REPORT OF THE TAXI MEDALLION TASK FORCE

JANUARY 2020

LETTER FROM THE CO-CHAIRS

January 31, 2020

Dear Mayor de Blasio and Speaker Johnson,

Pursuant to Local Law 212 of 2018, we deliver to you the report of the Taxicab Medallion Sale Prices Task Force ("Task Force"). Over the past six months, members of the Task Force met almost every other week, either as a whole body or in smaller working groups, to discuss the state of the medallion taxi industry in New York City. The Task Force grappled with some of the most pressing concerns around two central policy issues: how to address the debt crisis in the medallion industry and the future of medallion taxi service in the City.

During our discussions it became abundantly clear that the medallion taxi industry in our city is in a state of crisis, and the time to take urgent, bold action to remedy the situation is now. The ensuing report spells out several practical recommendations for actions that our local, state, and federal governments can take to deal with this crisis and improve the economic conditions of taxi drivers in New York City. Some are common sense solutions, like banning the practice of confessions of judgment or increasing enforcement against illegal street hail pickups. Others may require more creativity and unflinching resolve, such as the proposal to establish a loan purchase and modification program for medallion owners struggling with unsustainable debt. However, we believe that taking no action at all would only exacerbate the problems that are currently stifling this industry.

Our Task Force members and staff worked diligently to produce a balanced and meaningful product that we trust will have a positive impact. We would like to thank each and every one of the Task Force members and the assigned City Council staff for all their hard work. This report could not have been possible without their input.

Finally, we thank you for entrusting us with the vital work of this Task Force. It is our sincere hope that the City Council, the Taxi and Limousine Commission, officials at all levels of government, and stakeholders in the private sector can work together to implement the proposed recommendations found in this report to assist our struggling taxi drivers and to ensure that taxi service continues to be a viable transportation option in our City.

Sincerely,

Honorable Ydanis Rodriguez
Council Member/Co-Chair

Honorable Stephen T. Levin
Council Member/Co-Chair

TABLE OF CONTENTS

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INTRODUCTION

Defining the Problem

The medallion taxi industry is in a state of crisis, both in New York City and across the country. Market speculation, risky lending practices, and lack of proper regulatory oversight across various levels of government led medallion owners to take on high levels of debt. Following large-scale disruption in the for-hire transportation industry by app-based companies, medallion values and medallion taxi revenues plummeted, and these high levels of debt became unsustainable for a large number of medallion owners.

The New York Times and other news media outlets have chronicled the heavy toll that declining medallion values and revenues have had on medallion owners and drivers, leading many to personal ruin and financial hardship.

Declining medallion values and medallion taxi revenues have also had a serious impact on credit unions and other lenders who made loans to medallion owners. Several of these lenders that concentrated heavily on medallion lending were found to have engaged in risky lending practices and recently became insolvent.

The Taxi Medallion Task Force (the "Task Force") was formed pursuant to Local Law 212 of 2018, and primarily focused on addressing two central questions: (i) how the current financial crisis among over-indebted medallion owners could be addressed, and (ii) how the medallion industry could remain viable in a changing marketplace.

RECOMMENDATIONS SUMMARY

Many medallion owners and drivers in New York City are struggling financially under unsustainable debt levels and increased competition from a rapidly expanding for-hire vehicle industry.

Task Force members believe that urgent action is needed to assist medallion owners and drivers who are currently struggling with unsustainable debt. It is imperative that regulators, governments, the medallion industry, and private actors work quickly to (1) develop an option for medallion owner debt relief and (2) take steps to stabilize and modernize medallion taxi service, if it is to remain a competitive and viable transportation option into the future.

The recommendations set out in this report were generated in response to two central questions: (i) how the current financial crisis among over-indebted medallion owners could be addressed, and (ii) how the medallion industry could remain viable in a changing taxi marketplace.

(i) Addressing the financial crisis among over-indebted medallion owners

- The Task Force recommends that the City, in collaboration with other state and federal government, non-profit, and private partners, establish a debt purchase and modification program for distressed medallion owners.
- The Task Force recommends that the City ensure that medallion owners have access to free legal and financial advice regarding bankruptcy and any debt assistance program the City may establish.
- The Task Force supports the finalization and vigorous enforcement of the Taxi and Limousine Commission's ("TLC's") proposed broker rules. Failing that, the Task Force recommends that the City Council pass local legislation codifying rules to a similar effect.
- The Task Force recommends that Congress or the New York State Legislature pass laws to require lenders to verify the borrower's ability to repay prior to extending a medallion loan.
- The Task Force recommends that Congress pass the proposed Small Business Lending Fairness Act and that New York State extend its ban on the use of confessions of judgment against out-of-state borrowers to all borrowers.
- The Task Force recommends there be new federal, state, and local policies to prevent risky loan terms and structures in the future.
- The Task Force recommends that the City consider the feasibility of a medallion buyback program.

(ii) Adapting medallion taxi service to the changing for-hire transportation market

- The Task Force recommends that the TLC review its rules regarding Technology System requirements to allow for more streamlined integration of passenger- and driver-friendly software taximeters and to encourage app development and innovation in the medallion taxi industry.
- The Task Force recommends that the City urgently review the current medallion taxi app services and current market forces affecting medallion taxi app service and provide recommendations for the creation of new or improved medallion taxi apps that, among other potential requirements:
  - Are better labeled and designed to attract passengers and drivers;
  - Are either solely dedicated to medallion taxi service or integrated with other for-hire vehicle ("FHV") options or modes of transportation locally and potentially on a broader scale;
  - Allow for modernized payment process (seamless payment through the app, cutting back on payment transaction time, and increasing medallion taxi service efficiency);
  - Remove user convenience fees and allow for cancellation fees when a passenger cancels a trip unreasonably;
  - Allow shared rides among passengers;
  - Integrate with other apps and search engines;
  - Provide passenger and driver rewards or incentives;
  - Leverage industry data analytics to provide more efficient medallion taxi service; and
  - Work across all taximeter platforms.
- The Task Force recommends that the TLC review and reform certain rules regarding medallion taxis in order to facilitate innovation in the medallion industry, including reforming rules for taxi drivers regarding smart phone use and streamlining ride-sharing and pre-arranged trips for medallion taxis.
- The Task Force recommends that the TLC study the current industry economics including driver earnings, lease rates, surcharges, and loan payments to better inform the potential use of a dynamic pricing model in medallion taxis. Such study could include a detailed analysis of driver earnings, expenses, and how rate structures influence passenger demand and driver earnings.
- The Task Force recommends that New York State and City authorities review and consider reducing meter surcharges or rebalancing such surcharges and fees across other sectors of the for-hire industry, including any new airport surcharges and congestion fees.
- The Task Force recommends that the TLC increase the number of its enforcement officers.
- The Task Force recommends that the Port Authority and the TLC work closely together to help curb illegal street hail activity at the local airports.
- The Task Force recommends that the TLC carry out a Public Safety Awareness campaign to help curb illegal street hail activity.
- The Task Force recommends that the TLC provide enforcement officers with additional

or enhanced training aimed at promoting officer empowerment and safety.

- The Task Force recommends that the TLC provide enforcement officers with compensation that would be competitive with other City agencies that carry out regulatory enforcement.
- The Task Force recommends that the TLC review the existing fines for the top ten TLC violations and that such fines be revised if a determination is made that the existing fine or penalty scheme has not been effective.

While members of the Task Force volunteered significant time and expertise toward examining this crisis and developing recommendations for immediate action, six months of work is not enough to fully grapple with all the issues facing the medallion taxi industry in an ever-changing transportation environment. The problems faced by taxi medallion owners and drivers are complex and cut across multiple levels of government and varied regulatory regimes.

In addition to the recommendations set forth above, the Task Force recommends that regulators, such as the TLC, continue to meet regularly with diverse groups of taxi industry stakeholders, lending industry representatives, academics, and advocates to continue the dialogue started in this report. It is also crucial that the implementation of the Task Force's recommendations be followed by a periodic assessment of the effectiveness of the proposals and adjustments to reflect changing circumstances and lessons learned.

BACKGROUND

A Brief History of the Medallion

In the 1930s, there were at least 16,900 taxis operating street hail[i] service in New York City.[1] In 1937, New York City's Board of Aldermen, the predecessor to the New York City Council (the "City Council"), found that an overabundance of taxis resulted in "depressed driver earnings and congested city streets."[2] In response, the Board of Aldermen adopted the Haas Act, which instituted the medallion system that persists to this day.[3] Under the Haas Act, existing license holders were permitted to retain their taxi licenses subject to an annual renewal fee. The Act imposed a cap on the issuance of new taxi licenses, known as medallions, limiting the number of medallions at the time to 13,595.[4] By the 1940s, the number of active medallions dwindled to 11,787 after owners let their medallion licenses expire.[5] The number of medallions would remain at that level until the first City auction of medallions was held in 1996.[6]

The Haas Act divided medallions into two main categories: independent medallions, which had to be owned by one individual, and corporate (sometimes referred to as "minifleet") medallions, which had to be owned in groups of two or more.[7] Local law also required that individual owners account for 42 percent of the total number of medallions.[ii]

The Haas Act allowed for the transfer of medallions between owners as long as the City approved the new owner's qualifications and as long as the ratio of independent versus corporate owners was preserved.[8] This transferability, combined with a limit on the overall number of medallions allowed to operate in the City,[9] created a valuable asset by establishing a virtual monopoly on taxi services. The Haas Act also authorized the City to issue additional medallions based on an evaluation of the need for more medallion taxis and City Council approval.[10]

In the mid-1960s, medallion taxis began using radio dispatch and were allowed to pick up passengers both by street hail and by pre-arrangement (commonly referred to as "dispatch"). At the time, medallion taxi drivers could refuse a street hail and rely only on the dispatch of prearranged trips.[11] Trip refusals were frequent and, in some cases, discriminatory.[12]

By the 1970s, the medallion industry was primarily made up of independent owners, who drove and operated their medallions—sometimes with other drivers leasing the vehicle for periods of time—and fleet operators, who owned corporate medallions and leased out their vehicles on a shift basis.

Over time, the need for a regulatory body became apparent, as competing and unregulated services began operating for-hire transportation businesses. The TLC was created in 1971 to oversee and regulate the transport of passengers for hire in the City.[13] The TLC adopted rules and formalized vehicle and medallion leasing in 1979.[14] In 1984, the TLC also began licensing and regulating

i A "street hail" is "a request either through a verbal (audio) action such as calling out, yelling, or whistling, and/or a visible physical action such as raising one's hand or arm…for on-demand Taxicab or Street Hail Livery service at the metered rate of fare as set forth in § 58-26 and § 82-26 of [the TLC Rules] by a person who is currently ready to travel." 35 R.C.N.Y. § 51-03.

ii The distinction between independent and corporate medallions was eliminated by the City Council by Local Law 59 of 2017.

brokers, who advise clients on purchasing or selling a medallion or facilitate leasing of medallions or vehicles.[15]

In April 1985, Mayor Ed Koch attempted to issue additional medallions, which had remained at the 1940s level of approximately 11,787, but was ultimately unsuccessful.[16]

By 1987, TLC rules required medallion taxis to remove their radio dispatch systems and only allowed medallion taxis to pick up street hails.[17] Though they were still required to serve all five boroughs, medallion taxis concentrated, and continue to concentrate, their business in midtown and lower Manhattan and at LaGuardia and John F. Kennedy Airports.

In 1996, under Mayor Rudy Giuliani, the City Council approved the sale of 400 new medallions authorized by New York State (the "State") based on a 1989 environmental review process.[18] That year, the TLC had adopted rules that permitted medallion sales by means of closed auction, in which bidders submit sealed bids. Between 1996 and 2014, the TLC held 21 auctions, at which it sold a total of 1,850 medallions.

In 2014, medallion taxis averaged about 485,000 trips per day, with 90 percent of those trips originating in Manhattan.[19] Medallion taxis rarely served the outer boroughs, with trips originating at airports accounting for the second highest pick-up location, at 3.5 percent.[20] Medallion taxis have the right to pick up street hails throughout all five boroughs and have an exclusive right to pick up street hails in Manhattan below E 96th Street and W 110th Street and at the local airports (commonly referred to as the "Medallion Exclusionary Zone" or "Hail Exclusionary Zone").[21] The TLC continues to be the regulatory agency charged with oversight and regulation of the medallion industry, as well as other forms of for-hire transportation. The TLC regulates every aspect of medallion taxi service and operation, from inspections to vehicle equipment.[22]

The Advent of For-Hire Vehicles

In addition to regulation and oversight of medallion taxi service, the TLC also regulates and oversees High Volume For-Hire Services ("HVFHSs"),[iii] Street Hail Liveries,[iv] Black Cars,[v] Liveries,[vi] and other forms of for-hire transport.[vii]

iii An HVFHS is a TLC-licensed business that facilitates or otherwise connects passengers to for-hire vehicles by prearrangement, including through one or more licensed For-Hire Vehicle Bases, using a passenger-facing booking tool, and that dispatches or facilitates the dispatching of ten-thousand (10,000) or more trips in the City per day. 35 R.C.N.Y § 51-03

iv A Street Hail Livery is a TLC-licensed For-Hire Vehicle that is authorized to accept persons by hail in all areas of New York City except in the Medallion Exclusionary Zone. 35 R.C.N.Y § 51-03

v A Black Car is a type of vehicle licensed by the TLC to provide for-hire transportation, commonly referred to as a For-Hire Vehicle ("FHV") and affiliated with a Black Car Base, which is a central dispatch facility and For-Hire Base that operates as follows: (1) All Black Car Vehicles are dispatched on a pre-arranged basis; (2) All Black Car Vehicles are owned by franchisees of the Base or are members of a cooperative that operates the Base; and (3) More than ninety percent of the Base's business is on a payment basis other than direct cash payment by a passenger. 35 R.C.N.Y § 51-03.

vi A Livery is a TLC-licensed For-Hire Vehicle that is affiliated with a Livery base Station, which is a For-Hire Base that operates as follows: (1) All Livery Vehicles are dispatched from the Base on a pre-arranged basis; (2) All Livery Vehicles are designed to carry fewer than six Passengers; (3) Passengers are charged for service on the basis of a flat rate, time, mileage, or zones. 35 R.C.N.Y § 51-03

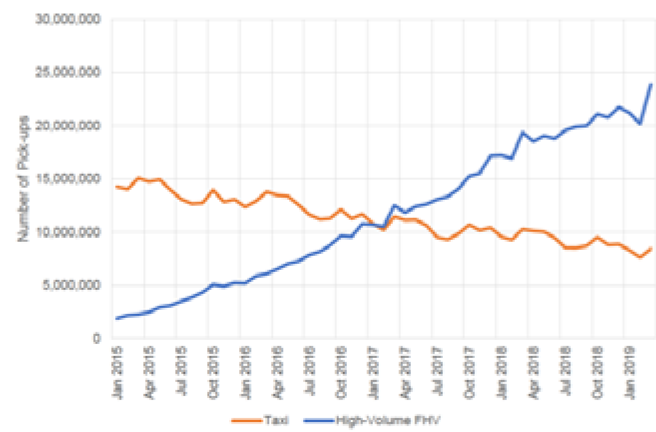
vii These include Luxury Limousines, Commuter Vans, Paratransit Vehicles, and Wheel-Chair Accessible Vehicles.

In fiscal year 2012, following approval from the State, Street Hail Liveries (also commonly referred to as "green taxis" or "boro taxis"), which are permitted to pick up street hails throughout the City except in the Medallion Exclusionary Zone, were created under Mayor Michael Bloomberg in an attempt to legalize the services filling the medallion taxi service gap in the outer boroughs.[23] By providing new street hail permits to existing livery drivers, Mayor Bloomberg sought to regulate the illegal street hails on which City residents in the outer boroughs depended, while minimizing disruption to the FHV industry.[24] The introduction of green taxis was the subject of protracted litigation from medallion owners and others, and green taxis did not begin operating in the City until 2014.

App-based companies Uber, Lyft, Juno, and Via first entered the New York City market between approximately 2012 and 2016[25] and are currently licensed as HVFHSs, as they each dispatch more than 10,000 trips per day in the City.[26] Prior to the creation of the HVFHS designation in 2018,[viii] app-based companies were originally regulated in the same way as Black Cars because they dispatch pre-arranged trips and more than 90 percent of their transactions are non-cash. Traditionally, Black Car Bases served business or corporate clients. However, many app-based companies elected to operate as Black Cars, spurring exponential growth in this sector.[27] By March 2018, TLC had about 130,000 active licensed FHVs and was issuing licenses for approximately 2,000 new vehicles per month.[28]

By early 2018, medallion taxis made roughly 296,000 trips per day, down from an average of 485,000 trips per day in 2014, while app-based companies had an average daily trip volume of 600,000.[29] The app-based companies providing the biggest share of trips, HVFHSs, accounted for at least 24,000,000 trips citywide in March 2019 alone (see below). These trends indicate that, while the medallion taxi passenger market was shrinking, the overall for-hire transport passenger market was, in fact, growing rapidly.

Figure 1: High-Volume FHV and Taxi Trips, 2015-2018, Citywide



TLC and N.Y.C. Department of Transportation, Improving Efficiency and Managing Growth in New York's For-Hire Vehicle Sector, June 2019

The swift rise in app-based trips since 2015 and the corresponding decline in medallion taxi trips over the same time frame is likely due to a combination of factors. For instance, app-based companies may provide certain benefits—such as upfront pricing and the ability to hail via a smartphone app—that make them particularly attractive to passengers.[30] Furthermore, until 2018, there was no cap on the number of app-based vehicles permitted to operate within

viii Local Law 149 of 2018 created the separate license category of HVFHS for app-based company bases that dispatch more than 10,000 trips per day.

the City.[ix] In addition, the explosive growth of the app-based companies has been driven, at least in part, by their subsidization. Unlike taxis and other FHVs, the disruptive innovation of Uber, Lyft, Juno, and Via has been subsidized by their investors since their inception, allowing them to lose money in the short term while they compete for passengers. This subsidization has allowed the app-based services to grow at the expense of medallion taxis and other FHVs, but it is not clear how competitive these services will be when those subsidies end.[31]

The Rise and Fall of Medallion Values

When medallions first traded after World War II, their average sale price was $2,500.[32] By 1961, medallions were reportedly worth between $21,000 and $23,000.[33] By 1985, medallion prices had reached $100,000.[34] As explained below, in subsequent decades, the medallion market saw a dramatic rise, followed by a swift fall, in medallion values.

