San Francisco Municipal Transportation Agency

Best Practices Studies of Taxi Regulation

Meter Rates & Gate Fees

Hara Associates

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San Francisco Municipal Transportation Agency

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Executive Summary

The San Francisco Municipal Transportation Agency (SFMTA) assumed responsibility for regulating San Francisco taxis in 2009, as a result of a ballot initiative. The SFMTA is now undertaking a comprehensive review of its regulatory practice to improve the taxi industry's ability to serve the community and operate sustainably.

A previous study in this series, *Managing Taxi Supply,* reviewed taxi supply and demand conditions in San Francisco. A significant increase in taxi numbers, phased in over time, was recommended to meet undersupply and improve dispatch service to the home. Future studies will address enforcement, administration, vehicle standards, and driver training.

This study examines taximeter rates. Recommendations address:

- Improvements to customer service from changes in the fare structure, and associated handling of credit card processing.
- The adequacy of current taximeter rates to sustain safe and good quality taxi service.
- The current level of the *gate fee cap*, the limit on the average amount per shift that taxi companies may charge taxi drivers for the use of a taxi.
- A formula to guide regular review of meter rates and gate fees.

Assessment of rate levels is affected by recent competitive pressures and structural change in the industry. While taxi demand remains strong, there is growing competition from limousine services enabled by smartphone apps, such as Uber. In addition, current regulatory uncertainty at the state level over shared ride services (SideCar, Lyft, InstantCab, UberX) is providing cover for the rapid growth of an old problem: unregulated taxis. These unlicensed drivers and vehicles do not currently bear the costs of meeting regulatory standards, such as insurance, driver training and testing, or vehicle requirements. They also open the door to long run systemic issues seen in other cities, providing a niche for individual predators and potential gang involvement as unregulated drivers dispute turf at the airport and other transportation nodes.

In addition to the risks to public safety, the regulated taxi industry is also deeply concerned about its future. Recent draft rulings by the Public Utilities Commission offer the hope of some improvement in insurance requirements for shared ride vehicles, but also propose to legitimate shared ride services within a lower cost, lower supervision environment similar to that of limousines. Under the PUC draft decision, vehicles and drivers would still not be licensed, and oversight of driver training and vehicle safety would be the responsibility of the companies providing the smart-phone apps. On-street enforcement would apparently remain at the minimal levels now applied to limousines. In this sense, individuals offering taxi service through shared-ride services would still remain largely unregulated. Prevention of shared-ride vehicles picking up street hails – a safety concern that underlies the regulation of taxis – would remain with municipalities. Since San Francisco on-street taxi enforcement officers are paid for out of industry fees, the PUC proposal places the taxi industry in the position of paying the regulation costs of its competitors.

Costs up—particularly insurance

The taxi industry has experienced a 5.8% increase in operating costs since the last meter rate adjustment in 2011. The rise in taxi insurance cost is notable, up from around $6,700 per vehicle to as much as $10,400, an increase of up to 55%. This burden has fallen primarily on taxi companies. The

overall cost of providing an insured car (excluding the actual driver), has risen an estimated 15.8% since 2011, or 18.8% if you count since 2008. Companies have not received an increase in the gate fee cap since 2008. Their concern is not only that costs have risen, but also that their gate fees were left unchanged in the meter rate adjustment of 2011.

Some companies also report difficulty finding drivers to fill shifts. Driver shortages are partly a product of the expansion in the taxi fleet currently underway, but are also attributable to losing potential drivers to shared-ride and limousine services. Loss of drivers has been exacerbated by the artificially low insurance costs of operating a shared ride vehicle that has grown under interim arrangements between shared-ride companies and the California Public Utilities Commission (PUC). Ramp taxis bear the brunt of unfilled shifts as the longer load times make them relatively less attractive to shift drivers.

Passenger information monitor (PIM) & back seat credit card swipe used by Creative Mobile Technology (CMT)

Structural considerations in rate setting

Background information and industry structure are provided in Chapter 2. Key observations include:

- **Current rates high, but consistent with San Francisco costs.** San Francisco meter rates are currently high relative to peer cities. The high rates are of concern, but are also consistent with higher costs in San Francisco. Gas prices are higher than other cities. More significantly, the cost of living index is much higher in San Francisco than in its peers, exceeded only by some parts of New York City. This means that it requires more compensation to retain taxi drivers, who account for more than half the cost of providing taxi service.
- **All revenue flows from the meter.** Passengers do not pay taxi companies directly.[1] Revenue flows as a chain, from passenger to driver, from driver to taxi company, and from taxi company to the medallion holder. The SFMTA stands at the end of the chain collecting license fees to fund its operation. As a consequence:
    - *Any change in the industry ultimately must be funded by a change in meter rates.*
    - *Transfer of funds to cover cost increases is indirect and approximate.* An increase in rates to cover higher insurance costs would only reach taxi companies if gate fees were also adjusted. The meter charges per trip, while gate fees are per shift, and trips per shift vary from driver to driver.
- **Medallion holders rule–but also bear the final burden**. With medallions in limited supply, taxi companies compete to attract them and increase the size of their fleet. Competitive pressure to bid for medallion leases means that medallion holders get the cream of any surplus profit. When that surplus profit declines, so does the market for medallion leases and returns to medallion holders. In the long run, increases in costs transfer to the medallion holder.
- **Credit card acceptance not reliable.** Customers cannot count on drivers readily accepting their credit cards, because of driver resistance to being charged a 3.5% fee for cards processed through the Passenger Information Monitor (PIM) system. Drivers often resist the use of credit cards, or request to pass the card through private systems attached to their smart-phones, rather than use the taxi's PIM. This leaves customers surrendering their cards and having them passed through an unknown device. Receipt generation is possible, but problematic.

