



Taxicab Permitting Policy & Revenue Generation

Public Safety & Neighborhood Services Committee

February 15, 2012



Overview

- At the November 2, 2011, PS&NS meeting, True North Research presented its findings and recommendations regarding the issuance process for taxicab permits in accordance with Council Policy 500-02
- The Committee requested that the IBA explore revenue options associated with taxicab permitting, particularly relating to permit transfers
- Our report provides additional information relating to permit transfer taxes or fees on the “sale” of taxicab permits and taxicab permit auctions as a method for permit issuance for consideration



Permit Transfer Sales & Fees in San Diego

- MTS approves transfers based on the transferee satisfactorily meeting regulatory requirements
- Permit “sales”-whereby permit holders profit from the transfer of these permits by charging a premium to the recipient of the permit-take place outside of the purview of MTS
- The price paid for permits ranges between \$35,000 and \$110,000
- Neither MTS nor the City of San Diego receive revenue from the “sale” of taxicab permits



Permit Transfer Sales & Fees in San Diego

- Transfer fee amounts can range from \$1,992 to \$4,400 depending on the conditions of the transfer
- The fees are intended to recover the costs associated with the administration of the transfer
- In 2010, MTS administered 95 transfers, and in 2011, 76
- The transfer fee revenue collection by MTS totaled \$167,588 in 2010, and \$132,363 in 2011



Permit Transfer Sales, Fees, and Tax Models

- Our office reviewed the transfer fee and tax policies of a sample of 10 cities within the U.S. that have medallion and taxicab permit systems
- The sampled cities differed in the type and amount of the fees applied to taxicab permit transfers, and whether they allowed transfers within their jurisdictions
- A number of the cities sampled that allowed transfers were based on a cost recovery model
- Three cities, San Francisco, New York, and Chicago, were identified for illustrative purposes in applying a fee or tax above cost recovery



San Francisco Taxi Medallion Sales Program

- In 2010, the San Francisco Municipal Transportation Authority (SFMTA) implemented a pilot program allowing for older permit holders, age of 70 and above, and disabled permit holders to sell their taxicab permit
- Before the pilot program, permit transfers and/or sales were not allowed
- As a part of the program, the SFMTA allows the sale of the qualified permit holder's permit to a buyer on a wait list for a permit
- The selling price for the transfer, not to exceed \$400,000, is predetermined by SFMTA



San Francisco Taxi Medallion Sales Program

- The initial price was set at \$250,000
- The seller is responsible for paying 20% of the purchase price of the medallion as a 15% Medallion Sale Transfer Fee and a 5% Driver Fund Transfer Fee
- Buyers needing financing are paired with a lender qualified by SFMTA
- Buyer assistance program available where SFMTA may require that a seller provides down payment assistance for the buyer
 - A deposit of an amount of up to 15% of the purchase price of the medallion is required, using the proceeds from the sale of the medallion



San Francisco Taxi Medallion Sales Program

- Permit transferees can only be drivers, not corporations, and are required to fulfill mandated driver hours before they can lease the permit to other drivers
- Since the beginning of the program in 2010, 198 transfers have taken place
- The transfer fee revenue is budgeted at \$10 million annually
- The legality of the pilot program is being challenged in court, one reason being the claim that the transfer fee is a tax



New York City Transfer Tax

- Transfers approved by the Commission are taxed at 5% of the total price that the buyer has agreed to pay the medallion holder
- The buyer pays the transfer tax
- In 2011, there were 295 transfers involving individual and corporation medallion holders, and in 2010, 323
- Prices ranged from average monthly values of \$583,000 to \$1,000,000 2010-2011
- Revenue generated from the transfer tax totaled \$11,009,146, in 2011, and \$10,467,709, in 2010



City of Chicago Transfer Fee

- Transfers are subject to approval by department Commissioner
- A transfer fee is applied to the purchase price of the license or the average market value, whichever is higher
- The amount of the fee varies depending on the how long the transferor has been in possession of the license, ranging from 5% - 25% of the purchase price or market value
- In 2011, 337 transfers occurred, in 2010, 365
- The average market value for taxicab license transfers in the Chicago market was \$213,954 in 2011



Hypothetical Revenue Scenarios

Hypothetical Revenue Generation Scenarios for City of San Diego *			
<i>Rate</i>	<i>Permit Value</i>	<i>Revenue</i>	<i>Avg Per Permit</i>
5%	\$35,000	\$133,000	\$1,750
5%	\$110,000	\$418,000	\$5,500
20%	\$35,000	\$532,000	\$7,000
20%	\$110,000	\$1,672,000	\$22,000

* Calculation assumes 76 permit transfers annually based on 2011 MTS activity.



Legal Considerations

- A transfer fee above that necessary to recover administrative expenses could be considered a tax
- Implementing a transfer tax would require a majority vote of the people if it is used for general purposes, and a two-thirds vote if the revenue generated will be used for a specified purpose
- The Committee may wish to request that the City Attorney's Office opine regarding this matter



Other Considerations

- Staff report does not recommend permit transfer taxes or the City's involvement in permit transfer sales
 - Transfer taxes would increase the tax and fee burden in the taxicab industry
 - Challenge for the City or MTS in quantifying and verifying
- The impacts of additional transfer fees or taxes on the sale of permits would have to be studied and weighed against the revenue benefits for the City:
 - Who should pay: the transferor or transferee
 - The pass-through effect that it would have on lease drivers
 - Impact on the sale value
 - Impact on permit transfer frequency
 - Additional regulatory oversight involved



Auction Policy Considerations

- The consultant and staff do not recommend taxicab permit auctions, citing that auctions can generate revenue, but have a number of disadvantages, including:
 - Temptation toward oversupply of permits to generate revenue
 - New permits going to those with the greatest ability to pay
 - Risk of usury and default with use of loans to finance winning bids
 - Challenge in maintaining small, family-managed business model
- Some of the cited disadvantages can be mitigated by policies intended to lessen the shortfalls associated with auctions or a permit sale lottery
 - Adhering to supply formula recommended by consultant and staff
 - Pre-select/screen loan providers adhering to specifications
 - City could set the price for permit purchase in a lottery limited to lease drivers



Legal Considerations

- The Office of the General Counsel of MTS and the City Attorney's Office have both opined that the auction of taxicab permits would require a vote of the people under California Constitution art. XIIC (Proposition 218)
 - It would raise revenue above that necessary to recover the cost of permit administration and oversight, thus making it a tax
- Proposition 26 imposes further limitations on the requirements of a vote of the people for fees above cost recovery, defining them essentially as taxes
 - Majority vote required if it is used for general purposes
 - A two-thirds vote, if the revenue generated will be used for a specified purpose



Conclusion

- Our report provides information relating to permit transfer fee and tax models in other cities and taxicab permit auctions for Committee attention when amending Council Policy 500-02
- However, there are legal considerations associated with the institution of transfer taxes and distributing permits through auctions within the City of San Diego that would have to be addressed



Questions?