The City held its first three medallion auctions in 1996 and 1997 after receiving New York State approval to issue new medallions.[35] At these first auctions, independent medallions sold for a high of $177,000 in May 1996[36] and a high of $233,210 in September 1997.[37] Corporate medallions reached a price of $571,111 for a package of two ($285,555 each) in September 1997.[38] The 1996 and 1997 City auctions raised approximately $85 million for the City.[39]

At auctions held in April and October 2004, bids for medallions reached a high of $360,000 for a single independent medallion and $815,103 for a package of two corporate medallions ($407,551 each).[40] At the subsequent auction held in June 2006, medallion prices surpassed the 2004 numbers. Independent medallions sold at a high of $425,102, while a package of two corporate medallions[x] reached $1,108,295 ($554,148 each).[41] At the May 2008 auction, independent medallions[xi] sold for $524,000, and a package of two corporate medallions[xii] sold for as much as $1,312,000 ($656,000 each).[42]

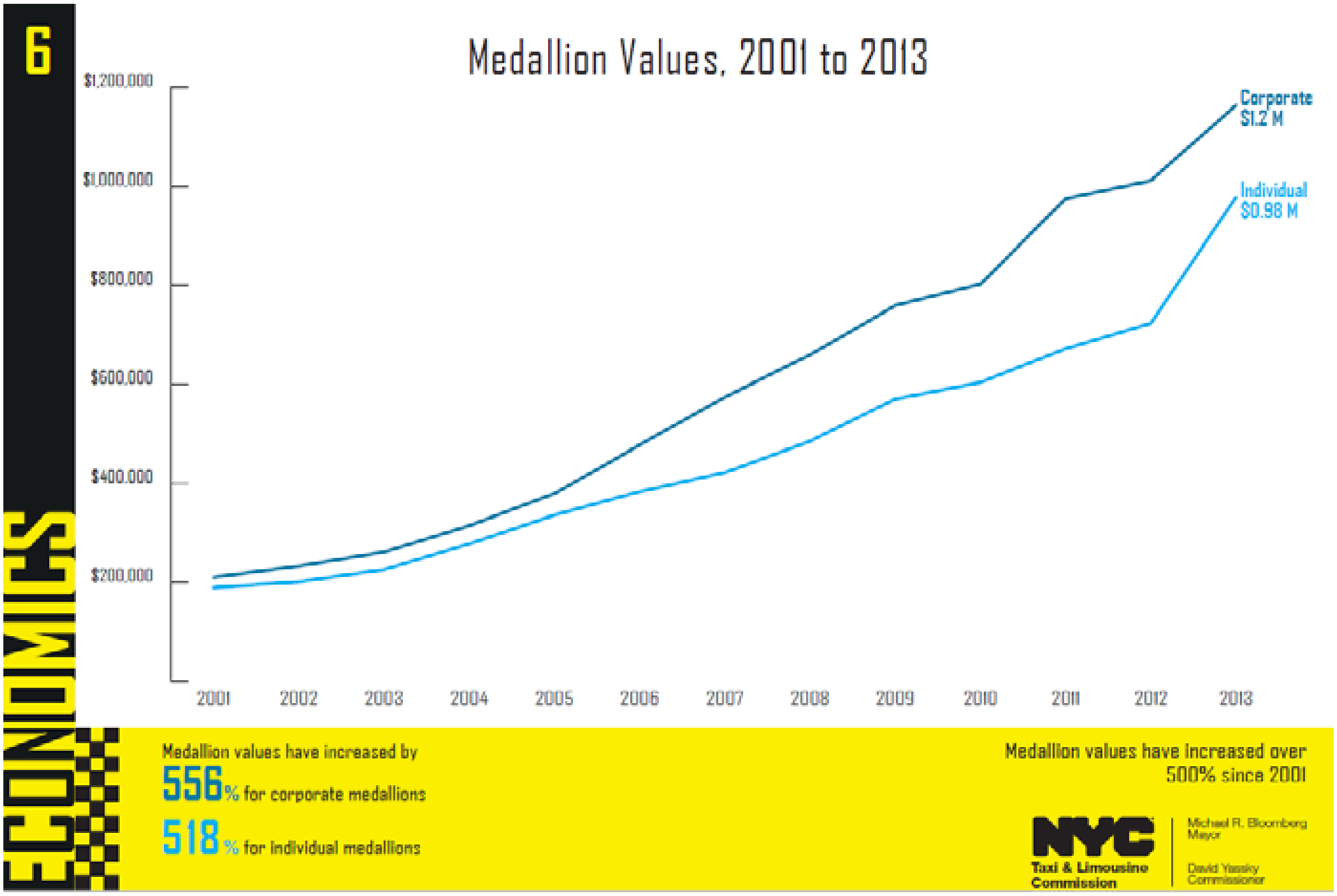
The City did not hold any auctions between 2009 and 2012. However, the value of medallions continued to rise on the secondary market. In August 2009, corporate medallions transferred at an average of almost $1,500,000 for a package of two ($750,000 each). The upward trend continued through 2012, when, in September of that year, a package of two corporate medallions transferred for $2,250,000 ($1.125 million each).[43] In a 2013 presentation created by the TLC, the agency noted that medallion values had "increased over 500% since 2001," which is illustrated in the graph below.[44]

ix Local Law 147 of 2018 paused the issuance of new FHV licenses for a year and instructed the TLC and DOT to study the impact of the FHV sector on traffic congestion, vehicle utilization, driver income, traffic safety, and access to services throughout the city.

x The independent and corporate medallions referred to at the June 2006 auction here were alternative fuel medallions. An alternative fuel medallion is a restricted medallion valid for use only with a vehicle powered by compressed natural gas or a hybrid electric vehicle that complies with TLC rules. 35 R.C.N.Y. § 51-03.

xi The independent medallions referred to in the May 2008 auction were alternative fuel independent medallions. N.Y.C. Taxi and Limousine Comm'n, *Medallion Auction*, https://www1.nyc.gov/site/tlc/businesses/medallion-auction.page.

xii The corporate medallions referred to in the May 2008 auction were wheelchair accessible corporate medallions. N.Y.C. Taxi and Limousine Comm'n, *Medallion Auction*, https://www1.nyc.gov/site/tlc/businesses/medallion-auction.page.



Slide from TLC's "Major Agency Accomplishments (2002-2013)" Presentation[45]

In 2011, the State authorized the sale of 2,000 additional medallions.[46] Subsequently, between November 2013 and March 2014, the TLC auctioned 400 medallions in three auctions[47] generating approximately $359 million for the City.[48] During these auctions, sale prices peaked for both independent and corporate medallions.[49] The highest price paid for an independent medallion was $965,000, with an average price of $863,742.[xiii] In March 2014, in what would prove to be the final TLC auction to date, the high winning bid for a lot of two wheelchair accessible corporate medallions was $2,420,500 ($1,240,250 each), with an average price of $2,328,757 ($1,164,378 each).[50]

By mid-2014, medallion market values started to fluctuate.[51] In 2015, amid dropping prices, the City suspended plans for future medallion auctions.[52] In March 2016, TLC Commissioner Meera Joshi testified before the City Council's Committee on Transportation that the medallion secondary market was essentially "frozen," with "a lot less transactions" occurring compared to previous years, and cited this as a reason that the City had decided to postpone a planned auction of new medallions.[53]

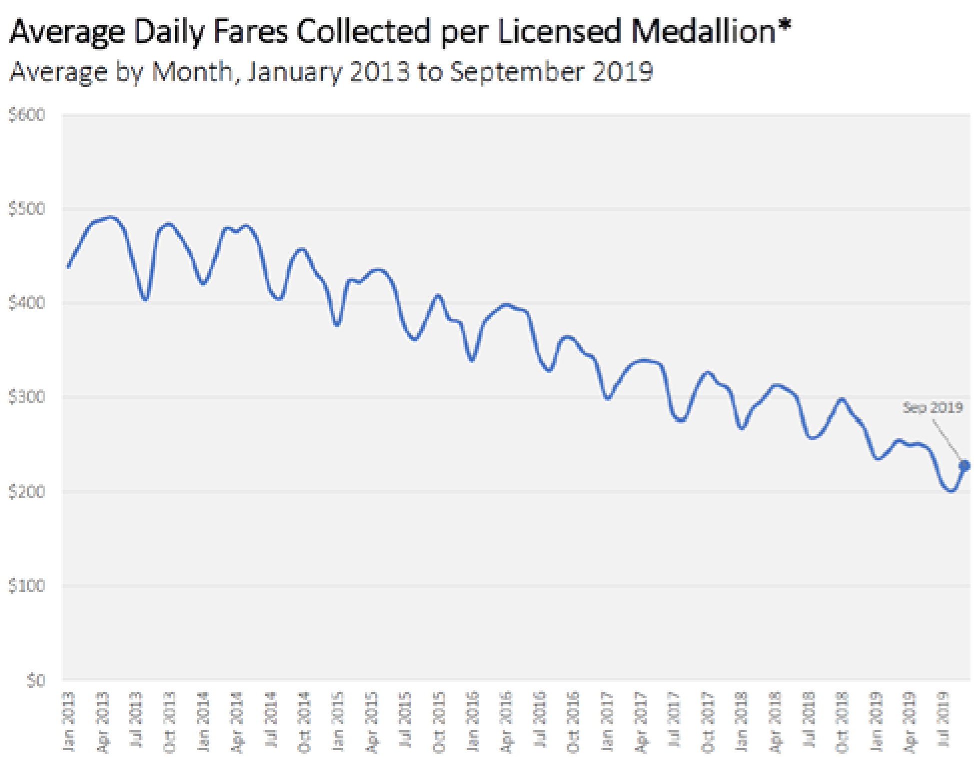
By January 2018, medallions were selling on the secondary market for an average of $188,796, marking one of the lowest monthly average sale prices in recent years.[54] In May

xiii The independent medallions referred to in the February 2014 auction were wheelchair accessible independent medallions. N.Y.C. Taxi and Limousine Comm'n, *Medallion Auction*, https://www1.nyc.gov/site/tlc/businesses/medallion-auction.page.

2018, Commissioner Joshi testified at the City Council's TLC executive budget hearing that the City had removed estimated medallion revenue from the TLC's fiscal year 2019 budget and delayed the sale of any additional medallions beyond the five-year financial plan. Commissioner Joshi indicated that the five-year delay would allow the City to monitor the medallion market for a longer period of time before deciding whether to sell any additional medallions. She also indicated that the unavailability of financing posed an obstacle to auctioning new medallions.

By November 2019, the average sale price for medallions was $164,518, with a median price of $200,000.[55] Throughout 2019, prices hovered around $200,000. Notably, 66 percent of the medallion transfers that took place in 2019 were due to foreclosures.[56]

The rapid decline in medallion values since 2014 may be the result of multiple factors. For instance, as discussed in greater detail above, increased competition from app-based companies led to a decline in medallion taxi trips throughout the City. This, in turn, led to a decline in the daily fares collected per medallion (see below). In addition, some have concluded[57] that the decline in medallion values was caused, at least in part, by the bursting of a speculative bubble.[xiv]



*Licensed medallions include all medallions, including those in storage and not currently attached to a vehicle.

Slide from TLC's "Medallion Fact Pack (2019)" Presentation

xiv While the Task Force did not make a determination as to whether medallions were overvalued when prices were at their peak, this question is discussed in additional detail below under *"The Case for City Action."* In addition, this report addresses risky lending practices in detail under *"Reforming Medallion Lending Practices."*

While there may have been multiple factors that contributed to the decline in the medallion value, the decrease has resulted in intense financial pressure for many medallion owners, especially owner-drivers. The New York Times and other news media have recently reported on the plight of many medallion owners and drivers. These drivers ended up in significant financial trouble, with more than 950 medallion owners filing for bankruptcy and thousands more "barely hanging on."[58] The New York Times' investigation found "example after example" of drivers trapped in "exploitative loans."[59]

Over the course of six months, Task Force members shared and discussed stories of personal and financial hardship plaguing the medallion taxi industry. Mohammed Hoque, a medallion owner and taxi driver living in Queens, was featured in several New York Times articles about medallion lending practices.[60] He reportedly bought his medallion in 2014, on an annual income of approximately $30,000, and signed a loan that required him to pay $1.7 million. Mr. Hoque told the New York Times that he drove six days a week, 12 hours a day and still fell behind on his payments. His medallion has been repossessed at least six times. His story is only one of the many tragic stories in the industry. For example, Yvon Augustin, another driver featured in the New York Times, made interest-only payments of $2,275 a month before declaring bankruptcy and losing his medallion. He currently relies on his family for financial assistance.[61]

Recent City Legislative and Regulatory Action

In recent years, the City Council and the TLC have taken important regulatory steps in response to changes and disruption in the City's FHV industries. These actions have served to eliminate burdensome regulations to better allow for the modernization of the medallion taxi industry and to apply important, long-standing medallion taxi regulations to the fast-expanding FHV sector. Unlike in other jurisdictions, new market entrants were covered by the City's existing FHV regulations, uniquely allowing the City to more readily implement regulatory responses to address a changing market. The City Council and the TLC also acted to directly address decreasing medallion values, such as through eliminating regulations that created barriers for medallion owners seeking to transfer their medallions and establishing the Taxi Medallion Sale Prices Task Force to examine the fluctuating medallion value.

In 2016, the TLC eliminated the onerous "owner-must-drive" requirements for independent medallion owners who purchased their medallions after January 6, 1990.[62] The owner-must-drive rules required that independent medallion owners operate their medallions for a minimum amount of time each year or face penalties.[63] These rules were burdensome for some owners.[64] With the repeal of this requirement, the market for potential medallion buyers was expanded to allow for passive owners of independent medallions.

Subsequently, Local Laws 58 and 59 of 2017 were enacted, eliminating the distinction between individual and corporate medallions, allowing individual medallion owners to sell to anyone, including corporate medallion owners. These laws also lessened other requirements related to medallion ownership, such as reducing the medallion transfer tax from 5 percent to 0.5 percent.

The City and the TLC have also acted to facilitate medallion owners' access to drivers, reduce costly medallion taxi vehicle requirements, and balance regulations across the for-hire sectors. Local Law 51 of 2016 created a universal license for medallion taxi and FHV drivers. This legislation eliminated the distinction between licenses required to drive across the for-hire sectors, providing medallion owners with access to a significantly wider pool of drivers. In enacting this legislation, the TLC expanded mandatory driver education, which covers important public safety and consumer protection requirements, from previously only applying to those wanting to operate a medallion taxi to all holders of the new universal license, irrespective of the type of vehicle they wished to operate. Furthermore, TLC rules and local laws have been amended to require trip records for all FHV trips, including those completed through app-based companies. These records provide valuable insight previously only available in the medallion taxi industry. Similarly, driver pay protection and requirements to utilize wheelchair accessible vehicles were expanded beyond the medallion taxi industry to cover the FHV sector.

In an effort to reduce costs for medallion owners, the TLC recently extended the medallion taxi vehicle retirement schedule from three years to seven years,[65] and allowed medallion owners to choose whether to have a partition or in-vehicle camera system in their taxis.[66] The agency is also working to expand vehicle choice for medallion owners, allowing them to choose vehicles that better fit their budget as well as meet the demands of their drivers and passengers.[67]

Local Law 148 of 2018 waived the annual licensing fee of $550 for wheelchair accessible medallion taxis. Additionally, Local Law 137 of 2019 reduced the Commercial Motor Vehicle Tax for medallion taxis, an annual flat tax imposed on all vehicles used for the transportation of passengers. Pursuant to local law, the tax was lowered from $1,000 to $400, equal to the amount charged to FHV owners.[68]

The City Council and the TLC have also taken action to encourage additional innovation in the medallion taxi industry. In an effort to allow medallion taxis to implement innovative pricing structures, the TLC created a "Flex Fare" pilot for licensed medallion taxi app providers (commonly referred to as "E-Hail providers"). According to the TLC, this pilot allows the medallion taxi industry to leverage smartphone apps to take advantage of the same flexibility allowed in the app-based FHV sector.[69] Under the program, approved medallion taxi E-hail providers may offer passengers binding, up-front fare quotes separate from the metered fare.[70] While uptake among medallion taxi E-Hail companies remains limited, this option has the potential to make medallion taxis more competitive with FHVs, as will be discussed further in this report.

The City Council has taken legislative action to regulate the rapid influx of app-based FHVs. In 2015, the City Council and Mayor de Blasio unsuccessfully attempted to cap the number of FHVs on the road. At the time, there were roughly 60,000 licensed FHVs.[71] Over the next three years, the number of FHVs on the road nearly doubled.[72]

In 2018, the City Council passed a package of legislation aimed at further improving the regulation of the industry, including through limiting app-based FHVs. Local Law 147 of 2018 paused the issuance of new FHV licenses for a year and instructed the TLC and the New York City Department of Transportation ("DOT") to study the impact of the FHV sector on traffic congestion, vehicle utilization, driver income, traffic safety, and access to services throughout the City. Local Law 147 empowered the TLC to implement policies to address these impacts, including limiting vehicles cruising without a passenger (referred to in the legislation as a "vehicle utilization standard") and regulating the number of FHV licenses. Following completion of its study, the TLC in 2019 extended the FHV license cap for an additional year.[73]

In 2018, legislation was also enacted to provide assistance to taxi drivers struggling with debt and the declining market for medallion taxi service.[74] The legislation required the TLC to create a Driver Assistance Center that provides financial counseling, mental health counseling, and referrals to non-profit organizations for additional assistance to drivers.[75] Related legislation requires TLC to engage in financial education and outreach for taxi and FHV drivers considering leasing taxis or FHVs.[76]

Local Law 10 of 2019 directed the TLC to conduct a survey requesting information on current medallion debt from medallion owners and to report to the City Council and the Mayor on the information compiled (the "TLC Medallion Debt Survey"). Following submission of the required report, the TLC is required to review and consider the information it has compiled, if any, relating to debt owed by medallion owners and to consider actions to assist medallion owners who have medallion debt, including, but not limited to:

- Providing technical assistance to medallion owners;
- Identifying organizations that may offer assistance, including financial assistance, to medallion owners; and
- Setting limits on the terms or amount of medallion financing

In addition, in 2019, Mayor Bill de Blasio ordered the TLC, the Department of Consumer and Worker Protection, and the Department of Finance to conduct a 45-day review of TLC licensed broker practices. The review, which was completed in July 2019, found that brokers often violated rules regarding the disclosure of conflicts of interest, failed to adequately explain loan terms to their clients, and failed to use written broker agreements. Following the completion of the review, the TLC introduced rules that would further regulate brokers. The proposed rules, among other things, would revise penalties for violation of broker rules, strengthen brokers' obligations to disclose interests in medallions and related business services, require brokers to provide their clients with written plain language explanations of material loan terms, and require written agreements between brokers and clients specifying all fees and costs charged by the broker.[77] On October 30, 2019, the TLC held a hearing on the proposed rules, but has yet to adopt them.[78]

Taxi Medallion Task Force

As discussed above, the Task Force was created pursuant to Local Law 212 of 2018 to study the sale prices of medallions over the past 20 years, look at the potential future sale prices of medallions, and determine the impact that such sales would have on the City's budget. At the conclusion of this review period, the Task Force was to make recommendations for policy changes on the local, state, and federal levels. However, given that there has not been a City-led auction of new medallions since 2014, and in light of the worsening conditions for medallion owners and drivers, the Task Force focused on addressing the current financial crisis among over-indebted medallion owners and on the future of the medallion industry.

City Council Speaker Corey Johnson appointed Council Members Ydanis Rodriguez, of Manhattan, and Stephen T. Levin, of Brooklyn, as co-chairs to lead the work of the Task Force. Local Law 212 required the Task Force to be comprised of nine members appointed by the Speaker of the Council, the Mayor, the TLC Commissioner, and the Public Advocate. At the discretion of the Co-Chairs and the Speaker of the Council, the Task Force's membership was expanded to include ten additional members from various professions. These members were chosen to provide important feedback, support, and expertise on numerous issues related to industry practices, economics, finance, law, consumer protection, and lending.

Methodology

The Task Force held its first meeting on July 31, 2019, and met at least 17 times either collectively as a whole or in working groups, over the course of six months. In addition to in-person meetings, Task Force members and staff devoted substantial additional time to conducting research, as well as monthly phone conversations. Task Force members were divided into four distinct working groups, with each member serving on at least two working groups. Each working group focused on specific issue areas that could help inform the following two central policy questions: (i) how the current financial crisis among over-indebted medallion owners could be addressed, and (ii) how the medallion industry could remain viable in a changing taxi marketplace.

The first two working groups, the *Medallion Lending Practices Working Group* and the *Stakeholders and Medallion Owner/Driver Experience Working Group*, met from August to mid-October of 2019.

The *Medallion Lending Practices Working Group* reviewed the roles that lending, borrowing, and brokerage practices had in creating or contributing to financial hardship in the medallion taxi industry.

