

MODERATOR'S COMMITTEE ON TAXI MEDALLIONS

Monday, August 11, 2014 @ 7:00 PM

Room 308, Brookline Town Hall

333 Washington Street

Meeting was called to order at 7:05 PM. Present were:

Chad Ellis
Jeff Kushner
Michael Sandman

Acting Chairman Sandman opened the meeting by asking the committee members, two guests and the members of the public present at the meeting to introduce themselves. The guests were Tim Steiner and Bill McKenzie of Brookline Bank, who had been asked to give the committee their views on how medallions in Brookline could be financed. They were asked to address four specific questions:

1. How would a commercial lender such as the bank decide on the credit worthiness of an individual who wanted to buy a taxi medallion?
2. How would it estimate the value of Brookline taxi medallions?
3. If the bank loaned funds to buy a medallion and the borrower defaulted, what was the lender's remedy, and how easy would it be to dispose of the medallion by selling it?
4. What was the bank's view of the impact of car services such as Uber on the value of taxi medallions?

Bill McKenzie opened by telling the committee that he had made an appearance at a meeting of the Town Administrator's workgroup on taxi medallions two years ago, before Uber had become a factor in the market. He also noted that the City of Boston hired a San Francisco-based taxi consultant [Nelson/Nygaard] following the 2013 Boston Globe Spotlight Team article on abuses of drivers by a major taxi operator, and that the consultant had estimated a typical taxi driver's gross fares in Boston at \$60,000 a year. In discussion with the committee, Mr. McKenzie said that it wasn't clear whether that figure was after shift lease payments [which would typically represent over \$30,000 a year], or tips.

[Later in the meeting, Mr. McKenzie said that the bank's estimate of a driver's annual gross revenue was \$100,000, and there was a discussion of vehicle maintenance and amortization. It was generally agreed that maintenance would cost \$2,000-\$3000 a year once the warranty had expired, which would happen in the first year, and amortization would be about \$7,000 a year before subtracting for the residual value of the vehicle.]

- **Credit worthiness**

In deciding whether to lend to an individual medallion purchaser, the bank considers three situations:

1. Someone who own a medallion but does not own a taxi, and who leases the medallion out for \$500/week [\$26,000 a year];
2. Someone who owns a taxi but not a medallion, and who leases the medallion and then leases out the taxi for \$90 - \$100 per shift [\$65,700 gross leasing revenue at 2 shifts/day, \$90/shift, 365 days a year;
3. Someone who owns a medallion and a taxi, typically drives it themselves 5 or 6 shifts a week and leases it out for the remaining shifts, often to a family member, for whom the bank estimates \$100,000 gross revenue/year.

The committee focused on the third circumstance, because the draft regulations in Brookline may not allow the leasing of an unattached medallion. The bank lends to these borrowers at an interest rate of 4.5/year, with a 20 year amortization schedule and a fixed 5 year term. It will finance up to 75% of the cost of a Boston medallion.

In evaluating credit-worthiness, the bank looks for someone with a “really nice credit history” someone with a credit score in the mid 700’s and up. Owner/drivers of this sort are good credit risks because they see the medallion as the source of their livelihood. He said that the bank does not see a lot of people who have a limited credit history, but that is limited credit history would be less of a problem than a bad history. He noted that most drivers are recent arrivals in the United States.

Representatives from Bay State Taxi and Red Cab noted that the applicants who have expressed an interest in buying medallions from their allotments are concerned that they do not have a credit history, but not necessarily that they have bad credit histories. Both of them agreed that their companies would sell a substantial number of medallions, but that operating companies would retain some medallions and vehicles because the economics of a pure radio room operation are not good.

Mr. McKenzie said that the bank does a lot of refinancing with people who already have equity in their medallions. Those people are eligible for a lower rate because they are a better credit risk.

He noted that when he was at Shawmut during the banking crisis in the late 1980s, the portfolio of medallion loans did not show a single default, in contrast the rest of Shawmut’s commercial portfolio. He said that Brookline Bank’s portfolio of medallion loans did not even show a late payment, let alone a default. However, the bank does have a lien on the medallion and can foreclose on it in the event of a default.

Mr. McKenzie was asked whether the current operating companies in Brookline could borrow, and his answer was that perhaps they could, but that the medallion is an easier loan to make. He was asked whether the bank would be likely to lend given that the companies have a negative net worth and his answer was no. He was asked whether the bank would be willing to lend for a new vehicle if the owner had a 10-year license, and he said that Brookline Bank would view that as being a car loan which would be financed through a dealer and would be too small for the bank to consider. From the bank's perspective, the financials just not there for non-medallion companies. There are exceptions to this rule; Shawmut financed Veteran’s Cab in Newton. But

that was 20 years ago.

- **Valuation of Brookline medallions & the impact of Uber**

Mr. McKenzie commented that, "There has been an Uber mania" that is dampening the enthusiasm lenders have for medallions, that he believes that the Boston area economy is strong enough to support both taxis and companies like Uber. Boston medallion prices had reached into the \$600,000-\$700,000 range partly as a consequence of low interest rates and that they were likely to fall back to about \$500,000 as a result of Uber. As for Uber, he said that Uber drivers are seeing more entry from the drivers and that some of them in Boston are moving back to driving a taxi.

