMPACT**

This proposal would delay access to a portion of the revenue generated by medallion transfers (up to \$45,000) for a period of up to seven years. However, the funds held as collateral would be earning interest during that time. Additionally, as borrowers make payments on outstanding medallion and down payment assistance loans, the SFMTA may withdraw funds no longer needed as collateral.

**OTHER APPROVALS RECEIVED OR STILL REQUIRED**

The Office of the Treasurer and Tax Collector would be required to execute a Contract for Deposit of Monies and a Business Account Card in order to open the accounts that would be used for this down payment assistance program.

**RECOMMENDATION**

Staff recommends that the Board of Directors to authorize the Director of Transportation to establish a down payment assistance program for medallion transfers.

SAN FRANCISCO  
MUNICIPAL TRANSPORTATION AGENCY  
BOARD OF DIRECTORS

RESOLUTION No. \_\_\_\_\_

WHEREAS, The SFMTA initiated the Taxi Medallion Sales Pilot Program, in 2010, pursuant to which 292 San Francisco taxi medallions were transferred to new medallion holders for the price of \$250,000; and,

WHEREAS, Federal lending laws require medallion loans to have a down payment of at least 20 percent; and

WHEREAS, As part of the Taxi Medallion Sales Pilot Program the SFMTA implemented a down payment assistance program pursuant to which the medallion seller was required to maintain a portion of the sales proceeds as collateral for the loan until there was sufficient equity to meet federal requirements; and,

WHEREAS, On August, 21, 2012, the Board adopted the Medallion Transfer Program which raised the medallion transfer price from \$250,000 to \$300,000; and,

WHEREAS, Under the Medallion Transfer Program medallions held by individuals that have not previously been transferred will be surrendered to the SFMTA for consideration and then transferred by the SFMTA; and

WHEREAS, Under the Medallion Transfer Program a down payment of \$60,000 will be required from a medallion purchaser; and

WHEREAS, Of the 136 medallion transfer transaction pending at \$300,000, approximately 60 percent have requested by assistance; now, therefore, be it

RESOLVED, That the SFMTA Board of Directors of authorizes the Director of Transportation to establish a down payment assistance program for medallion transfers and, be it

FURTHER RESOLVED, That staff will work with the Office of the Treasurer and Tax Collector to execute a Contract for Deposit of Monies and a Business Account Card in order to open the accounts that would be used for this down payment assistance program.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of November 20, 2012.

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Secretary to the Board of Directors  
San Francisco Municipal Transportation Agency