The *Stakeholders and Medallion Owner/Driver Experience Working Group* considered issues related to the costs of owning and operating a medallion, including the impact of regulatory expenses and TLC enforcement efforts on medallion owners and medallion taxi drivers in order to better understand the present reality of the industry.

The second set of working groups, the *Addressing the Medallion Debt Crisis Working Group* and *Future of the Medallion Working Group*, met from mid-October to the end of December of 2019.

The *Addressing the Medallion Debt Crisis Working Group* explored possible responses to the current medallion debt situation, including the potential for providing financial relief in some form to medallion owners.

The *Future of the Medallion Working Group* examined ways in which the medallion industry could remain viable in a changing marketplace now dominated by app-based FHVs. As part of this process, this working group developed criteria for evaluating potential recommendations and decided on the following five criteria:

(1) Cost: what financial costs would be associated with each recommendation and would the cost to any affected stakeholders be reasonable?

(2) Effectiveness: how effective would each recommendation be in helping to achieve the goal identified by the group (the sustainability of the medallion)?

(3) Feasibility: how likely is it that each recommendation would be implemented, and would there be a reasonable amount of public support for each recommendation?

(4) Fairness/Equity: how would each recommendation benefit or negatively impact the affected stakeholders in the industry?

(5) Measurability: is each recommendation reasonably clear and measurable?

The Task Force was charged with issuing a report to the Mayor and the City Council no later than six months after the Task Force was established, detailing its activities and recommendations. As a result, the Task Force had to operate within a limited timeframe.

Set out below are recommendations and steps that the Task Force believes should be taken at the local, state, and federal levels to help struggling medallion owners and medallion taxi drivers and to bolster the medallion taxi industry in New York City.

Task Force members worked intently to come to a consensus on the final recommendations outlined in this report. However, members did not necessarily reach unanimity on every recommendation. In the spirit of transparency, the report highlights instances where Task Force members expressed notable disagreement.

By and large, the Task Force's recommendations are premised on the assumption that the current medallion system—in which medallions are limited, transferable assets—should remain unchanged for the foreseeable future. Some Task Force members felt that this assumption may require further scrutiny. Ultimately, given the broad scope of the Task Force's mandate and the limited time frame in which it had to operate, the Task Force did not take up this issue in significant detail.[xv]

The views expressed in this report reflect those of the Task Force (or, where indicated, certain Task Force members) and do not necessarily reflect the views of the City Council or the Mayor.

xv This is issue is discussed again briefly below under "*Medallion Buyback Program*."

RECOMMENDATIONS

A. Reforming Medallion Lending Practices

In order to make recommendations aimed at addressing the current financial crisis, it was important for Task Force members to explore and understand the medallion lending practices that contributed to it. As explained in greater detail below, in the years leading up to the crisis, some lenders extended large and expensive medallion loans based on inadequate analysis of borrowers' ability to repay. Meanwhile, common medallion loan structures kept medallion owners in debt for longer periods of time and made them more vulnerable to declines in medallion values. In addition, the Task Force's review of lending practices found that some brokers hired by medallion owners to help them navigate the loan process engaged in activities that were not in the medallion owners' best interests.

Background

Given the high cost of purchasing a medallion—which first hit $100,000 in 1985,[79] and which reached a peak of $1.3 million in 2013[80]—many medallion owners borrowed to finance their acquisition. Generally speaking, medallion owners consist of three groups: (1) active fleet managers, who lease their medallions directly to drivers; (2) passive investors, who generally lease their medallions to management companies; and (3) owner-drivers, who operate their own medallion taxis. The Task Force was unable to obtain data on the percentage of medallion loans made to either fleet managers, investors, or owner-drivers. Moreover, the Task Force was unable to find reliable, thorough demographic information regarding medallion owners as a group. However, TLC data does indicate that approximately 95 percent of all medallion taxi drivers are immigrants,[81] and that most licensed TLC drivers do not speak English as their primary language.[82]

Many of the lenders who extended loans to medallion owners were credit unions.[xvi] Credit unions are non-profit financial cooperatives, organized to serve the interests of their members. They are regulated by the federal or state government depending on their charter. Federal and state laws generally cap the amount of capital that a credit union can devote to business loans, including loans to purchase medallions.[83] Nevertheless, a credit union may qualify for an exception to this cap if it has a history of primarily making business loans or if it was chartered for the purpose of primarily making business loans.[84]

Prior to the crisis, several major medallion lenders were credit unions that qualified for one of these exceptions.[85] These credit unions held largely undiversified loan portfolios that were heavily concentrated[xvii] in medallion loans.[86] Three of these credit unions, Melrose Credit Union ("Melrose"), LOMTO Federal Credit Union ("LOMTO"), and Bay Ridge Federal Credit Union ("Bay Ridge"), ultimately became insolvent and had their medallion loan portfolios taken over by the National Credit Union Administration

xvi Of the approximately 400 loans discussed below, nearly 200 involved a credit union lender. Other lenders included traditional banks and non-bank entities.

xvii While beyond the scope of this report's recommendations, some Task Force members felt that changes should be made to regulations that allowed for the concentration of loan pools in one type of assets.

("NCUA"), a federal agency that oversees and insures federal credit unions.[87] By the time they became insolvent, the three failed credit unions collectively held approximately $1 billion in medallion loans.[88] The insolvencies resulted in an estimated $765.5 million loss to the National Credit Union Share Insurance Fund.[89]

After Melrose, LOMTO, and Bay Ridge failed, the NCUA Office of Inspector General conducted a Material Loss Review in order to (1) determine why the credit unions became insolvent, (2) assess the NCUA's supervision of the failed credit unions, and (3) provide appropriate suggestions and recommendations to mitigate future losses to the National Credit Union Share Insurance Fund.[90] The NCUA Office of Inspector General concluded that the failed credit unions had engaged in a variety of "unsafe lending practices."[91] Specifically, the Material Loss Review uncovered "frequent failure of the Credit Unions to fully analyze borrower financial information, insufficient detail included in credit memoranda to make a fully informed lending decision, risky loan terms, unsupported cash out refinances, inadequate credit risk management policies, and failure to identify and account for modified loans as Troubled Debt Restructures."[92] In addition, the NCUA Office of Inspector General concluded that "the Credit Unions frequently based lending decisions on inflated market values of taxi medallions rather than industry accepted best practices for loan underwriting",[xviii] and that this "resulted in larger loans to medallion owners that were unsupported by sufficient cash flow to service the underlying debt."[93] These findings suggest that a number of the medallion loans made by the failed credit unions were unsustainable at the time they were made. Declining medallion taxi revenues exacerbated this problem, leading many medallion owners to fall behind on their loans.[94]

To better understand lending practices in the medallion industry, Task Force members discussed data compiled by several graduate student researchers relating to over 300 court cases, filed between 2017 and 2019, in which medallion owners either filed for bankruptcy or were sued for defaulting on their medallion loans.[xix] These cases involved approximately 400 loans representing approximately $395 million of total outstanding debt encumbering approximately 560 medallions. The average outstanding indebtedness per medallion in these cases was approximately $701,000. Approximately half of the loans in these cases encumbered just a single medallion, and about half encumbered multiple medallions. Among the loans that encumbered just one medallion, the median outstanding indebtedness was approximately $653,000 and the median monthly payment was approximately $2,900. Note that these medians may be higher than the medians across the industry, as defaults and bankruptcies may have been more likely among the largest loans with the largest monthly payments. By way of comparison, among approximately 450 owner-drivers who

xviii Loan underwriting is the process through which a lender analyzes the risk of making a loan to a particular borrower. Industry best practices for underwriting involved, among other things, analyzing the borrower's expected cash flow from operating the medallion, existing expenses, and other sources of income. NCUA Material Loss Review, Mar. 29, 2019 at 2.

xix Given the limited time frame in which the Task Force had to operate, Task Force members did not have the opportunity to independently verify the accuracy of the data compiled.

participated in a recent TLC survey, the median outstanding indebtedness was approximately $499,000 and the median monthly payment was approximately $2,600.[95]

The Task Force was unable to obtain data on how many of the 13,587 medallions now outstanding are currently encumbered with debt because most loan transactions are not in the public record. It is therefore uncertain what percentage the sample described above represents of all existing medallion loans. However, the Task Force's limited review indicates that the terms of medallion loans tended to be similar across lenders. Moreover, the trends described below with respect to interest rates were generally consistent with the trends identified in two recent TLC surveys of medallion owners.[96] In addition, Task Force members with relevant experience confirmed that some of the trends described below—in particular, the typical interest rates, the typical repayment periods,[xx] and the typical amortization periods[xxi]—were representative of trends in the industry generally.

The following patterns emerged from a review of the sample loan documents:

- Medallions often served as the sole collateral[xxii] for medallion loans, although in numerous cases, the collateral also included the vehicle used as the taxi or personal assets of the borrower not related to the medallion.
- Loans were typically made in principal amounts[xxiii] of several hundred thousand dollars.
- Annual interest rates tended to be approximately three to four percent.[xxiv]
- The loan repayment periods were typically three to four years.
- Monthly payments were not calculated to pay down the loan over the three- to four-year repayment term. Instead, monthly payments were typically calculated based on a 25- to 30-year amortization period. In addition, some loans—although typically not those made by credit unions—required monthly payments that reflected only interest.
- Loans generally required a large "balloon" payment representing most of the original

xx For the purposes of this report, the terms "repayment period" and "repayment term" mean the period that begins when a loan is made and ends when the final payment on the loan is due.

xxi For the purposes of this report, the term "amortization period" means the hypothetical period of time it would take to repay a loan in full based on regular monthly payments alone (i.e., not including balloon payments). The amortization period of a loan helps determine how much each monthly payment reduces the outstanding principal.

xxii For the purposes of this report, the term "collateral" means property that the borrower agrees to forfeit for the benefit of the lender if the borrower fails to repay the loan in accordance with the loan documents.

xxiii For the purposes of this report, the terms "principal amount" and "principal" mean the amount lent to the borrower. The term "outstanding principal" means the amount the borrower still owes at any given time, excluding amounts that represent fees or interest.

xxiv An annual interest rate of 4.00% converts to a monthly interest rate of 0.33% (i.e., 1/12th of 4.00%). Thus, if a medallion loan has a 4.00% annual interest rate that requires monthly payments, the borrower's interest payment for each month will equal 0.33% of the outstanding principal for that month. By way of illustration, this means that if the outstanding principal for a given month was $600,000, the interest payment for that month would be $2,000. Note that the full monthly payment on the loan would be larger, as it would also include a portion of the outstanding principal, unless the loan was an interest-only loan.

loan amount that was due at the loan's maturity date.[xxv]

Multiple Task Force members with knowledge of the medallion industry confirmed that before the downturn in medallion values, borrowers and lenders generally refinanced the loan before the balloon payment became due. The standard industry practice was for the new, refinanced loan to include another three- to four-year repayment term with monthly payments based on a new 25- to 30-year amortization period, resulting in another large balloon payment due at the new maturity date. The result was a cycle of refinancing that repeated every three to four years until the loan was fully paid or the medallion was sold. This practice had several effects:

- First, the need to refinance the loan before the balloon payment came due left the medallion owner with significant refinancing risk. If the original loan turned out to be underwater[xxvi] when the balloon payment came due, the borrower could have trouble convincing the lender to refinance. That was the very risk that materialized when medallion values decreased drastically. As medallion values declined, many borrowers facing large balloon payments were unable to refinance their loans, as the amounts they owed far exceeded the value of their medallions. It appears that some borrowers were able to refinance only by adding their homes as collateral.[97]
- Second, the need for constant refinancing meant that the total period of indebtedness was often significantly longer than it would have been if the borrower had taken out a more traditional loan with a 25- to 30-year repayment term and no balloon payment. Under the standard practice in the medallion industry, each refinancing loan was based on a new 25- to 30-year amortization period that commenced at the time of refinancing, rather than a continuation of the preexisting amortization period. This meant that with each refinancing, the date on which the loan would in theory be paid off was pushed further into the future.
- Third, the refinancing placed interest rate risk on medallion owners. If interest rates turned out to be higher at the time of refinancing than they were at the time of the initial loan, then the monthly payments could have increased. This does not appear to have been a major issue in the current crisis, but it is notable that a loan structure with a fixed interest rate and a repayment term that allowed the borrower to gradually pay down the loan over the entire amortization period would have eliminated this interest rate risk for the borrower.

Borrowers appear to have had little success getting lenders to agree to reduce the outstanding principal on their loans to levels more in line with current medallion values. Additionally, NCUA Chairman Rodney E. Hood has indicated in testimony to the House Financial Services Committee that the NCUA

xxv For the purposes of this report, the term "maturity date" means the date on which the repayment period ends and the final payment on the loan is due.

xxvi For the purposes of this report, a loan is described as "underwater" if the collateral for the loan is worth less than the amount the borrower owes.

is reluctant to reduce the outstanding principal on the loans it took over from several failed credit unions.[98] This is presumably because the NCUA has a legal obligation to minimize losses to its insurance fund,[99] and reducing the outstanding principal on the loans may reduce their resale value. In addition, many of the surviving credit unions that traditionally participated in the medallion market have been unable to extend new medallion loans, given the legal caps on the number of business loans that most credit unions can make. Meanwhile, the dramatic decline in medallion values has likely discouraged new lenders from coming to the table.

Some medallion loans included additional problematic structures. For example, as noted above, some loans required "interest-only" payments. Sample loan documents reviewed by Task Force members indicate that interest-only medallion loans were a common, although not ubiquitous, practice. In addition, in its Material Loss Review of Melrose, LOMTO, and Bay Ridge, the NCUA Office of Inspector General noted that NCUA examiners had documented repeated instances in which the failed credit unions had extended interest-only loans to medallion owners.[100]

The primary benefit of an interest-only loan is that the monthly payments are lower than they would be if the loan featured amortizing payments that reduced outstanding principal. The significant problem with an interest-only loan is that the principal amount owed never decreases, no matter how many payments the borrower makes. An interest-only loan may be appropriate in the rare situation where the value of the underlying asset is certain to be stable or increasing during the repayment period of the loan and the market for the asset includes a high number of prospective buyers. In that environment, a borrower who is unable or unwilling to continue making payments on the loan can eliminate the debt by selling the underlying asset. Nonetheless, in a typical case in which the underlying asset may decline in value, interest-only loans create significant risk that a borrower will be both unable to make payments as required under the loan agreement and unable to sell the asset for an amount that eliminates the debt.[xxvii]

Again, that is precisely the risk that materialized in the current crisis. As declining medallion taxi revenues made it increasingly difficult for medallion owners to service their debts, the value of medallions decreased significantly. As a result, many medallion owners found themselves burdened with debt they could not afford and unable to get out of their loans by selling their medallions. It is presumably for that reason that the NCUA Office of Inspector General identified interest-only payments as "risky credit terms."[101]

Other loan documents reviewed suggest that some medallion brokers may have had pre-existing arrangements with certain banks that created conflicts of interest for the brokers and resulted in suboptimal terms for the medallion

xxvii It should be noted that some Task Force members were of the view that interest-only loans were a viable option in the medallion market prior to 2014 because, until that point, medallion values had generally increased and there was significant demand for medallions. Several Task Force members strongly disagreed with this assessment. In their view, interest-only loans in the medallion industry were always an unsafe practice, as there was no guarantee that medallion values would not decline (and in fact, they declined dramatically after 2014).

owners. Medallion owners often relied on brokers to help them navigate the loan process. Ideally, a broker in this scenario would negotiate with multiple lenders in order to obtain the best possible terms for the borrower. In reality, however, some brokers may have directed medallion owners toward specific lenders whose loan documents included terms that were unfavorable to the borrower but very favorable to the broker. For example, Task Force members reviewed a series of promissory notes held by a commercial bank that included a prepayment penalty that the bank would impose on borrowers who repaid their loans early. The note provided that the bank would waive the prepayment penalty, however, in the event that the prepayment was generated by the sale of the underlying medallion and the sale was brokered by a particular medallion broker. The interlocking relationship between the commercial bank and the broker suggests that the broker may have been steering clients toward this particular bank in exchange for favorable language in the loan agreement and potentially other benefits.[xxviii] It is possible that such relationships could have also resulted in benefits for medallion owners that were not otherwise available, but an examination of the terms of such loans does not reveal any discernible benefit to borrowers, and the fact that at least some of these loans required interest-only monthly payments suggests that the terms were relatively disadvantageous for the reasons discussed above.

The New York Times has also reported that certain medallion brokers had preexisting arrangements with certain banks. Specifically, the New York Times report claims that some banks enlisted brokers to lend out banks' money to medallion buyers, and in return, the brokers received a cut of the monthly payments and sometimes an additional fee.[102] A former executive of Melrose who oversaw medallion lending from 2003 to 2016 told the New York Times that the loans that resulted from these broker/bank relationships "contributed to the price increases and put a lot of pressure on the rest of us to keep up."[103]

Another disturbing practice discussed by the Task Force was the use of confessions of judgment. A confession of judgment is a legal instrument that allows a lender to obtain a monetary judgment against the borrower without providing the borrower with any notice or the opportunity to mount a defense. Once the lender obtains the judgment, the lender may be able to take money from the borrower's bank account or foreclose on the borrower's collateral. The Task Force's review of medallion loan documents found that some lenders required borrowers to sign confessions of judgment as a condition of their loans. In addition, Task Force members identified some instances in which lenders used these confessions of judgment against medallion owners in court. The New York Times also identified "hundreds" of examples in which lenders used confessions of judgment against medallion owners.[104]

While confessions of judgment reduce legal costs for lenders, the ease with which they allow lenders to repossess assets may encourage

xxviii As discussed below, the New York Times has reported that some medallion brokers received kickbacks from certain banks in exchange for lending out the banks' money.

collateral-based lending,[105] a practice that, as noted above, appears to have led some lenders to make overpriced loans that could not be supported by the borrower's actual ability to repay the loan. In addition, confessions of judgment raise serious fairness concerns, as they strip borrowers of the ability to defend themselves and assert certain rights. These concerns are particularly acute in the event that the borrower does not fully understand the consequences of the confession of judgment upon signing it. This is presumably why federal regulations ban the use of confessions of judgment in consumer loans.[106] While a loan to purchase a medallion may not qualify as a consumer loan for this purpose, some medallion owners, especially owner-drivers, may resemble ordinary consumers in relevant respects. For instance, the New York Times has reported that owner-drivers "almost never had lawyers at loan closings,"[107] and loan documents reviewed by the Task Force show that lenders sometimes had medallion owners sign affidavits acknowledging and waiving their right to legal counsel. In addition, while many medallion owners relied on brokers to help them navigate the loan process, a recent TLC survey of medallion owners found that medallion brokers generally did not help owner-drivers understand the terms of their loan documents.[108] These observations suggest that like ordinary consumers, medallion owner-drivers may not always understand the consequences of an instrument such as a confession of judgment upon signing it.

Another practice discussed by the Task Force is that medallion owners sometimes applied for and received refinancing loans secured by the equity[xxix] in their medallions in order to make purchases unrelated to their medallion taxi businesses. The Task Force reviewed an analysis by a federal credit union that surveyed a portfolio of approximately 100 refinancing loans made to medallion owners by several lenders between January 2013 and December 2016. The analysis revealed that the "purposes" of the loans, as indicated by the medallion owners on the refinancing applications, only sometimes related to the medallion taxi business. According to the refinancing applications, approximately 44 percent of the loans were for primary residence purchase, primary residence down payment, mortgage payoff, or home repairs; 17 percent were for refinancing the balance of an existing medallion loan or to lower the interest rate on an existing medallion loan without a cash payout; 12 percent were for debt consolidation; 11 percent were for the purchase of a medallion; 5 percent were for buying out a partner in a taxi business; 5 percent were for investment in a non-taxi business; 5 percent were for buying a vehicle (either taxi or personal); and 1 percent were to finance a secondary education for a child.