Mr. McKenzie said that Brooklyn medallions will ultimately sell at prices similar to those from Cambridge, which are in the \$300,000 range. Given that expectation, Brookline Bank will be interested in lending to drivers/companies that acquire Brookline medallions in the \$100,000 range. Despite the risks of lending in a nascent market, Brookline is the bank's home and the bank wanted to participate in the market. The bank might want more collateral initially, and the price for medallions in Brookline will be lower initially than they are in surrounding jurisdictions.

A discussion ensued with representatives of the four Brookline taxi operating companies who were present at the meeting. They pointed out that from their perspective, the customer is the taxi driver not the passenger, and they agreed that the problem they faced was a loss of drivers to Uber, not a loss of passengers. Joe Bethony of Bay State pointed out that Uber is requiring their drivers to use their own cars, not taxis, even if they are licensed hackney drivers. Amid El Khoury of Hello Taxi said that it was Uber-X that is a problem because people who provide that class of service don't need to have an expensive vehicle.

Mr. McKenzie was asked about the statement by some opponents of medallions that a financial miracle is required in order to transform a taxi license valued nominally into an asset supposedly valued in the range of hundred thousand dollars. He said that this was a classic rent versus buy issue, and if you buy housing for example rather than rent it there is no miracle. No expenses go away; the lease or rental cost is transformed into a financing cost. Nonetheless, when you buy, there is an asset that can be financed, and no miracle is needed in order for that asset to have a substantial value.

- **Future value**

Mr. McKenzie estimated that the value of Brooklyn medallions in the future would be "a couple of hundred thousand dollars" assuming that the economy was steady. He pointed out that interest rates would affect the valuation, and so would the relative success of Uber in the Boston market. He was asked about whether Brookline might have too many taxis on the street, and Joe Bethony confirmed that 60% of Bay State's business is done with nearby Boston hospitals that have a contract to call the company for people who ask for help getting a cab.

- Will the excess supply cause the bank to hold back? No.

- Is Brookline more like Somerville than Cambridge in terms of likely medallion valuation? Brookline is diverse and "probably not a bad place to operate a cab."
- Would you fund a 10-year license holder? "Probably not." If the driver is unable to work, the license has no value; a medallion does.

Mr. McKenzie closed by commenting that, "Taxis are the last frontier of capitalism. [The industry] attracts people wanting to buy a job."

John Harris, a member of the public, asked why a bank would lend to restaurants but not to company with annual license to operate taxis. It was pointed out that many restaurants had liquor licenses, which could in fact be sold with the business. Further, restaurant owners invested in equipment and furnishings and often had 10-year leases and on their premises, all of which were transferable to a new tenant and could be considered an asset even if the restaurant license holder went out of the business.

Mr. McKenzie was asked whether the bank could finance a fleet of taxis, and he answered that it probably could. He also pointed out that if the medallion or falls below certain market valuation, the financing agreement usually includes a paydown in order to keep a minimum loan to value ratio.

- **Comments from the public**

Following the formal part of the meeting with the representatives of Brookline Bank, the committee engaged in a discussion with the representatives of the four taxi operating companies. The operators pointed out that the taxi industry Brookline was in a distressed state. The vehicles are old, poor drivers are not being penalized by having their hackney licenses suspended, drivers are failing to pay in full for the weekly leases and then walking away and going to another company, and Uber is taking good drivers away. One company representative, referring to the failure to adequately police drivers, commented that, "if the town had been paying hundred thousand dollars a year for a person in traffic administration and had hired a full-time hackney officer we wouldn't be looking for medallions."

One of the committee members suggested that the companies could create a register of drivers who fail to pay and, he expressed surprise that any driver could get a vehicle without paying the full cost of the lease in advance. The company representatives responded that there was a shortage of drivers because of Uber, and they reminded the members of the committee that their customer was the driver.

There was a discussion of the regulatory regime in Watertown, which was held up by the company representatives as being the right way to police the industry. They were asked by the committee whether a regulatory regime like that would work in Brookline, and they answered that it was too late, and that the drivers are continuing to drive lease taxis only because they expect to be able to buy taxi medallions in the near future.

Jeff Kushner pointed out that any industry with a cap on the number of entrants inevitably became concentrated and that issuing a fixed number of medallions would inevitably lead to

concentration up most of them in the hands of the small number of operating companies. A discussion ensued about the regulatory means to prevent that from occurring. [Attached is a report from the City of San Francisco, which has had a regulatory initiative to encourage taxi ownership by individual owner/operators.]

The question was raised as to whether there are too many taxis in Brookline, and it was general agreement that there are in fact too many, but that fact is not an argument in favor of or against medallions. The taxi company operators estimated that on average, 75% of the licenses are being used, and that there are occasional shortages at peak periods.

The company representatives agreed that if the committee returned a report that did not favor medallions, the industry needed to have a plan, not just a "No" to medallions.

- **Approval of July 28th minutes**

The committee members agreed to submit corrections to the July 28 minutes by e-mail.

The meeting was adjourned at 10:10 PM.