The TLC Medallion Debt Survey, described above, found that this refinancing practice was particularly common among owner-drivers.[109] Among the 457 owner-drivers who responded to the TLC's survey, 85 percent indicated that they had borrowed against the equity in their medallions for purposes such as purchasing a family home (36 percent), buying a car (31 percent), or paying for college or education (17 percent).[110] By way of comparison, among

xxix For the purposes of this report, a borrower is described as having "equity" in their collateral to the extent the market value of the collateral exceeds the outstanding principal on the loan.

the 367 passive owners that responded to the TLC Medallion Debt Survey, 64 percent reported that they borrowed against the equity in their medallions for other purposes.[111]

The New York Times has reported that some lenders "encouraged existing borrowers to refinance and take out more money when medallion prices rose."[112] In at least one instance, the TLC itself noted that a taxi medallion could be a valuable asset against which an owner could borrow for personal purposes.[113]

One possible benefit of this refinancing practice is that it may have allowed medallion owners to realize a portion of the cash value of their medallions without selling off the entire asset. This may have provided some medallion owners with liquidity that they would not have been able to obtain otherwise. In addition, financing personal expenditures by borrowing against the equity in their medallions may have allowed some medallion owners to insulate their personal assets from foreclosure (assuming the medallion was the sole collateral for the medallion loan). However, this practice increased the outstanding principal on the medallion loans, which may have had multiple negative effects. First, increased principal may have led to larger monthly payments, thereby increasing the risk that the loan would become unaffordable. Second, increasing the principal meant that when medallion values dropped, the borrower had less equity to absorb the decrease in value and was therefore at greater risk of becoming underwater and unable to refinance as discussed above. Both of these risks appear to have materialized in the current crisis.

Since the onset of the crisis, a number of private funds and other non-depository institutions have begun investing in medallion loans, some by purchasing distressed debt, and others by extending new loans that borrowers can use to settle their existing indebtedness. These new lenders are likely subject to fewer regulations than the credit unions that previously dominated the medallion loan market. The Task Force has been unable to verify the terms on which these lenders have been extending credit in order to compare them to the traditional terms that are noted above. Although it is possible that these new lenders will provide benefits to distressed medallion owners that are not otherwise available, it is also possible that these lenders could subject borrowers to more onerous loan terms that place additional pressure on borrowers.

Recommendations

The Task Force's review of medallion lending practices indicates that additional regulation of the medallion lending industry is clearly warranted. In general, lending regulations, when enforced, have the potential to curb risky lending practices and reduce the risk of another debt crisis.[114] Lending regulations also have the potential to increase lending costs.[115] If lenders issuing medallion loans are subject to additional regulation and increased costs, they may pass some of those costs on to medallion owner-borrowers through higher interest rates or fees.[116] In addition, increased costs could discourage new and existing lenders from extending loans to medallion owners, thereby reducing the availability of credit in the medallion industry.[117] The Task Force recognizes that medallion owners will need access to affordable loans in order for the medallion industry to recover. Accordingly, the following recommendations are intended to address the lending practices that contributed to the medallion debt crisis, while also ensuring that medallion owners have access to fair, affordable credit going forward.

The City Council recently introduced several bills aimed at curbing risky lending practices in the medallion industry. Specifically:

- **Int. No. 1605 of 2019** would require the TLC, in connection with any purchase or transfer of a medallion, to review the prospective purchaser's source of funds, and, if they include debt, determine whether the prospective purchaser could reasonably be expected to make the payments required by the terms of the subject loan.[118] This bill would also prohibit the TLC from approving the purchase or transfer of any medallion if, among other things, such purchase or transfer is financed in whole or in part by a loan containing a confession of judgement requirement.[119]
- **Int. No. 1610 of 2019** would require the TLC to establish an Office of Financial Stability, which would be required to collaborate with the New York City Department of Investigation to monitor and evaluate factors related to the financial stability of the medallion taxi industry, including, among other things: (1) the number of medallion purchases and transfers denied by the TLC due to a determination that the prospective purchaser could not be expected to make the required loan payments; and (2) common terms and loans used to finance medallion purchases and transfers, including the number of loans that did not require a down payment, the number of loans that utilized interest-only payments, and the number of loans that included a confession of judgment.[120]
- **Int. No. 1608 of 2019** would require the TLC to evaluate the character, honesty, and integrity of medallion brokers, agents, and licensees when they apply for or renew an application for a TLC license.[121]

While the Task Force is generally supportive of City efforts to improve medallion lending, the Task Force recognizes that changes to state and federal policies may be necessary to curb the risky lending practices identified above. There are multiple reasons for this. For one, the TLC's primary function is to regulate and oversee for-hire passenger transport. Accordingly, federal and state agencies that focus on lending regulation may have more experience and expertise in this area than the TLC. In addition, because the TLC's authority to regulate lending directly is uncertain, it is mostly limited to influencing lending practices through its approval or denial of medallion purchases and transfers. As a result, the TLC has little ability to influence refinancing loan terms where there is no transfer of the underlying medallion. As noted above, practices around refinancing played a significant role in the current crisis. Given these considerations, the following recommendations tend to focus on state and federal action, although there are some areas—including with regard to the regulation of brokers—where the Task Force recommends local action.

1. Require lenders to verify borrowers' ability to repay

As repeat players in the medallion market, lenders are well-equipped to determine whether a medallion loan will be affordable to the borrower. Yet as noted above, in the years leading up to the crisis, at least three major medallion lenders lent to borrowers "based on inflated valuations from recent auction sales rather than industry accepted best practices for loan underwriting," and this resulted in large, expensive loans that could not be supported by the cash flow from operating a medallion.[122] To prevent this practice from continuing, the Task Force recommends that new federal or state laws require lenders to verify the borrower's ability to repay prior to extending or refinancing a medallion loan.

Ability-to-repay requirements are fundamental to ensuring sound lending, and already exist in other contexts. For instance, the federal Truth in Lending Act ("TILA") generally prohibits creditors from making residential mortgage loans without verifying the borrower's repayment ability,[123] and the New York Banking Law contains a similar provision for high-cost home loans.[124] One notable feature of these laws is that they both utilize rebuttable presumptions that are designed to discourage risky loan terms, such as balloon structures and interest-only payments. As noted above, such terms were common among medallion loans. Lawmakers could adapt existing ability-to-repay laws in order to develop an ability-to-repay requirement that applies to medallion loans.

Research indicates that an ability-to-repay requirement can promote safer lending without significantly reducing the availability of affordable credit. According to studies conducted by the Consumer Financial Protection Bureau ("CFPB"), the TILA's ability-to-repay requirement has likely helped to constrain debt-to-income ratios and curb delinquency rates in the home mortgage market.[125] Moreover, while this requirement significantly reduced the availability of certain high-priced mortgage products, it did not significantly reduce the availability of lower-priced mortgages, or mortgages overall.[126]

The Task Force recommends that Congress or the New York State Legislature pass laws to require lenders to verify the borrower's ability to repay prior to extending a medallion loan.

2. Ban confessions of judgment

As noted above, a review of medallion lending practices indicates that some lenders required medallion owners to sign confessions of judgment as a condition of their loans. Confessions of judgment raise serious fairness concerns, as they strip borrowers of the ability to assert certain rights, and some borrowers may not understand the terms of confessions of judgment when they sign them.

Federal regulations prohibit the use of confessions of judgment in consumer loans, and many states ban their use outright. While New York does not ban the use of confessions of judgment entirely, the State recently enacted legislation that prevents the use of confessions of judgment in New York courts against out-of-state borrowers.[127]

Research on the impact of banning confessions of judgment outright is scant. Lawmakers should consider how outright bans on confessions of judgment in states like Massachusetts have affected the cost and availability of small business loans in those states. The Task Force recommends: (1) that Congress pass the proposed Small Business Lending Fairness Act, a bipartisan bill that would extend the federal ban on confessions of judgment to commercial transactions;[128] and (2) that the State Legislature expand its recent legislation to ban the use of confessions of judgment against in-state commercial borrowers.

The Task Force recommends that Congress pass the proposed Small Business Lending Fairness Act and that New York State extend its ban on the use of confessions of judgment against out-of-state borrowers to all borrowers.

3. Prevent risky debt structures

The Task Force's review indicates that certain loan structures and lending practices subjected medallion owners to significant risks. In summary:

- Most medallion loans featured large balloon payments due at maturity. The common practice concerning these balloon payment loans was to refinance them before the balloon payment came due. The refinanced loan typically mirrored the balloon structure of the original loan, resulting in a cycle of refinancing that repeated every few years.
- Some medallion loans featured interest-only payments, meaning the outstanding principal of the loan never decreased, no matter how many payments the borrower made.
- Some medallion owners applied for and received "cash-out" refinancing loans to make purchases unrelated to their medallions. This increased the outstanding principal on their loans.

Each of these practices kept medallion owners in debt for longer periods of time and left them more vulnerable to downturns in the medallion market. When medallion values and medallion taxi revenues declined rapidly after 2014, these practices resulted in substantial duress among medallion owners and a significant number of delinquencies and defaults.

To prevent a similar outcome in the future, new policies should be implemented in the lending industry. Such policies could take a variety of forms:

- *Connecting owner-drivers with financial and legal assistance.* As discussed above, reporting by the New York Times indicates that owner-drivers "almost never" had lawyers at medallion loan closings,[129] and loan documents reviewed by the Task Force show that medallion lenders sometimes had borrowers sign affidavits acknowledging and waiving their right to legal counsel. It is likely that additional legal and financial advice could have helped medallion owners avoid some of the riskiest debt structures noted above.[xxx]

  Pursuant to Local Law 220 of 2018, the TLC is preparing to open a new Driver Assistance Center that would help medallion owners who are currently burdened with

xxx For instance, the New York Times has reported that some medallion owners with interest-only loans did not realize that their monthly payments only covered interest. *See* New York Times Investigation Part 1. Such medallion owners likely would have benefited from additional financial or legal advice.

unaffordable debt by providing them with financial counseling and legal assistance.[130] The Task Force supports this decision, as studies show that access to legal advice can significantly improve outcomes for distressed borrowers.[131] In the future, the TLC could also: (1) collaborate with legal services organizations and other non-profit providers to create a similar program for first-time borrowers; and (2) confirm at medallion closings whether purchasers have obtained independent legal and financial advice and, if they have not, strongly encourage them to do so.[132] One benefit of this approach is that it could be done at the local level.

- *Banning the riskiest loan terms and debt structures.* Another approach would be for Congress or the State Legislature to ban the riskiest terms and structures commonly found in medallion loans, such as interest-only payments and balloon structures. Some Task Force members favored banning interest-only payments and balloon structures in medallion loans. Other members felt that interest-only payments and balloon structures may be appropriate in certain limited circumstances and therefore did not favor an outright ban.
- *Providing borrowers with disclosures.* A third approach would be for Congress or the State Legislature to require lenders to provide borrowers with disclosures designed to help the borrower clearly understand the risks of certain loan terms. For example, these disclosures could require a calculation of the full amount of payments that must be made (including interest) to pay the loan in full, similar to what the TILA requires for credit card disclosures. As noted above, the vast majority of medallion taxi drivers are immigrants, and many do not speak English as a first language. Given that some of these drivers are also owners, any disclosures for medallion loans should be provided in the languages spoken by the prospective borrowers.

  A disclosure requirement is unlikely to significantly increase the cost or reduce the availability of credit. Moreover, studies show that disclosures designed to help consumers understand the long-term costs of a loan can have a nontrivial effect on a borrower's decision to take out a risky loan.[133] Nevertheless, the effectiveness of even well-designed disclosures is likely to be limited.[134] Thus, a disclosure requirement should be considered only in combination with other policy tools, such as legal representation and financial counseling.[135]

- *Giving borrowers a right of rescission.* An additional approach would be for Congress or the State Legislature to give borrowers a limited right of rescission, similar to what the TILA provides for consumers taking out certain home equity and mortgage refinancing loans. Such a right would give the borrower a limited period of time (such as the three-day period provided by the TILA) to cancel the loan on a no-questions-asked basis. This right of rescission period could give borrowers an additional opportunity to obtain financial or legal advice regarding their loan terms.

  Research indicates that borrowers are more likely to utilize a right of rescission when they receive both written and oral notifications of their right.[136] Thus, any right of rescission for medallion loans should require lenders to notify borrowers of their rights both orally and in writing. Although it is unlikely that a right of rescission would significantly increase the cost or reduce the availability of credit, it should be used in combination with other tools.[137]

The Task Force emphasizes that the approaches outlined above are not mutually exclusive. Policymakers should consider employing all or some of these approaches to prevent a crisis like the current one from happening again.

The Task Force recommends there be new federal, state, and local policies to prevent risky loan terms and structures in the future.

4. Strengthen regulations on medallion brokers

As described above, a review of loan documents suggests that certain brokers steered medallion owners into loans that benefited the broker at the expense of the medallion owner. In some cases, this may have been the result of pre-existing financial arrangements between brokers and banks. The TLC—which licenses and regulates medallion brokers—has long had rules requiring brokers to disclose conflicts of interests to their clients. However, a 45-day review of medallion broker practices completed in July 2019 by the TLC, the Department of Consumer and Worker Protection, and the Department of Finance, indicated that brokers often failed to fully comply with these rules.[138] The review also found that brokers often failed to adequately explain loan terms to their clients and failed to use written broker agreements.[139]

As noted above, proposed legislation has been introduced in the City Council that would require the TLC to evaluate the character, honesty, and integrity of medallion brokers, agents, and licensees when they apply for or renew an application for a TLC license.

The TLC has also proposed new rules regulating the medallion broker industry.[140] These rules would, among other things: (1) increase the maximum penalty for failing to disclose a conflict of interest from $2,000 to $10,000; (2) allow a medallion owner to obtain restitution from a broker if the broker fails to disclose a conflict of interest; (3) allow a medallion owner to obtain restitution if the broker accepts payment from a third party in connection with a transaction made on the owner's behalf without first notifying the owner and obtaining the owner's consent in writing; (4) require brokers to provide their clients with written plain language explanations of material loan terms; and (5) require brokers to specify their fees in writing.

The Task Force supports the finalization and vigorous enforcement of the TLC's proposed broker rules. Failing that, the Task Force recommends that the City Council pass local legislation codifying rules to a similar effect.

B. Addressing the Debt Crisis

Urgent Action Is Needed

The Task Force feels strongly that urgent action is needed to assist medallion owners struggling with unsustainable debt. Medallion owners who are unable to make their monthly loan payments, or who are coming up against large balloon payments and are unable to refinance, currently face significant financial hardship and are at risk of suffering irreversible harms, such as losing their medallions in foreclosure.

Over the past two years, the medallion taxi and FHV industries have been met with tragedies, as at least nine members from various for-hire sectors have taken their lives. Reports indicate that financial difficulties may have played some role in these tragedies. For example, Yu Mein "Kenny" Chow, a medallion owner who owed at least $700,000 on his medallion, is believed to have taken his life after large medallion loan payments caused him to fall behind on his home mortgage and max out his credit cards.[141]

In addition, the Task Force understands that the NCUA currently holds a portfolio of medallion loans with outstanding principal of approximately $1 billion, resulting from its takeover of several failed credit unions, and that the NCUA reportedly seeks to "offload" this loan portfolio.[142] If the NCUA sells this loan portfolio into the private market, it is possible that some of the debt purchasers will refuse to provide borrowers with needed relief or will impose additional, onerous terms on borrowers. Policymakers may also lose the opportunity to work with a creditor that has a public mission and can focus on solutions to address the situation faced by medallion owner-borrowers.

For these reasons, the Task Force believes it is imperative that stakeholders work quickly to develop a practical option for medallion owner debt relief. Such relief may involve collaborating with the NCUA with respect to the portfolio of medallion loans it currently owns.

The Case for City Action

The Task Force recognizes that the City's resources are finite and that medallion owners are not the only group in the City in urgent need of assistance. Nevertheless, and as explained in greater detail below, the Task Force recognizes that the City played a substantial role in the medallion market. Given this involvement, the Task Force believes that the City should take action to address the medallion debt crisis and help medallion owners who are currently struggling with unsustainable debt.

As mentioned above, the City created the current medallion system in 1937 by enacting the *Haas Act*, which imposed a moratorium on the issuance of new taxi licenses and allowed licensed taxi owners to transfer their medallions in the private market. This transferability, combined with the cap on the total number of medallions, allowed the medallion to become a valuable asset based on the virtual monopoly medallion owners held on the ability to accept street hails.[143]

While the City does not set medallion values directly, the TLC monitors and reports trading prices, approves transfers between private parties, and runs the process by which new medallions enter the market—the auction.[144] In testimony given before the City Council in 2017, Commissioner Meera Joshi stated that the TLC, in consultation with the Mayor's Office of

Management and Budget ("OMB"), monitored the frequency of medallion transfers and foreclosures before deciding whether to auction new medallions.[145] As noted above, between 1996 and 2014, the TLC held 21 auctions, at which it sold a total of 1,850 medallions.[xxxi]

One of the TLC's primary responsibilities in connection with medallion auctions is setting the minimum bid price (the "upset price").[146] In part, an upset price served to protect against investors colluding to purchase new medallions at below-market values. It appears that the TLC typically set the upset price for medallion auctions based on the prices at which medallions were being traded in the private market. In its 2004 Annual Report, the TLC noted that it set the upset prices for its April 2004 auction "based upon a six (6)-month average of medallion prices, in consultation with DOT" and the OMB.[147] Moreover, in testimony given before the City Council in 2017, Commissioner Joshi stated that upset prices were generally determined by "the Office of Management and Budget based on past transactions."[148]

In addition to setting upset prices, the TLC also marketed medallion auctions. In its 2003 Annual Report, the TLC stated that it had "begun the process of developing a business, outreach, and marketing plan to develop public interest in and enthusiasm for a taxicab medallion sale."[149] The 2003 Annual Report went on to note that the TLC would be "targeting both industry insiders, including businesses that already own taxicab medallions, as well as newcomers to the industry who are either looking for new career opportunities or a solid investment."[150]

In the next year's Annual Report, the TLC described how it had implemented this plan. "To promote the upcoming medallion sale" in 2004, the TLC "launched an advertising campaign consisting of two (2) print ads" as well as "professionally produced television and radio spots."[151]

In addition, the winter 2004 edition of the TLC Times—a periodical published by the TLC—was branded the "Special Medallion Sale Issue."[152] The main article, entitled "TLC Medallion Auction Offers Unique Opportunity to 'Drive Your Future,'"[153] included the following promotional statement:

> New York City Taxicab medallions have a long history as a solid investment with steady growth. Taxi medallions also provide both a reliable and consistent income and guaranteed employment. In addition, a medallion is collateral that can assist in home financing, college tuition, or even "worry-free" retirement.[154]

Of course, the subsequent explosive growth of FHVs from app-based providers was not foreseen in 2004. The 2004 auctions resulted in record sale prices for the time,[155] with medallion bid prices reaching $360,000 for a single independent medallion and $815,103 for a package of two corporate medallions ($407,551 each).[156]

After 2004, medallion sale prices continued to rise. They first exceeded $1 million in 2011. As multiple news outlets have reported, that

xxxi Note that TLC auctions—which are the sole means by which new medallions are released into the market—are distinct from foreclosure and other auctions where private parties may resell existing medallions to new owners.

same year, a TLC policy analyst wrote a five-page internal memorandum concluding that medallions appeared to be selling for prices in excess of their true value.[157] The analyst argued that a significant drop in medallion values could "force recent medallion buyers underwater" on their loans and cause significant turmoil in the market.[158] In addition, according to the New York Times, multiple TLC employees raised concerns about potentially inflated medallion prices around this time.[159] It is possible that prior leadership in place at TLC had a reasonable basis to disagree with these concerns, as some contemporaneous reports supported the increase in valuations.[160]

After 2011, the TLC continued to market the medallion as a solid investment. For example, a pamphlet promoting the TLC's February 2014 auction showed a graph of independent medallion transfer prices between 2001 and 2013 under the heading, "It's Better than the Stock Market."[161] On the following page, the pamphlet included a disclaimer noting that "past performance is not a guarantee of future results," as well as a description of the tax benefits of purchasing a medallion, and a photograph of a medallion taxi underneath the question, "do you want to own a piece of New York?"[162] In a similar vein, the TLC's 2014 Factbook, which was released prior to the 2014 auctions, described how the market value of medallions had increased by more than 200 percent between 2004 and 2014, and noted that over that period, medallions had produced superior returns to the S&P 500.[163]

As discussed, the 2014 auctions resulted in record sale prices for both independent and corporate medallions. For its February 2014 auction, the TLC set an all-time high independent medallion upset price of $650,000. At the auction, the highest price paid for an independent medallion was $965,000, with an average price of $863,742. In March 2014, the City's last medallion auction to date, the TLC set an upset price of $1,700,000 for a lot of two wheelchair accessible corporate medallions ($850,000 each). The ultimate high bid was $2,420,500 ($1,210,250 each) with an average price of $2,328,757 ($1,164,378 each).

The proceeds from medallion auctions produced significant revenue for the City. Moreover, until 2017, the City collected a 5 percent transfer tax on the gross price of any medallion transfers in the private market. From 2002 to 2014, the City made more than $855 million by selling medallions and collecting these transfer taxes.[164] While this money represented only a small fraction of the City's overall budget during that period—the adopted budget in 2014 alone was over $71 billion—it nevertheless helped to fund City priorities.

The foregoing analysis indicates that the City played a substantial role in multiple aspects of the medallion market, including by setting upset prices at medallion auctions and marketing medallions. The Task Force recognizes that many factors contributed to the medallion debt crisis, and other sections of this report discuss some of those factors in detail.[165]

Several Task Force members believe that the case for government action may be strongest with respect to certain groups of medallion owners. For example, owner-drivers, especially those who purchased medallions at the height of the market, may represent a particularly compelling case for assistance.[166] These individuals likely have among the highest levels of debt relative to their incomes, and may have little wealth or ability to diversify.[167] In addition, there may be similarly situated non-driving owners who represent a strong case for assistance. As discussed further below, the Task Force believes that the City may need to take these considerations into account in helping to develop a debt assistance program.

Recommendations

Medallion owners with unsustainable debt are in urgent need of assistance, and the City should take action to help them obtain such assistance. The following recommendations set forth several forms of assistance that could help address the current crisis.

1. Debt Purchase and Modification Program

Although the Task Force recognizes that there is likely no one-size-fits-all solution to the current debt crisis, some medallion owners could benefit from having their loans purchased by mission-driven investors that are willing to modify the loans on borrower-favorable terms. Private investment funds are already purchasing distressed medallion loans at a discount (i.e., at prices that are significantly below the outstanding principal on the loans) from lenders who are willing to take a loss in order to get the distressed loans off their balance sheets. Having purchased the loans for pennies on the dollar, these private funds then attempt to maximize the return on their investment by taking aggressive steps to collect as much of the outstanding debt from the borrowers as possible.[168] Mission-driven investors—i.e., public or private investors who are interested in helping over-indebted medallion owners and supporting an iconic New York industry while also earning a moderate return—could employ a similar, but more borrower-favorable approach. Specifically, such investors could purchase distressed medallion loans from lenders who are willing to sell them at a discount and then work with the borrowers to restructure the loans to make them more sustainable. In effect, the mission-driven investors would be passing some of the savings from the discounted loan prices on to the struggling borrowers. The investors would still have the opportunity to recoup their money, with interest, as the borrowers repaid the written-down loans. This could allow the mission-driven investors to earn a moderate return while also providing the borrowers with needed relief.

To facilitate this kind of mission-driven debt purchase, the Task Force recommends that the City, in collaboration with other government, non-profit, and private partners, establish a debt purchase and modification program for distressed medallion owners. Such a program could take a variety of forms. One model would be for the City to syndicate a group of public and private investors to purchase medallion loans in a standardized process through a special-purpose vehicle. A debt purchase and modification program along these lines would likely involve the following primary players:

- *A special purpose vehicle to pool money from investors, purchase medallion loans from lenders, and modify the loans to make them sustainable for the borrowers.* The special purchase vehicle (or "fund") would likely need to be a separate legal entity—for example, a limited partnership or an LLC—in which investors could acquire interests in exchange for financial contributions. The fund would use the money received from the investors to purchase distressed medallion loans at their market value, which is likely to be at a discount.[169] As the new lender on the purchased loans, the fund would agree to modify each loan to make it sustainable for the borrower. The exact modifications that would be required would depend on a number of factors—including the terms of the purchased loans as well as the outstanding balances, incomes, and expenses of the borrowers—but would likely include some or all of the following changes:

- reducing the outstanding principal to an amount in line with the current market value of the underlying medallion;
- modifying the monthly payments to ensure they are affordable to the borrower through interest rate reduction, term extension, principal deferral or reduction, or a combination thereof;
- structuring the amortization period to ensure the borrower can repay the loan within a reasonable time frame; and
- aligning the amortization period and the repayment period and preventing balloon payments.

After modifying the loans, the fund could either service the loans itself or engage a third party to service the loans on its behalf. Payments made on the modified loans by the borrowers would cover the fund financing and operation costs and be divided among the investors. As a result, investors would have the opportunity to gradually recoup their money, with interest, as the borrowers repaid their debts. Although the loans would be written down as part of the modification described above, the investors would still have the opportunity to earn a return on their investment, assuming the fund is able to purchase the loans at a large enough discount.

- *A syndicator to establish the fund and bring interested investors to the table.* A debt purchase and modification program of this kind would likely require a public entity to help establish the fund entity and bring interested investors to the table. The Task Force believes that it would be appropriate for the City to play this role. The Task Force recommends that the City work quickly to engage with parties who may be interested in investing in a debt purchase and modification program.

  The City played a comparable role in 2016, when the New York City Department of Housing Preservation and Development ("HPD") collaborated with several non-profit partners to create a fund—known as the Community Restoration Fund—for the purpose of purchasing distressed home mortgage notes.[170] The Community Restoration Fund pooled approximately $13 million from public and private sources and used the funds to purchase 38 distressed mortgage notes.[171] The Community Restoration Fund then worked with the borrowers to provide them with modifications and refinancing options.[172]

- *Investors to put money into the fund to finance the debt purchase.* The fund would need investors to contribute money into the fund in exchange for an interest in the fund entity. Owning an interest in the fund entity would entitle each investor to receive a portion of the payments made by the borrowers on the modified loans. Investors in the fund could take a variety of forms, including:

- *Return-focused investors.* The fund could include investors who, while interested in helping over-indebted medallion owners and supporting an iconic New York industry, are also seeking a return on their investment commensurate with the risk. Such investors could include, for example, impact investing groups, community development financial institutions, traditional banks seeking Community Reinvestment Act credit, and public or private pension funds seeking a mission-based investment. As discussed below, the purchased medallion loans may need to be guaranteed or insured in order to incentivize these investors to participate in the fund.
- *Public or benevolent investors.* The fund could also include public entities or benevolent interests who are less return-focused. Such investors may be willing to hold interests that are subordinated to those of the more return-focused investors. By doing so, these public or benevolent investors would take on a greater share of the risk of some of the purchased loans defaulting. This could reduce the need to guarantee or insure the modified loans.

The State Constitution generally prohibits the City from becoming "directly or indirectly the owner of stock in, or bonds of, any private corporation or association," and from making loans to private parties, unless an applicable exception applies.[173] The Task Force recommends that the City consider whether it could contribute money towards the purchase of distressed medallion loans while complying with this provision.[xxxii] If it determines that it can, the Task Force recommends that the City commit to doing so. One possible precedent for this is HPD's Community Restoration Fund, described above. In addition to $7 million in private financing from the Goldman Sachs Urban Investment Group and $5 million from bank settlements obtained by the New York State Attorney General, HPD's Community Restoration Fund received $1 million in seed financing from the City Council.[174] In this case, the City Council appropriated the $1 million to a non-profit partner to be used as part of the Community Restoration Fund and did not obtain an interest in the fund.

The State is subject to similar, although not identical, Constitutional limitations on making loans to private parties.[175] That said, a state public authority may have more flexibility to invest in a debt purchase fund.[176] The Task Force recommends that the State consider whether it could direct a public authority to invest in a debt purchase and modification program for distressed medallion owners. If it determines that it can, the Task Force recommends that the State commit to doing so. One possible precedent for this is the State of New

xxxii It should be noted that while supportive of the concept of a debt purchase and modification program, some Task Force members expressed skepticism regarding whether public funds should be used in connection with such a program.

York Mortgage Authority's ("SONYMA") Community Restoration Fund. In 2016, the State Legislature authorized SONYMA, a public authority, to establish a subsidiary—also called the Community Restoration Fund—to purchase distressed home mortgage notes.[177] SONYMA established this fund in partnership with New Jersey Community Capital (a nonprofit community development financial institution) and a private equity partner.[178] The fund purchased 378 mortgage notes and modified them to help homeowners regain stable financial footing.[179]

A number of federal officials have called for a program to assist distressed medallion owners with their outstanding debt, including in letters addressed to this Task Force.[180] In connection with these calls, the Task Force recommends that the federal government commit to investing money in a debt purchase and modification fund for distressed medallion owners.[xxxiii]

- *Sellers to sell distressed medallion loans to the fund.* The fund would need to identify willing sellers from whom it could purchase medallion loans. The Task Force understands that lenders are currently selling medallion loans in the private market at a significant discount. In addition, as noted above, the Task Force understands that the NCUA currently holds a large portfolio of medallion loans and that it is currently seeking to sell this portfolio back into the private market. A subset of Task Force members has had initial conversations with the NCUA regarding a debt purchase program, but further engagement is necessary to determine the parameters under which NCUA would be willing to discuss selling its medallion loan portfolio. The Task Force recommends that the City work quickly to engage the NCUA on a possible purchase as part of a debt purchase and modification program. In addition, the Task Force recommends that the City engage other lenders who may be interested in selling distressed medallion loans to the fund.
- *A guarantor or insurer to guarantee the modified medallion loans owned by the fund.* As noted, some form of credit support (for example, a guarantee or an insurance policy) for the purchased medallion loans may be needed in order to encourage return-focused investors to participate in the fund. Such credit support could take multiple forms, including:
  - *A guarantee fund.* A separate fund could be established to guarantee the purchased loans. As a guarantee fund would not produce a return, it would likely need to be capitalized by public entities, benevolent sources, or the borrowers. Parties who put money into the guarantee fund could recoup any money that remains in the fund at the end of the program.

    One precedent for a guarantee fund is the loan loss reserve account established by the California Air Resources Board ("CARB") as part of its Truck Loan Assistance Program. In 2009, CARB and the California Pollution Control Financing

xxxiii Some Task Force members who supported using city or state funds for a debt purchase and modification program expressed concerns about the use of federal funds for this purpose.

Authority, in collaboration with private lenders, established a program to provide loans to small business truck owners to pay for cleaner trucks or retrofits.[181] When a truck owner received a loan under this program, state funds were deposited as "contributions" (based on a percentage of the loan amount) into a loan loss reserve account for each participating lender to cover potential losses resulting from loan defaults.[182]

– *An insurance policy.* As an alternative to a guarantee fund, a private entity could agree to insure the purchased medallion loans in exchange for a premium. The premium would likely need to be paid by public entities, benevolent sources, or the borrowers.

As noted above, the New York State Constitution generally prohibits the City from making gifts and loans of its money or credit to private parties, unless an applicable exception applies.[183] The Task Force recommends that the City consider whether it could contribute to a guarantee fund or purchase insurance for medallion loans while complying with this provision. If it determines that it can, the Task Force recommends that the City commit to offering credit support for purchased medallion loans as part of a debt purchase and modification program.

As noted above, the Constitution also generally prohibits the State from making gifts and loans of its money or credit to private parties,[184] although a state public authority may have more flexibility in this regard.[185] The Task Force recommends that the State consider whether it could direct a public authority to contribute to a guarantee fund or purchase insurance for medallion loans. If it determines that it can, the Task Force recommends that the State commit to offering credit support for purchased medallion loans as part of a debt purchase and modification program.

As mentioned above, several federal officials have called for a program to assist distressed medallion owners with their outstanding debt. The Task Force recommends that the federal government commit to offering credit support for purchased medallion loans as part of a debt purchase and modification program.

- *Borrowers whose loans are purchased and modified.* In implementing a debt purchase and modification program, the City will need to determine which loans are eligible to be repurchased and modified. To the extent public funds are involved in purchasing the loans or providing credit support, fairness concerns may require the program to be targeted toward those medallion owners who represent a strong case for government assistance. As noted above, this group may include owner-drivers with particularly high debt levels and little wealth or ability to diversify, as well as similarly situated non-driving owners. Limits on which loans should be eligible to be repurchased and modified were a source of significant discussion among Task Force members. A majority of the members of the Task Force feel strongly that the City should be careful not to develop eligibility criteria that are overly restrictive. However, it should also be noted that other Task Force members believe that in determining the extent of a borrower's eligibility for assistance, consideration should be given to the extent to which the borrower has borrowed against the equity in the medallion to make unrelated investments.

In addition, some medallion owners with loans may prefer not to participate in a debt purchase and modification program, even if they are eligible to do so. Such owners may prefer instead to work directly with their existing lenders, sell their medallions, or pursue bankruptcy. For some borrowers, debt forgiveness outside of bankruptcy may result in taxable "cancellation of indebtedness income,"[186] which is one reason why a medallion owner may prefer not to participate in a debt purchase and modification program. While borrowers generally do not have the right to control whether (or to whom) their lenders sell their loans, the City may wish to take borrower preferences into account when designing and implementing a debt purchase and modification program. This would help ensure that medallion owners obtain the form of relief that works best for them. It would also help ensure that borrowers do not pursue bankruptcy after their loans are purchased, which could result in losses to the debt purchase fund.

A number of important questions regarding the size and scope of the debt purchase and modification program contemplated by the Task Force remain unanswered. As discussed in greater detail below, there are several reasons for this. First, the scope of the program will depend in part on certain policy and financial decisions made by the City and the investors. Second, the scope of the program will depend in part on market conditions at the time the program is implemented. Third, there were several key points on which the Task Force was unable to obtain sufficient data prior to releasing this report (although, as discussed below, outside organizations are already in the process of collecting additional data on at least some of these points). Below are some of the most significant items that still need to be determined:

- *The size of the debt purchase.* The ultimate size of the debt purchase will depend on how many loans are purchased and the price the fund is able to negotiate for the loans. The price per loan will depend on multiple factors, such as the quality of the loans, conditions in the medallion industry, and conditions in the medallion loan market. To provide one example of a recent medallion loan sale, in the second quarter of 2019, a commercial bank sold a portfolio of non-performing medallion loans covering approximately 375 medallions to a private investment fund focusing on distressed debt for approximately $46.4 million (i.e., an average of approximately $125,000 per medallion[xxxiv] securing the purchased loans).[187] This is just one data point, and it may not be representative of all recent medallion loan transactions within the market (some of which are not part of the public record). The price per loan that a debt purchase and modification fund would be able to negotiate may be more or less than this amount, depending on factors such as those noted above.

  Ideally, the fund would raise enough money to purchase all the loans that meet the program's eligibility criteria. Given that there

xxxiv Note that this was a purchase of medallion loans, not a purchase of the underlying medallions. Information regarding current medallion sale prices is provided in greater detail above, under "*The Rise and Fall of Medallion Values.*"

is no public data currently available on how many medallion loans are outstanding or how such loans are distributed among different classes of owners, it is difficult to estimate how many loans this would include. However, the New York Taxi Workers Alliance ("NYTWA")—a 21,000-member union of medallion taxi, green taxi, Black Car, Livery, and app-based vehicle drivers—is currently working to collect data from all medallion owner-drivers with medallion loans outstanding. To date, NYTWA has gathered data from approximately 1,000 owner-drivers, and while more data still needs to be collected, NYTWA currently estimates that there are approximately 2,500 owner-drivers with underwater medallion loans.[xxxv] Depending on policy decisions regarding which loans are eligible to participate, a debt purchase and modification program may include some or all of these loans, and it may also include additional loans from non-driving owners.

Merely by way of illustration, if a debt purchase and modification program purchased 3,000 medallion loans at a price of $200,000 per loan, the total price of the debt purchase would be $600 million. **These numbers are merely hypothetical**, and as noted above, the actual debt purchase price may be more or less, depending on the number of loans purchased and the price the fund is able to negotiate. As discussed above, under the Task Force's recommendation, some or even all of the debt purchase could be funded by private investors, and investors would have the opportunity to get their money back, with interest, as the borrowers paid down their debts.

- *The amount of credit support required (if any).* As noted above, to incentivize private investors to participate in a debt purchase and modification program, additional public or benevolent money may be needed to provide credit support for the purchased loans. Whether such credit support is required will depend on the returns the modified loans are expected to generate[xxxvi] and the level of risk private investors are willing to accept based on those projected returns.

  If credit support for the purchased loans is required, one way to provide it would be to establish a guarantee fund, as discussed above. The amount of money that would be required for such a fund would likely represent some percentage of the overall debt purchase price.[188] The exact percentage would depend on a number of factors, including the expected loss rate of the modified loan portfolio, and the level of risk private investors are willing to accept. As discussed above, under the Task Force's proposal, parties who put money into the guarantee fund could recoup any money that remains in the fund at the end of the program.

  Another way to provide credit support for the purchased loans (if required) would be to purchase an insurance policy. Like the cost of a guarantee fund, the cost of an insurance

xxxv The Task Force was unable to confirm this estimate given the lack of publicly-available data.

xxxvi The returns the modified loans are expected to generate will depend on the kinds of modifications that are necessary to make the loans sustainable. As noted above, this will depend on, among other things, the borrowers' outstanding balances, incomes, and expenses.

policy would depend on factors such as the expected loss rate of the modified loan portfolio and the amount of risk private investors are willing to accept.

A debt purchase and modification program has the potential to be a win-win, providing needed relief to struggling medallion owners while also allowing investors to earn a moderate return.[xxxvii] However, pursuing a debt purchase and modification program would involve risks. For instance, if more medallion owners than anticipated are in need of assistance, it may be difficult to raise enough capital to purchase all of the loans. In addition, if medallion values and medallion taxi revenues decline after the loans are purchased and modified, borrowers could find themselves underwater again and investors (as well as any guarantors or insurers) could suffer losses. If public money is involved in the fund, this decline could also result in the loss of public funds. Furthermore, it is uncertain how a debt purchase and modification program could affect borrowers who are current with their loan payments.

In order to fully evaluate the risks of a debt purchase and modification program and be in a better position to estimate the program's potential size and scope, the following data would be needed:

- ***Data on the number of medallion loans currently outstanding and how they are distributed among different classes of medallion owners.*** Knowing how many medallion loans are currently outstanding and how those loans are distributed would allow the City to estimate the approximate size of the debt purchase under different eligibility criteria and market conditions. This would help estimate the cost of credit support, if any is required.
- ***Performance data on the medallion loans that are currently outstanding.*** Knowing how many of the existing medallion loans are performing would help the City assess the risks of implementing such a program. In addition, performance data would help the City better estimate the price of the debt purchase.
- ***Data regarding current borrowers' outstanding loan balances, incomes, and expenses.*** Understanding borrower's outstanding loan balances, incomes, and expenses would allow the City to better estimate the kinds of modifications that would be necessary in order to make the purchased loans sustainable for the borrowers. This data would also be helpful in estimating the likely loss rate and returns of the loans.
- ***Data regarding the terms of the loans that are outstanding.*** While some data already exists on common medallion loan terms, understanding the terms of the specific loans to be purchased would be helpful to the City as it works to implement and assess the risks of a debt purchase and modification program.

The Task Force recommends that the City act quickly to obtain as much of the data discussed above as possible. As noted above, NYTWA is already collecting some of this data from owner-drivers. The City should engage with NYTWA and other parties who may already have or be in the process of collecting the kinds of data

xxxvii As noted above, however, any public or benevolent money used to provide credit support (if credit support is required) would not generate a return.

discussed above. While additional data will be crucial to assessing the risks of and ultimately implementing a debt purchase and modification program, the Task Force feels strongly that data collection should not unduly delay City action, given the urgency of the current crisis.

The Task Force believes that a debt purchase and modification program could be a successful way to provide assistance to medallion owners who are struggling with unsustainable debt. As noted above, SONYMA's Community Restoration Fund and HPD's fund of the same name show it is possible for government entities to partner with private investors to purchase and modify distressed loans. Together, these programs pooled over $100 million to purchase and modify over 400 home loans, providing an encouraging precedent.

The Task Force recommends that the City, in collaboration with other state and federal government, non-profit, and private partners, establish a debt purchase and modification program for distressed medallion owners.

2. Medallion Buyback Program

The Task Force believes priority should be given to creating a debt purchase and modification program. However, the Task Force also recommends that consideration be given to the feasibility of a medallion buyback program.

Under a buyback program, the City could purchase medallions at market value from medallion owners who no longer wish to own a medallion. If the medallion is subject to an underwater loan, this may require a commitment from the lender to forgive the excess debt. The costs of such a program to the City would be dependent on the number of medallion owners wishing to sell their medallions back to the City, the purchase price, and policy decisions regarding whether or how to limit the universe of owners eligible for the program.

In connection with a medallion buyback program, the Task Force discussed several possibilities for how the City might handle the purchased medallions, including:

- *Holding medallions in reserve.* The City could hold the repurchased medallions in reserve, allowing for market supply to adjust to the demand for medallion taxi service. This could help to ensure that the number of medallion taxis in operation is reasonably correlated with trip demand, keeping trips per vehicle at sustainable levels.
- *Leasing medallions directly to drivers.* The City could create a program through the TLC by which City-held medallions could be operated by drivers. Under this approach, drivers could more easily earn a livable income by avoiding the costs associated with medallion debt service.

With either option, consideration should be given regarding the appropriate role for the TLC in the medallion market. Given the concerns about TLC's dual role in City medallion auctions (as regulator and market participant), it may not be desirable to have the industry's regulator leasing medallions and effectively competing with fleet owners. Consideration should also be given to the impact of a medallion buyback on the value of medallions remaining in the market and the market consequences of the City leasing or holding repurchased medallions.

A buyback program is one potential approach to "right-sizing" the medallion taxi market in response to declining demand for medallion taxi services. Since medallion taxi costs are largely fixed (including most prominently, medallion loan payments) and cannot be easily adjusted to correspond to declining per vehicle revenue, declining trip volumes have made it increasingly difficult for industry participants to make ends meet.[189] Bringing industry size in line with ridership volume could improve the financial health of the medallion industry through the creation of a smaller overall medallion taxi fleet with higher per vehicle revenue. However, any benefit of such action should be weighed against the risk that reducing the number of medallions will reduce taxi availability for passengers, thereby causing passengers to choose alternative for-hire service.

Limited precedent exists for a municipal medallion buyback program, and it is uncertain whether such a program would succeed in the broader goal of stabilizing the medallion market. While a buyback has been discussed in several major cities, the only recent medallion buyback program of which the Task Force is aware took place in Ocean City, MD.[190] Ocean City purchased dozens of medallions at a value of $4,000, as part of a goal to reduce the number of active medallions from 175 to 125.[191] While this market is not directly comparable to that of New York City, evidence from the Ocean City program suggests the buyback had little positive impact on medallion values, with recent arm's-length transfer prices around $2,000.[192]

Any buyback program contemplated by the Task Force is premised on purchasing medallions at current market value from owners who no longer wish to participate in the market and are seeking a counterparty to facilitate their exit. While the Task Force determined the question was too broad in scope to discuss in significant detail given its limited time frame, some Task Force members believe further consideration should be given as to whether the medallion system as currently constituted (with the medallion functioning as a transferable investment asset, and the medallion taxi often leased by investors and fleet owners to drivers at significant cost) continues to make sense in the context of the changing landscape of FHVs in New York City.[xxxviii] If the City were to determine it beneficial to convert transferable medallions into non-transferable licenses in the future, the buyback and lease scheme discussed above could be one method of transitioning to a new system.[xxxix] It has been noted that such a system—in which licenses are granted directly to the drivers and cannot be resold on a secondary market—could lower the cost of operating a medallion taxi, while potentially lowering fares for passengers and increasing driver pay.[193]

The Task Force recommends that the City consider the feasibility of a medallion buyback program.

xxxviii Some Task Force members strongly opposed the idea of studying this concept in further detail.

xxxix Task Force members also discussed the potential for market conditions to cause a de facto sun-setting of the medallion through competitive pressures in the absence of changes to the structure of the market.

3. Bankruptcy and Financial and Legal Services

The Task Force believes that bankruptcy will be the most effective option for some medallion owners and may serve a complementary role with the Task Force's other debt assistance recommendations. For an underwater medallion loan that cannot be corrected through a write-down, bankruptcy can reduce the debt to the fair market value of the medallion, allowing the owner to either refinance the loan at the reduced amount, or to repay the loan through a five-year repayment plan. If the proposal for the City to buy back medallions does not provide owners with a means to surrender medallions, bankruptcy can fill this role by allowing them to surrender their medallions and discharge the debt. In addition, as noted above, for some medallion owners, debt reduction through bankruptcy may be more tax efficient than debt reduction through other means.[194]

The decision to file for bankruptcy is a difficult one for medallion owners, many of whom remain optimistic about the future value of their medallions. Some medallion owners may hesitate to explore bankruptcy as an option for addressing medallion debt due to fears of losing personal property or incurring credit damage. For most of the 950 medallion owners reported to have filed for bankruptcy as of May 2019, filing for bankruptcy did lead to the loss of their medallion.[195] Beyond the financial implications of losing the stream of income produced by operating the medallion, this outcome carries significant personal consequences for medallion owners for whom owning a medallion has become a way of life after years or decades of experience in the industry.

While some reporting on the medallion crisis focused on bankruptcy only as a negative event occurring in the lives of medallion owners that had exhausted all other options, the Task Force believes bankruptcy can be a useful tool for individuals struggling with insurmountable debt and should not be stigmatized. Many of the perceived consequences that may dissuade medallion owners from filing for bankruptcy are not certainties. Medallion owners who file for bankruptcy may be able to retain their medallion, home,[196] car, and other personal assets.[197] Credit impacts could also be less severe than anticipated, especially for struggling owners with payment histories that are already inconsistent.[198] Filing for bankruptcy can also provide temporary relief by putting a halt to creditors seeking to collect on debts, at least until the conclusion of the bankruptcy process.[199] Experienced financial counselors or bankruptcy attorneys (such as those that could be provided through the City-sponsored financial counseling and legal advice program proposed above) could help indebted medallion owners understand how bankruptcy may impact their individual financial situation and determine whether filing for bankruptcy may be the optimal approach for addressing their medallion debt.

Financial counselors or bankruptcy attorneys could also help a medallion owner determine which type of bankruptcy fits their unique situation.

- *Chapter 7.* Under a chapter 7 ("liquidation") bankruptcy, a bankruptcy trustee provides for the orderly liquidation of a debtor's non-exempt assets. Chapter 7 allows a debtor to quickly obtain a fresh start, often receiving a discharge in as little as two to three months.[200] Individuals are eligible for chapter 7 relief if their monthly income is lower than the state median, if they can pass a "means test," or if more than half of their debts are business rather than consumer[201] in nature.[202]

- *Chapter 13.* Under a chapter 13 ("reorganization") bankruptcy, debtors propose a repayment plan to make installments to creditors over three to five years.[203] Individuals are eligible for chapter 13 relief as long as their unsecured debts are less than $394,725 and secured debts are less than $1,184,200.[204] At the end of the repayment plan, any remaining debt is discharged.[205]

A debtor that qualifies[206] to file under chapter 13 may be able to utilize a "cramdown" of secured debt.[207] Unless the debt is secured by property subject to a cramdown protection,[208] a medallion owner may be able to use a chapter 13 cramdown to reduce the principal of their loan to the present fair market value of the property securing the debt. As the bankruptcy code limits the secured portion of the creditor's obligation to the value of the underlying collateral,[209] any remaining deficiency will be changed into unsecured debt and likely extinguished at the conclusion of the bankruptcy plan.[210] Effectively, the medallion loan would be stripped into two parts:

- *Secured loan: Principal equal to the current value of the asset used to secure the debt.* Payments are determined using the new principal plus reasonable interest.
- *Unsecured loan: Principal equal to the remainder of the original loan.* This loan is bundled with other unsecured debts.

Under this approach, a medallion owner would own their medallion free and clear after the three or five-year term of the chapter 13 repayment plan.

Most importantly, the Task Force believes that bankruptcy should not be thought of as a "last resort," or as an approach that forecloses an owner's ability to drive or to own a medallion in the future. Rather, bankruptcy should be viewed as a fresh start that allows debtors to get immediate relief, and to quickly rebuild their credit-worthiness.

Because bankruptcy rules and procedures are complicated and the choices made by the debtor may have significant financial consequences, the Task Force recommends that the City ensure that medallion owners struggling with unsustainable debt have access to free legal and financial advice regarding bankruptcy options. Such legal and financial advice could be provided through the TLC's new Driver Assistance Center, for example.

In addition, assuming the City establishes a debt purchase and modification program or a medallion buyback program consistent with the recommendations provided above, the Task Force recommends that the City provide free financial and legal advice regarding the costs and benefits of participating in such a program, relative to pursuing bankruptcy or other options.

The Task Force recommends that the City ensure that medallion owners have access to free legal and financial advice regarding bankruptcy and any debt assistance program the City may establish.

C. Expanding and Strengthening the Taxi and Limousine Commission

In addition to immediate debt assistance and reforms to lending regulations, further policy changes may be warranted to improve the functioning of the medallion taxi and FHV industries. A recurring concern expressed by the medallion owners and drivers on the Task Force was that there is a lack of adequate TLC enforcement, especially with respect to curbing illegal street hail activity. This is in addition to the expanding regulatory mandate given to a relatively small agency. Additionally, testimony from the TLC before the City Council indicates that the agency agrees that additional enforcement resources are needed in order to carry out its expanded regulatory mandate. Task Force members discussed the need for the TLC to be expanded as an agency, especially with respect to its enforcement operations. As a result, the Task Force worked to develop several recommendations related to TLC enforcement.

Background

Overview of TLC Enforcement

The TLC establishes and enforces professional and uniform standards of for-hire transportation service and ensures public safety.[211] In addition to licensing and regulating New York City's medallion taxis, FHVs, commuter vans, and paratransit vehicles, the TLC is also responsible for ensuring compliance with all TLC rules and regulations and related local and state laws. The TLC's Uniform Services Bureau ("USB") is the agency's enforcement arm. The USB is primarily concerned with maintaining public safety, and its Enforcement Division currently has approximately 240 field officers and supervisors[212] responsible for oversight and enforcement of over 135,000 TLC-licensed vehicles,[213] including 13,587 medallion taxis and over 200,000 TLC-licensed drivers who complete approximately 1,000,000 trips each day.[214]

The USB also enforces compliance for 850 bases and 25 taxi schools throughout the City,[215] and the TLC licenses and regulates the businesses that manufacture, install, and repair the meters used in New York City medallion taxis, brokers who assist buyers and sellers of medallions, and agents that operate medallions on behalf of owners. The TLC also licenses Technology Service Providers, which develop and maintain the credit card readers, trip recorders, and Taxi TVs found in medallion and green taxis.[216] It is noteworthy that the number of total active TLC licenses was 179,873 in 2013,[217] and soared to 343,786 active TLC licenses by 2018.[218]

Despite the dramatic increase in active TLC licenses over the same five-year period, the amount of summonses issued has remained relatively stable. TLC's enforcement efforts over the last five years have resulted in the issuance of an average of 59,742 summonses per year, with 61,563 summonses issued in 2013,[219] 64,046 summonses in 2015,[220] 55,013 summonses in 2016,[221] 64,836 summonses in 2017,[222] and 53,253 summonses in 2018.[223] This may be attributable to various factors, but could be seen as an indicator that TLC's enforcement efforts, given its relatively small size as an agency, have not been able to keep pace with a quickly expanding industry.

TLC active licenses in Calendar Years 2013 and 2015, and 2018 respectively. Sources: TLC 2013 Annual Report; TLC 2015 Annual Report; TLC 2018 Annual Report

By The Numbers – 2013	
Active Licenses	179,873
(as of December 31,2013)	
	Numbers
Drivers	
Medallion Drivers	52,800
FHV Drivers	59,344
Other	3,280
Total Driver Licenses	115,424
Vehicles	
Medallion	13,437
FHVs	47,058
Other	2,756
Total Vehicle Licenses	63,251
Businesses	
Taxicab Brokers	25
Medallion Agents	64
Taxicab Meter Shops	33
Taxicab Meter Manufacturers	3
Total Business Licenses	125
Bases	
Black Car Bases	135
Community Car Services	498
Luxury Limousine Bases	226
Commuter Van Authorizations	47
Paratransit Bases	167
Total Base Licenses	1,073

By The Numbers Calendar Year 2015	
Active Licenses	**239,086**
(as of December 31,2015)	
Drivers	
Medallion Drivers	55,390
For-Hire Vehicle Drivers	90,284
Paratransit Drivers	2,206
Commuter Van Drivers	288
Total Driver Licenses	**148,168**
Vehicles	
Street Hail Service	
Medallion Taxis	13,587
Standby Vehicles	112
Street Hail Liveries (SHLs)	7,676
Prearranged Service	
For-Hire Vehicles (non-SHL)	66,604
Black Car	38,791
Livery	21,932
Luxury Limousine	5,881
Paratransit Vehicles (non-SHL)	1,123
Commuter Vans	584
Total Vehicle Licenses	**89,686**
Bases	
Black Car Bases	237
Community Car Services	494
Luxury Limousine Bases	184
Commuter Van Authorizations	52
Paratransit Bases	125
Total Base Licenses	**1,092**
Businesses	
Taxicab Brokers	24
Medallion Agents	67
Taxicab Meter Shops	36
Taxicab Meter Manufacturers	3
TPEP Providers	2
LPEP Providers	2
E-Hail Providers	6
Dispatch Service Providers	0
Total Business Licenses	**140**

By The Numbers Calendar Year 2018	
Active Licenses	**343,786**
(as of December 31,2018)	
Drivers	
TLC Driver License	204,748
Paratransit Driver License	1,540
Commuter Van Driver License	252
Total Driver Licenses	**206,540**
Vehicles	
Street Hail Service	
Medallion Taxis	13,587
Standby Vehicles	103
Street Hail Liveries (SHLs)	3,566
Prearranged Service	
For-Hire Vehicles (non-SHL)	118,737
Black Car	103,486
Livery	10,515
Luxury Limousine	4,143
Paratransit Vehicles (non-SHL)	333
Commuter Vans	260
Total Vehicle Licenses	135,993
Bases	
Black Car Bases	399
Community Car Services	437
Luxury Limousine Bases	149
Commuter Van Authorizations	87
Paratransit Bases	49
Total Base Licenses	**1,121**
Businesses	
Taxicab Brokers	21
Medallion Agents	68
Taxicab Meter Shops	27
Taxicab Meter Manufacturers	5
Technology Service Providers	3
E-Hail Providers	6
Dispatch Service Providers	1
Total Business Licenses	**132**

Illegal Street Hails

Illegal street hails consistently rank among the top TLC violations. An illegal street hail refers to the poaching or picking up of passengers for-hire by vehicles unauthorized to accept trips from passengers hailing vehicles from the street. This can take the form of an FHV or a green taxi picking up a passenger within the Medallion Exclusionary Zone or at LaGuardia and John F. Kennedy Airports, or a “straight plated” vehicle (a vehicle that is not licensed by the TLC) or FHV picking up a passenger from the street anywhere within the five boroughs. The nature of this TLC violation is especially relevant to the medallion taxi context given that the medallion is meant to be an exclusive license for conducting street hail service (with the exception of green taxis who can pick up street hails outside of the Medallion Exclusionary Zone). This violation also poses a public safety risk, as it undermines important passenger protections aimed at ensuring only safe, licensed drivers (operating properly insured and inspected vehicles) are providing service.

TLC Operating Budget

For fiscal year (“FY”) 2015, the TLC had an authorized headcount of 668, which peaked in FY 2016 at 701, eventually dropping to a total authorized headcount of 597 in Fiscal 2020.

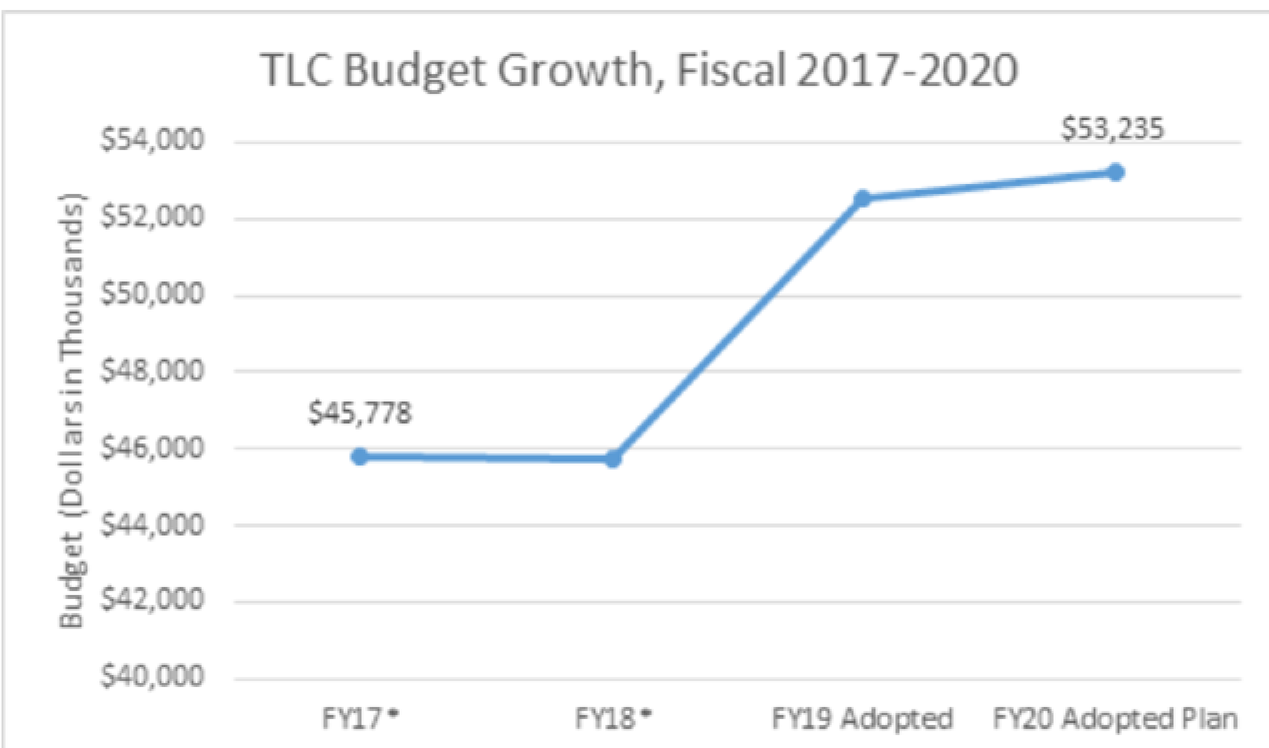
In FY 2018, the TLC Adopted Budget totaled $57,479,441 ($37,717,492 for Personal Services and $19,762,494 for Other than Personal Services). The TLC had an authorized headcount of 690 for FY 2018. The FY 2019 Adopted Budget was $52,514,485 ($38,046,697 for Personal Services, and $14,467,788 for Other than Personal Services), with an authorized headcount of 618.[224]

To put TLC's operations into the larger context of the City Budget, TLC's Fiscal 2019 Adopted Budget totaled $52.5 million - all city tax-levy funds, representing 0.06 percent of the City's total Budget of $90.9 billion. TLC's Fiscal 2019 Budget reflects an 8.6 percent reduction when compared to the Fiscal 2018 Adopted Budget of $57.5 million, and a decrease of 23.7 percent compared to the Fiscal 2016 Adopted Budget. However, TLC's Adopted Budget for Fiscal Year 2020 of $53.2 million is 1.4 percent higher than the Fiscal 2019 Adopted Budget.[225]

Comparing actual spending, as opposed to Adopted Budget amounts, Fiscal Year 2019 spending of $47,896,913 was 4.6 percent more than the Fiscal 2017 actual spending of $45,778,181 by the TLC. The differences in year-over-year spending are primarily due to previously scheduled adjustments and takedowns of grant funding associated with the accessible portion of the SHL permits.[226]

While the industry TLC regulates has grown over the last few years, TLC's budget, headcount, and number of enforcement officers has not kept pace.

**Note: FY17 and FY18 represent Actual Spending*



Recommendations

Given the extraordinary growth in the number of TLC-licensed vehicles and recognizing that any effective regulations in the medallion industry, and across all sectors of the for-hire industry, need authority behind them, the Task Force recommends that TLC's enforcement operations be:

1. Expanded, by increasing the number of enforcement officers and raising public awareness regarding TLC rules and regulations; and
2. Strengthened, by providing additional enforcement training, increasing enforcement officer compensation and reviewing and revising existing TLC violations and corresponding penalties.

1. Expansion of TLC Enforcement Operations

– *Increase the Number of Enforcement Officers.* There is a strong argument for the need to increase the number of enforcement officers in order to keep pace with the rapid growth in TLC-licensed vehicles and activity. This could be conducted after a review of the TLC's current number of enforcement officers and careful consideration of the costs and benefits of expanding enforcement operations. Any increase in enforcement officers could be done through a gradual roll-out to avoid overstaffing and to allow for measured expansion in light of limited resources available to the agency.

The Task Force recommends that the TLC increase the number of its enforcement officers.

– *Increase Efforts to Curb Illegal Street Hail Activity.* Given the very large scale of the City's for-hire industry and recognizing the role of the public in also exercising vigilance when seeking out for-hire transport, the City could undertake a Public Safety Awareness campaign[227] to help curb violations of TLC regulations that are in place to protect the public and to preserve medallion taxi owners and drivers' business rights. This is especially pertinent for illegal street hail activity, which the Task Force has learned from the TLC is of significant concern when it comes to enforcement. Unlicensed or unauthorized street hail pick up of passengers is illegal, poses a public safety hazard, and further diminishes medallion owners/drivers and licensed SHL's exclusive right to pick up passengers through street hail, especially in the Medallion Exclusionary Zone and at local airports. The Task Force also recognizes that the Port Authority of New York and New Jersey (the "Port Authority") plays a role in enforcing TLC and other regulations at local airports, and the Task Force therefore calls upon the Port Authority and the TLC to work together to help curb illegal pickups.

The Task Force recommends that the TLC carry out a Public Safety Awareness campaign to help curb illegal street hail activity.

The Task Force recommends that the Port Authority and the TLC work closely together to help curb illegal street hail activity at the local airports.

2. Strengthening TLC Enforcement Operations

– *Provide Additional Enforcement Training and Increase Salary or Incentives for Enforcement Officers.* The Task Force learned from medallion owners and drivers on the Task Force and the TLC that enforcement officers may often be exposed to significant personal safety risks while on the job, especially when conducting vehicle stops, and that officers may feel unsafe when enforcing TLC regulations. As a result, the TLC has struggled with adequate enforcement officer retention. Therefore, the Task Force recommends the TLC explore ways to promote enforcement officer empowerment and safety through methods such as providing enforcement officers with additional or enhanced training and providing compensation or an incentives package that would be competitive with other City agencies that carry out regulatory enforcement.

The Task Force recommends that the TLC provide enforcement officers with additional or enhanced training aimed at promoting officer empowerment and safety.

The Task Force recommends that the TLC provide enforcement officers with compensation that would be competitive with other City agencies that carry out regulatory enforcement.

– *Review Fines and Penalties for Certain TLC Violations.* Recognizing that fines and penalties are meant to act as an effective deterrent against regulatory violations, the Task Force discussed and reviewed various TLC fines. Some Task Force members expressed concern that some TLC fines may in fact be overly punitive, while others may not serve as enough of a deterrent. The Task Force therefore recommends that existing fines and penalties for the top 10 TLC violations be reviewed and revised if a determination is made that the existing fine or penalty scheme has not been effective.

The Task Force recommends that the TLC review the existing fines for the top ten TLC violations and that such fines be revised if a determination is made that the existing fine or penalty scheme has not been effective.

D. The Future of Medallion Taxi Service in New York City

The Need for Innovation

The average number of medallion taxi trips per day has been steadily declining since 2014.[228] In contrast, there has been significant growth in app-based FHV trips, specifically HVFHS trips from approximately 1.9 million trips per month in January 2015 to nearly 24 million trips per month in March 2019. The number of app-based FHVs has dramatically risen over the last few years, from less than 40,000 vehicles in 2010 to over 120,000 licensed vehicles in 2019.[229] While the number of medallion taxis is capped by a combination of state and local laws and the addition of any new medallion taxis would be subject to an environmental review, the addition of other categories of FHVs have not historically been subject to similar stringent requirements.

The Task Force believes that the City has a role to play, through the review and reform of regulatory restrictions on medallion taxis, in assisting industry efforts to innovate and grow with the advent of technological advances. Many Task Force members agreed that addressing the debt crisis in the medallion industry would need to happen in conjunction with taking action to help the industry remain a viable transportation option into the near future.

The recommendations that follow are only a few possible ways in which the medallion industry could adapt to the changing market. These are ideas that were generated and discussed based on a set of criteria[xl] that the *Future of the Medallion Working Group* felt would be essential for analyzing potential recommendations in this area.

Recommendations

1. Expand and Improve Medallion Taxi App Service

The Task Force believes that in order for the medallion taxi industry to remain a competitive and viable transportation option into the future, it must innovate and adapt to a changing marketplace and consider organizing more efficiently as an industry. The industry should work together to adopt new technologies, to conduct effective marketing, and to take other strategic actions. Additionally, the use of data analytics can inform passenger demand patterns, so that medallion owners and drivers can better serve the public.

Finally, as more and more passengers are choosing to use apps (primarily Uber, Lyft, and Via) to arrange for-hire transport, the medallion taxi industry would likely benefit from improving or expanding upon its current taxi app offerings.

xl The Working Group decided on the following five criteria: (1) Cost: What financial costs would be associated with each recommendation? Would the cost to any affected stakeholders be reasonable? (2) Effectiveness: How effective would each recommendation be in helping to achieve the goal identified by the group (the sustainability of the medallion)? (3) Feasibility: How likely is it that each recommendation would be implemented? Would there be a reasonable amount of public support for each recommendation? (4) Fairness/Equity: How would each recommendation benefit or negatively impact the affected stakeholders in the industry? and (5) Measurability: Is each recommendation reasonably clear and measurable?

2. Taxicab Technology Systems

During Task Force discussions, it became apparent that a key barrier to promoting app innovation and thus more competitive taxi service is the requirement that all medallion taxis have a Taxicab Technology System (still commonly referred to as a "TPEP" system, which stands for Taxicab Passenger Enhancement Program)[xli] installed, in order to operate as a medallion taxi vehicle. TLC rules require that any app targeting medallion taxi service integrates with the existing Technology Systems,[xlii] which are provided by TLC licensed Technology Service Providers ("TSPs").

For reasons set out below, the existing TPEP system is cumbersome and more complex to work with than newer software-based technology that is used in other app-based for-hire transport. This system appears to have become a disadvantage to the medallion taxi industry, as software developers are not incentivized to work with the existing TPEP system when they could work with other for-hire sectors more easily, and any app developed to work with the existing TPEP system would not be easily scalable outside of New York City's shrinking medallion taxi industry.

Traditional taximeters are specialized hardware devices that are physically wired into a vehicle's transmission and calculate fares by sensing tire rotation. Traditional taximeters depend on tire size and pressure and require invasive installation. Conversely, software-based meters (sometimes referred to as "soft meters") can be run on standard mobile devices like smartphones or tablets and incorporate a mix of signals including GPS and readings from an "On-Board Diagnostic" system, reducing dependence on tire variation and potentially making installation cheaper and faster.

TPEP systems were originally approved for use in medallion taxis in 2005 and began being installed in taxis in 2009. The TPEP equipment was required to have five core features:

- Process credit card payments;
- Enable medallion taxi drivers to receive text messages from the TLC;
- Collect electronic trip sheet data;
- Provide trip notifications to passengers, including passengers with visual impairments; and
- Display PSAs and other TLC content on the Passenger Information Monitor ("PIM"), commonly known as a taxi TV.[230]

According to a recent pilot project conducted by the TLC to test Alternative Technology Systems,[231] the TLC concluded that technology now exists that can potentially serve the same function as a TPEP system, allowing for a more streamlined medallion taxi technology system that could be more adaptable for passengers and drivers alike. This would help promote innovation, development, adaptability, and user-friendliness in medallion taxis. Due to their enhanced computational power, soft meters easily allow for added consumer protections and new fare mechanisms, such as concurrent fare calculations and fare-splitting, where

xli TPEP is an integrated system of hardware and software installed in a taxicab or Street Hail Livery (green taxi) that complies with the technical requirements set out in TLC Rules.

xlii "Any licensed E-Hail Application that provides for E-Payment used in a Taxicab must integrate with the Technology System or Taximeter." 35 R.C.N.Y. § 58-40.

several passengers can share the cost of a medallion taxi fare.[232]

In the Alternative Technology Pilot, participants were able to use either a hardware based device or a soft meter, or both, in a limited number of medallion taxis.[233] The TLC approved two participants for the pilot and noted that both participants' systems consisted of four main components that were connected via Bluetooth® technology:

- A smartphone or tablet mounted to the dashboard that was both a soft meter and a Driver Information Monitor;
- A wireless device connected to the vehicle's On-Board Diagnostic system for backup distance inputs;
- A small haptic credit card reader or a point-of-sale device with a 7" touchscreen display; and
- A portable receipt printer.[234]

Within a few months of participating in the pilot, one of the two participants left after being granted state authorization[xliii] for its software-based taximeter, allowing it to operate outside of the pilot.

Notably, after submitting initial documentation, the remaining applicants did not submit demonstration units and stopped pursuing pilot approval, reporting that:

> Considering the considerable startup cost, they were deferring participation until their systems could have access to the entire market through rulemaking. **Access to the entire fleet, applicants noted, is very important for certain innovations in service where scale is a crucial requirement, particularly in regards to offering shared rides and finding new media content providers**.[235] [*Emphasis added*]

In an effort to allow more modern, flexible technology inside taxis, TLC staff advocated for State approval of software-based meters inside taxis. On October 6, 2016, NYS Weights and Measures granted conditional statewide approval to a software-based meter for the first time, obviating the need for companies to participate in the Alternative Technology Pilot. Software-based taximeter companies may now undergo the standard approval process to be used in New York City medallion taxis.

At the end of the Pilot, the TLC concluded:

> The results suggest that software-based taximeters are a viable technology for New York City taxis. Additionally, the pilot did not generate any passenger complaints. This implies that the strict rules surrounding TPEP design and functionality can be relaxed without sacrificing consumer or driver protections, as long as the core functions of TPEP are still met.

In developing regulatory standards for software-based taximeters, the U.S. National Work Group (USNWG) on Taximeters recognized that the transportation-for-hire industry was evolving rapidly from the use of traditional taximeters to software-based meters and proposed changes to NIST Handbook 44 that were adopted by the National Conference on Weights and Measures

xliii In New York State, taximeters are regulated and certified by the New York State Department of Agriculture and Markets Bureau of Weights and Measures ("NYS Weights and Measures") based on standards set by the National Institute of Standards and Technology ("NIST").

in July 2017. The changes included a new separate code that applies to systems now being referred to as "Transportation Network Measurement Systems" ("TNMS").[236]

The cost of transitioning away from the existing TPEP system is an initial barrier, though there can be cost-savings in the long-run for switching to a more seamless and portable system. A review of at least one TSP's recent contract terms indicated the monthly fee for use of the TPEP system was approximately $70.00 per month for a 60 month (or five-year) standard term contract and $350.00 per month for a one-year contract. Medallion owners are therefore financially incentivized to enter a five-year contract and would be subject to a de-installation fee of $125.00 upon termination of the contract, among other potential fees. There are additional costs in obtaining new, software-based taximeters and technology systems, depending on the type of technology and devices being used (e.g. smartphone vs. tablet). There may be opportunity costs and other financial concerns for current TSPs which raise some fairness concerns with respect to existing stakeholders, but these concerns may be alleviated by giving existing TSPs the opportunity to participate in developing new technology systems.

As discussed above, scalability of a new system is crucial to its success and, therefore, a new system would need to ideally be adopted by the entire medallion industry or a very significant portion of it in order to be more effective.

In terms of feasibility and effectiveness, the need to embrace updated technology for taximeters has been recognized on the local, state, and federal level, and the TLC has concluded that software-based taximeters are a viable technology for New York City medallion taxis.

Finally, the Task Force believes this proposed recommendation is measurable as it was the subject of the recent pilot project that the TLC had initiated on Alternative Technology Systems, discussed above, and the TLC recently passed rules aimed at allowing more flexibility for E-Hail providers.[237]

The Task Force recommends that the TLC review its rules regarding Technology System requirements to allow for more streamlined integration of passenger and driver friendly software taximeters and to encourage app development and innovation in the medallion taxi industry.

3. Medallion Taxi Apps

The Task Force discussed the increasing role of apps in connecting passengers to for-hire transport in the City. The use of apps has brought major changes to the industry,[238] most notably reducing the transaction costs of riding by offering an easy and convenient way of connecting passengers to drivers, saving time by streamlining the payment process, enhancing driver awareness of passenger demand in areas traditionally underserved by FHVs, and increasing total demand for FHV services.

Historically, the medallion taxi industry in New York has been "highly fragmented" both horizontally and vertically, with medallion owners operating independently in many ways. Medallion owners have little cross-ownership across cities, making them very city-specific,[239] and putting them at a disadvantage of competing with a more horizontally integrated business model such as Uber's, which has international presence and can function like a "virtual global fleet manager," able to serve passengers worldwide through the same app.[240] Additionally, apps such as Uber's and Lyft's not only provide almost immediate, on-demand service, but also allow passengers to book trips ahead of time, resembling both medallion taxi (street hail) and livery (pre-arranged) services at the same time. More recently, passengers are now able to obtain an Uber or Lyft vehicle through lines at LaGuardia Airport and other locations in the City that resemble traditional taxi stands.[241]

The Task Force discussed two main apps providing passenger- and driver-facing service for medallion taxis: *Curb* and *Arro*. Despite the presence of these app services, medallion taxi ridership has continued to decline and a recent *Flex Fare Pilot* program conducted by the TLC to allow medallion taxi e-hail providers with the ability to experiment with flexible pricing structures for medallion taxi fares also revealed a lack of participation by both drivers and passengers, with approximately 99 percent of rides hailed through the pilot serving the MTA's *Access-A-Ride* program.[242]

The Task Force discussed various reasons why apps serving medallion taxis such as *Curb* and *Arro* may have failed to gain significant traction in the passenger market. In doing so, the Task Force considered the example of the *Free Now* taxi app popular in Europe. *Free Now* (a joint venture between Daimler Chrysler and BMW) was formerly *MyTaxi*, and before that was known as the UK based app *Hailo* before merging with the Daimler Chrysler-owned *MyTaxi* app. *Free Now* is reportedly one of the largest taxi app providers in Europe and in the world, serving more than 21 million customers and more than 250,000 drivers.[243] *Free Now* is currently operating in over 100 cities.[244]

In 2013, after finding success in London, *Hailo* attempted to infiltrate the New York City taxi market but failed, despite having over $100 million in investment funding. In addition to facing technical issues, such as challenges working "with payment processors that use outdated technology,"[245] it was also not standard at the time for medallion taxi drivers to have smartphones as part of their job and New York drivers were reportedly "suspicious" of a service like *Hailo*.[246]

While there may be some costs associated with using a new or updated medallion taxi app, the Task Force believes these costs are far outweighed by the benefits of improved medallion taxi app service and increased passenger uptake. This can be seen by looking at the success of other apps such as *Free Now* in addition to *Uber* and *Lyft.* What *Free Now*, *Uber,* and *Lyft* have in common is global presence—whereby passengers can use these services locally and also recognize and depend on these services abroad or in other cities and locations. Given New York City's global presence and the fact that it welcomed a record 65 million visitors (51.5 million domestic and 13.6 million international) in 2018,[247] it would likely be beneficial for visitors to be able to connect to local medallion taxi service via an app they already have and recognize.

The Task Force believes such a recommendation would be effective. As more passengers choose to hail for-hire transport through apps, the expansion and improvement of app usage in providing medallion taxi service is crucial to remaining a competitive sector of the for-hire industry. One risk of transitioning medallion taxi service to app-based e-hail could be that there will be less medallion taxis available to accept street hails and therefore street hail service levels could drop, akin to the issue faced by the industry in the 1970s–1980s when medallion taxis began accepting radio dispatched trips, discussed above. However, this concern is tempered by the rapid decline in street hail demand observed in TLC trip data. A study of market forces affecting taxi app service in New York City could be helpful toward identifying any remaining barriers and needs for the industry to better adopt app technology.

Task Force members agreed that this was a measurable recommendation as it specifies the parameters of the study and identifies potential taxi app features to be considered.

Given that the proposed recommendation calls for a review and analysis of the current medallion taxi app market, the Task Force did not identify any significant concerns with respect to feasibility, fairness, or equity among stakeholders potentially affected by the proposed recommendation.

The Task Force recommends that the City urgently review the current medallion taxi app services and current market forces affecting medallion taxi app service and provide recommendations for the creation of new or improved medallion taxi apps that, among other potential requirements:

- ***Are better labeled and designed to attract passengers and drivers;***
- ***Are either solely dedicated to medallion taxi service or integrated with other FHV options or modes of transportation locally and potentially on a broader scale;***
- ***Allow for modernized payment process (seamless payment through the app, cutting back on payment transaction time, and increasing medallion taxi service efficiency);***
- ***Remove user convenience fees and allow for cancellation fees when a passenger cancels a trip unreasonably;***
- ***Allow shared rides among passengers;***
- ***Integrate with other apps and search engines;***
- ***Provide passenger and driver rewards or incentives;***
- ***Leverage industry data analytics to provide more efficient medallion taxi service; and***
- ***Work across all taximeter platforms.***

4. TLC Rules

The Task Force discussed some of the ways various sections of the for-hire industry in the City continue to be regulated differently and recognized that as the services being provided by medallion taxis and FHVs resemble each other more and more, the justification for having different regulatory schemes for each section of the industry diminishes. In fact, some policy experts have argued that regulators should treat medallion taxis and app-based FHVs as a unit because they have essentially become substitutes for each other.[248]

The Task Force recognizes that in order to better facilitate innovation in the medallion taxi industry, certain regulations should be revised to remove any unfair competitive advantages created by disproportionate regulation of different sections of an industry that are providing a very similar product. While there may be good reasons to continue to regulate street hail fares more stringently, for example,[xliv] other regulations such as those relating to smart phone use by taxi drivers may need to be made uniform across the various sectors, which are increasingly providing a similar service.

For example, while TLC rules have recently been updated to allow for the use of software-based taximeters, the rules relating to smart phone use for drivers would still need to be updated to reflect the same exceptions provided to drivers operating an FHV or an SHL vehicle.[249]

While updating or modifying TLC rules may result in additional costs to existing stakeholders as they update their processes to conform to changes, such costs are likely outweighed by the potential reduction in any unnecessary barriers to innovation in the industry.

Additionally, any proposed reforms should be made after careful review to assess the potential feasibility and effectiveness of any regulatory changes.

The Task Force recommends that the TLC review and reform certain rules regarding medallion taxis in order to facilitate innovation in the medallion industry, including reforming rules for taxi drivers regarding smart phone use and streamlining ride-sharing and pre-arranged trips for medallion taxis.

5. Taxi Fare Pricing

In medallion taxis, passengers pay a metered rate set by the TLC and any applicable tolls and surcharges. The driver receives the entirety of the fare with the exception of all surcharges, tolls, and any taxes mandated by the State or TLC.[250] Many medallion taxis are owned and operated by a garage as part of a fleet. In this arrangement, drivers pay to lease the taxi vehicle and medallion on a daily or weekly basis. The amount an owner can charge a driver is capped by the TLC and the amount of time a driver can lease either the vehicle or medallion is regulated by the TLC. These are known as the "lease cap rules".[251]

Task Force members discussed the metered fare that medallion taxis operate by, with some members raising concerns that medallion taxi drivers' take-home income is diminishing as the number of trips has declined, while additional government surcharges continue to be added onto taxi fares.

Another issue that was discussed by the Task Force relates to the fact that medallion taxis have to operate based on a fixed fare rate while FHVs have the flexibility to set their own fare rates and can provide discounts, upfront

xliv One justification for regulating the level of taxi fares for street-hailed taxis is imperfect information. When passengers hail taxis on the street, they are poorly positioned to assess whether a fare that a taxi is proposing is reasonable because riders lack essential information. The passenger will not know when the next taxi will come by and what it will charge, and searching for additional taxis to compare the prices that they would charge would be costly. Regulated fares avoid these search costs. *See* Katrina M. Wyman, *Taxi Regulation in the Age of Uber*, 20 N.Y.U. J. Legis. & Pub. Pol'y 1, 40 (2017).

pricing, or utilize dynamic pricing.[xlv] Some policy experts have argued that requiring taxis to use government-determined fares inhibits these taxis from competing with app-based companies that are free to set their fares below the regulated medallion taxi fare to attract riders away from taxis.[252] Nevertheless, the Task Force was advised by the TLC that currently, it is often cheaper, on average, to take a medallion taxi within some parts of Manhattan than to take an FHV—though this may not be widely known and may not always be the case. Users of app-based services may be willing to pay higher fares for the convenience of being picked up in a precise location at a precise time. That advantage could also be reduced by broader adoption of taxi app services as suggested above.

Certified taximeters are required in taxis. They are programmed with TLC-mandated rates and display the running total of all passenger fares based on the elapsed time and the distance of trips. There are benefits to regulating the fare and financial relationship between medallion owners and medallion taxi drivers. For example, if passengers are charged anything other than the metered rate, they can file a complaint with the TLC. Similarly, drivers and medallion owners have recourse for lack of payment or improper charges.[253]

Passengers currently pay a number of surcharges on every standard metered taxi fare. While these surcharges are borne by passengers, the Task Force believes they should be reevaluated with a view toward reducing the financial burden on medallion owners and drivers and rebalancing fees more equitably across all sections of the industry. As medallion taxi trips have continued to steadily decline in recent years, the amount of fees the MTA and others are able to collect from medallion taxis has likely correspondingly decreased and may continue to decline.

Consideration should be given to removing or reducing certain surcharges imposed by the State and the City on the metered fare.

- The MTA collects a 50 cent State Tax for all medallion and green taxi trips that end in New York City or Nassau, Suffolk, Westchester, Rockland, Dutchess, Orange, or Putnam Counties. It is noteworthy that this surcharge does not apply to other for-hire services such as app-based services[254]
- The State also collects a New York State Congestion Surcharge of $2.50 for each taxi trip that begins, ends, or passes through Manhattan south of 96th Street[255]
- The TLC collects 30 cents on every medallion taxi trip for the Taxi Improvement Fund[xlvi]
- The Port Authority recently approved an additional surcharge of $1.25 on airport pickups for medallion taxis that is scheduled to begin in October 2020. This surcharge is also expected to increase to $1.75 in October 2022[256]

xlv Dynamic pricing is a method of constantly adjusting the price of goods/services depending on demand.

xlvi This was formally known as the Taxi and Street Hail Livery (SHL) Improvement Surcharge. The TLC created the Taxi Improvement Fund (TIF) to support medallion owners and drivers who are putting accessible vehicles on the road in order to comply with TLC's mandated settlement to provide customers with equitable access to taxi transportation services. *See* 35 R.C.N.Y. § 51-03.

Any changes to the fare have the potential to impact passenger demand, a driver's earning potential, and the ability to pay an owner for use of the vehicle. An understanding of the economics of the industry and potential ramifications is key before any determination of whether or not changes can and should be made to the metered fare. A study of the current industry economics should also include an evaluation of the effectiveness of a dynamic pricing model in allowing medallion taxis to provide more competitive service.

The biggest potential barrier to this proposed recommendation is the issue of cost. These surcharges are a proven method of essential revenue generation for the State and, more recently, a method of curbing traffic congestion. Given the need for additional MTA funding and the growing support for congestion pricing as a method of curbing traffic congestion, it may not be feasible to expect that fees and surcharges will be removed in the near future. It may be more feasible to consider reduction (either temporary or permanent) and a rebalancing of fees across the various sectors of the industry so that revenue is not necessarily reduced, but rather better shouldered across various parts of the industry.[xlvii] This approach is also arguably more equitable as medallion taxis and other FHVs are effectively providing the same or very similar service.

The Task Force recommends that the TLC study the current industry economics including driver earnings, lease rates, surcharges, and loan payments to better inform the potential use of a dynamic pricing model in medallion taxis. Such study could include a detailed analysis of driver earnings, expenses, and how rate structures influence passenger demand and driver earnings.

The Task Force recommends that New York State and City authorities review and consider reducing meter surcharges or rebalancing such surcharges and fees across other sectors of the for-hire industry, including any new airport surcharges and congestion fees.

xlvii To illustrate the point: one example to help offset a loss in government revenue, resulting from the removal of a congestion zone charge from medallion taxis, would be to impose a cruising charge on HVFHS in the Central Business District of Manhattan to help curb traffic congestion while also raising necessary revenue.

NEXT STEPS

The recommendations in this report represent the first attempt at a comprehensive analysis of the path forward for action to address unsustainable medallion debt and the stability and future viability of the medallion taxi industry. As the report makes clear, the need for action is urgent.

While members of the Task Force volunteered significant time and expertise toward examining this crisis, six months of work is not enough to fully grapple with the issues facing the medallion taxi industry in an ever-changing transportation environment. The problems faced by taxi medallion owners and drivers are complex and cut across multiple levels of government and varied regulatory regimes.

The Task Force recommends that regulators, such as the Taxi and Limousine Commission, continue to meet regularly with diverse groups of taxi industry stakeholders, lending industry representatives, academics, and advocates to continue the dialogue started in this report. It is also crucial that the implementation of any of the Task Force's recommendations be followed by a periodic assessment of the effectiveness of the proposals and adjustments to reflect changing circumstances and lessons learned.

The yellow taxi is an iconic New York City institution that has served as a ladder to the middle class for countless New Yorkers and a reliable mode of transportation for decades. With this report, the Task Force hopes to spark immediate action among policymakers and the private sector to address the burdens of medallion debt, and for it to serve as a foundation for ongoing conversations regarding the future of the medallion taxi industry in New York City.

APPENDIX

Appendix 1: Lease Rates

LEASE TYPE	STANDARD LEASE	HYBRID ELECTRIC TAXICABS AND DIESEL-FUELED TAXICABS
LEASE CAP AMOUNTS	The Standard Lease Cap for a Medallion and vehicle for one shift will not exceed: A. $105, for all 12-hour day shifts B. $115, for the 12-hour night shift on Sunday, Monday and Tuesday C. $120, for the 12-hour night shift on Wednesday D. $129, for the 12-hour night shifts on Thursday, Friday and Saturday E. $630, for any one-week day shift for one week or longer F. $737 for any one weeknight shift for one week or longer.	A. $108, for all 12-hour day shifts B. $118, for the 12-hour night shift on Sunday, Monday and Tuesday C. $123, for the 12-hour night shift on Wednesday D. $132, for the 12-hour night shifts on Thursday, Friday and Saturday. E. $648, for any one-week day shift for one week or longer F. $755, for any one weeknight shift for one week or longer.

Appendix 2: Metered Rates of Fare

The metered fare was last revised in 2014 and is currently as follows:

Standard Metered Fare

- **$2.50** initial charge.
- Plus **50 cents** per 1/5 mile when traveling above 12mph or per 60 seconds in slow traffic or when the vehicle is stopped.
- Plus **50 cents** MTA State Surcharge for all trips that end in New York City or Nassau, Suffolk, Westchester, Rockland, Dutchess, Orange, or Putnam Counties.
- Plus **30 cents** Improvement Surcharge.
- Plus **50 cents** overnight surcharge 8pm to 6am.
- Plus **$1.00** rush hour surcharge from 4pm to 8pm on weekdays, excluding holidays.
- Plus New York State Congestion Surcharge of **$2.50** (Yellow Taxi) or **$2.75** (Green Taxi and FHV) or **75 cents** (any shared ride) for all trips that begin, end, or pass through Manhattan south of 96th Street.
- Plus tips and any tolls.
- There is no charge for extra passengers, luggage or bags, or paying by credit card.

Airport Trips (LGA, JFK, EWR)

- Trips to and from LaGuardia Airport **(LGA)** are charged the standard metered fare.
- Trips between Manhattan and John F. Kennedy Airport **(JFK)** in either direction are charged a flat fare rate of **$52.00.** Trips between John F. Kennedy Airport (JFK) and other New York City destinations are charged the standard metered fare.
- Plus **50 cents** MTA State Surcharge.
- Plus **30 cents** Improvement Surcharge.
- Plus **$4.50** rush hour surcharge (4pm to 8pm weekdays, excluding legal holidays).
- Plus New York State Congestion Surcharge of **$2.50** (Yellow Taxi) or **$2.75** (Green Taxi and FHV) or **75 cents** (any shared ride) for all trips that begin, end or pass through Manhattan south of 96th Street.
- Plus tips and any tolls.
- Trips to Newark Airport (EWR) are charged the standard metered fare.
- Plus **$17.50** Newark Surcharge.
- Plus **30 cents** Improvement Surcharge.
- Plus New York State Congestion Surcharge of **$2.50** (Yellow Taxi) or **$2.75** (Green Taxi and FHV) or **75 cents** (any shared ride) for all trips that begin, end or pass through Manhattan south of 96th Street.
- Plus tip and tolls to and from EWR (passengers are charged for the drivers' return tolls).

Appendix 3: History of Fare Increases (excludes surcharges)

	INITIAL CHARGE	CHARGE PER MILE	CHARGE PER TIME
Before 1952	$0.20 first 1/4 mi.	$0.05 per 1/4 mi.	$0.05 per 2 min.
July 1952	$0.25 first 1/5 mi.	$0.05 per 1/5 mi.	$0.05 per 90 sec.
Dec 1964	$0.35 first 1/5 mi.	$0.05 per 1/5 mi.	$0.05 per 90 sec.
Jan 1968	$0.45 first 1/6 mi.	$0.10 per 1/3 mi.	$0.10 per 2 min.
Mar 1971	$0.60 first 1/5 mi.	$0.10 per 1/5 mi.	$0.10 per 72 sec.
Nov 1974	$0.65 first 1/6 mi.	$0.10 per 1/6 mi.	$0.10 per 60 sec.
Mar 1977	$0.75 first 1/7 mi.	$0.10 per 1/7 mi.	$0.10 per 60 sec.
July 1979	$0.90 first 1/7 mi.	$0.10 per 1/7 mi.	$0.10 per 60 sec.
April 1980	$1.00 first 1/9 mi.	$0.10 per 1/9 mi.	$0.10 per 45 sec.
July 1984	$1.10 first 1/9 mi.	$0.10 per 1/9 mi.	$0.10 per 45 sec.
May 1987	$1.15 first 1/8 mi.	$0.15 per 1/8 mi.	$0.15 per 60 sec.
Jan 1990	$1.50 first 1/5 mi.	$0.25 per 1/5 mi.	$0.25 per 75 sec.
Mar 1996	$2.00 first 1/5 mi.	$0.30 per 1/5 mi.	$0.30 per 90 sec.
May 2004	$2.50 first 1/5 mi.	$0.40 per 1/5 mi.	$0.40 per 120 sec.
Nov 2006	$2.50 first 1/5 mi.	$0.40 per 1/5 mi.	$0.40 per 60 sec.
July 2012	$2.50 first 1/5 mi.	$0.50 per 1/5 mi.	$0.50 per 60 sec.

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ENDNOTES

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3 Schaller Consulting, *The New York City Taxicab Fact Book*, Mar. 2006, at 22, http://www.schallerconsult.com/taxi/taxifb.pdf at 22.

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5 The total dwindled to 11,787 in the bleak economy of the late Depression, when some owners reportedly let their hack licenses expire rather than pay the $10 renewal fee. *See* Lawrence Van Gelder, *Medallion Limits Stem From the 30's*, N.Y. Times, May 11, 1996, https://www.nytimes.com/1996/05/11/nyregion/medallion-limits-stem-from-the-30-s.html.

6 In 1945, following provisions of an ordinance adopted by the City Council, 183 additional medallion licenses were issued to returning veterans who had given up their medallions during the war. These licenses were nontransferable and reverted to the City when the driver retired. As late as 1962, 141 of these veteran's medallions were still in use. *See* Schaller Consulting, *The New York City Taxicab Fact Book*, Mar. 2006, at 23, http://www.schallerconsult.com/taxi/taxifb.pdf.

7 N.Y.C., N.Y., Ordinances, in Proceedings of the Board of Aldermen and Municipal Assembly of the City of New York From January 4, to June 29, 1937, vol. I 545 (Mar. 1, 1937) § 436-2(11).

8 Bruce Schaller and Gorman Gilbert, *Villain or Bogeyman? New York's Taxi Medallion System*, 1996, http://www.schallerconsult.com/taxi/taxi2.htm.

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10 *Id.* The provision for issuing additional licenses was removed from City law in 1971.

11 Schaller Consulting, *The New York City Taxicab Fact Book*, Mar. 2006, at 26, http://www.schallerconsult.com/taxi/taxifb.pdf. The growth in radio work created a problem for passengers trying to hail cabs from the curb. Since the number of taxis was capped, hailers grew increasingly frustrated at lines of cabs passing by with their roof lights indicating "on radio call."

12 *Equal Taxi Opportunity*, N.Y. Times, Mar. 14, 1978, https://www.nytimes.com/1978/03/14/archives/equal-taxi-opportunity.html.

13 Schaller Consulting, *The New York City Taxicab Fact Book*, Mar. 2006, at 24, http://www.schallerconsult.com/taxi/taxifb.pdf.

14 Bruce Schaller and Gorman Gilbert, *Villain or Bogeyman? New York's Taxi Medallion System*, 1996, http://www.schallerconsult.com/taxi/taxi2.htm.

15 45-Day Review of Taxi Medallion Brokers, N.Y.C. Taxi and Limousine Comm'n, N.Y.C. Dep't of Consumer and Worker Protection, and N.Y.C. Dep't of Finance (2019) at 3, https://www1.nyc.gov/assets/tlc/downloads/pdf/broker-investigation.pdf. Required by Local Law 18 of 1984. The local law requires Brokers to deposit a $50,000 bond for nonpayment of fines imposed by TLC or judgments resulting from any misrepresentation, fraud, deceit, or other unlawful act committed by the Broker. Finally, Local Law 18 grants TLC the power to impose a fine of up to $10,000, suspend or revoke a license for making a material misstatement or misrepresentation on a Broker license application, committing a fraudulent, deceitful or unlawful act while acting as Broker, or violating any TLC rule.

16 Deirdre Carmody, *Taxi Medallion Costs Pushed to $100,000 by Heavy Demand,* N.Y. Times, Dec. 16, 1985, https://www.nytimes.com/1985/12/16/nyregion/taxi-medallion-cost-pushed-to-100000-by-heavy-demand.html. In order to issue additional medallions, the City was and still is required to conduct an environmental review to determine if the issuance of additional medallion licenses would have environmental or other community impacts. This review process is only required when new medallion taxi licenses are issued and is not a requirement for other transportation services licensed by the TLC. N.Y. State Environmental Conservation Law § 8-0103.

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19 *2014 Taxicab Factbook*, N.Y.C. Taxi and Limousine Comm'n (2014) at 1, https://www1.nyc.gov/assets/tlc/downloads/pdf/2014_tlc_factbook.pdf.

20 *Id.* at 5.

21 *2018 TLC Factbook*, N.Y.C. Taxi and Limousine Comm'n (2018), https://www1.nyc.gov/assets/tlc/downloads/pdf/2018_tlc_factbook.pdf. Medallion taxis are the only vehicles with exclusive right to pick up street hails throughout the five boroughs.

22 N.Y.C. Charter §2303.

23 Letter from New York City Mayor Michael Bloomberg to New York State Governor Andrew Cuomo in Support of N.Y. State Assembly Bill A.8496 (Sept. 28, 2011), https://www.scribd.com/fullscreen/67603275?access_key=key-289gj8lsl0it58srjdt4.

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89 NCUA Material Loss Review, Mar. 29, 2019 at 1.

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94 NCUA Material Loss Review, Mar. 29, 2019 at 2.

95 TLC Medallion Debt Survey at 1.

96 45-Day Review of Taxi Medallion Brokers, N.Y.C. Taxi and Limousine Comm'n, N.Y.C. Dep't of Consumer and Worker Protection, and N.Y.C. Dep't of Finance (2019) (survey of 313 owner-drivers), https://www1.nyc.gov/assets/tlc/downloads/pdf/broker-investigation.pdf; TLC Medallion Debt Survey at 4 (survey of 856 medallion owners, including 457 owner-drivers).

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104 *Id*.

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109 TLC Medallion Debt Survey at 4-5.

110 *Id.* at 4.

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114 *See* Oren Bar-Gill & Elizabeth Warren, *Making Credit Safer*, 157 U. Pa. L. Rev. 1, 98-100 (2008).

115 Sean M. Hoskins & Marc Labonte, *An Analysis of the Regulatory Burden on Small Banks*, Congressional Research Service (2015).

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121 Int. 1608/2019.

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135 *Id.*

136 Jeff Sovern, *Written Notice of Cooling-Off Periods: A Forty-Year Natural Experiment in Illusory Consumer Protection and the Relative Effectiveness of Oral and Written Disclosures*, 75 Pitt L. Rev. 333 (2014).

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