[1] Exceptions are gas sales by companies and, recently, some internet and smartphone app booking fees.

- **Business model for PIM is in trouble**. The Passenger Information Monitor (PIM) is a bundle of services and equipment central to modernizing the passenger experience. PIMs provide easy credit handling enabling customers to swipe their own cards in the back seat, real time clearance of the card, GPS trip display, an opportunity to immediately register customer feedback, tourist information, and accommodation of visual and auditory disabilities.

  PIM systems are currently provided by payment service providers (PSPs) like CMT, VeriFone, and Anderson/Wireless Edge. They recover their expenses, and ongoing monthly costs, through the 3.5% charge on credit card trips processed through the PIM. However, the number of trips charged this way is down to as low as 25% for some fleets, compared to around 50% in other cities. Credit card fares booked through smartphone apps do not go through the PIM, and drivers are diverting passengers to cash or cheaper credit card clearance through their smartphones. Credit card clearance is cheaper through smart-phone systems because those systems do not have to finance the PIM or its other services.

- **Cost squeeze on companies.** In addition to rising insurance costs, taxi companies are under a cost squeeze as they compete for medallion leases against third party agents. These agents are not directly accountable to the SFMTA, and may not be adhering to vehicle and driver requirements, nor to the cap on gate fees. Without these costs, the third party agents can bid more, driving medallion lease fees up for taxi companies. Hardest hit are smaller companies trying to invest in expanding San Francisco's taxi dispatch market. This issue was identified and discussed in the previous report, *Managing Taxi Supply.*

Recommendations for Improved Service

Recommendations are based on a balance between conservatism in the face of current uncertainty; ensuring continued viability of a high quality taxi industry; innovating to meet competitive challenges; and strengthening taxis as a collective brand offering safe and reliable transportation to San Francisco. The full text of recommendations is found in Chapter 4.

Recommendations to strengthen service quality and offer passengers new options are:

- **Ensuring reliable credit card acceptance.** Elimination of the 3.5% processing fee to drivers is recommended.

- **Paying for the PIM with a fee per shift.** Taxi companies are to assume the burden of credit card processing expenses, and PIM provision, in exchange for a $6.25 adjustment to the cap on gate fees, financed by an increase in meter rates of 35 cents per trip. For the average driver, the 35 cents per trip will offset the $6.25 in the gate fee cap, leaving them net ahead by the amount of credit card processing fees that have been eliminated. Drivers are also to receive their credit card fares at the end of their shift, and be able to apply them against their gate fee.

- **Improving dispatch service.** Three measures are proposed:

  - *Matching competitor cancellation fees.* To solve the problem of no-shows by both passengers and drivers on dispatch trips, it is proposed that color schemes be allowed to charge a cancellation fee. Competitors like Uber and Lyft do this now. The cancellation fee is of mutual benefit to customer and driver, establishing mutual assurance that each will be there to complete the trip. A cancellation fee of up to $10 is recommended for consenting credit card customers. Traditional phone dispatch remains unchanged, ensuring access by non-credit card passengers.

  - *Incentives for dispatch service starting in 2015***.** A premium on gate fees of up to 4% is proposed for taxi companies, prorated according to the proportion of fares that come from dispatch calls (starting at a 20% minimum). This reflects value delivered to drivers

in terms of referred calls—a service that will increase in value once functionality is restored to dispatch markets with the expanded taxi supply expected in 2015. Drivers may still choose a company that provides only basic dispatch service, and pay just the base gate fee.

- *Accelerated fleet expansion.* To the extent possible, it is recommended that the fleet expansion now underway be accelerated. Having adequate supply will improve dispatch service, and is needed for the successful development of taxi apps to compete with apps marketed by alternative services.

- **Offering passengers a true shared ride option.** At the option of the driver and with the consent of passengers, a flat rate of $11.00 per passenger is proposed for two or more passengers sharing a taxi for part of a trip. This offers passengers a lower rate, while earning the driver more than the average trip. It increases capacity to handle late-night peak taxi demand and provides a safer competitive alternative to shared-ride services. Other potential uses are daytime trips from transportation nodes, relief for overcapacity bus routes, and innovation using smartphone dispatch for a shared ride taxi service.

  From an environmental perspective. The option is a true shared ride where two or more trips are combined in one vehicle. In comparison, a trip offered by an unregulated taxi driver through a shared-ride service is often just one passenger and the unregulated driver. The drivers only purpose is to provide the vehicle—so there is only one trip belong to the passenger—not two trips combined.

  The true shard ride service is experimental. It is not clear whether enough drivers will be interested. There has been limited success with this approach in New York.

- **Improved passenger safety by better regulator oversight.** Two measures are proposed:

  - *Elimination of third party brokers*. A sizeable problem is taxis bearing the colors of taxi companies but actually managed by third party brokers who have leased the medallion rights from medallion holders. These brokers are neither licensed nor accountable to the regulator. It is recommended that taxi vehicles should only be provided and managed directly by a party licensed by the SFMTA, either a color scheme (taxi company) or the medallion holder themselves. This will assist in ensuring compliance with vehicle and driver requirements and adherence to the gate fee cap. It also relieves the cost squeeze on companies from high medallion lease prices. Companies will no longer have to bid for medallion leases against third parties who may not be bearing the full costs of complying with regulations.

  - *Funding for regulator technology***.** A funding base is recommended for new equipment and systems for more effective regulatory oversight. Potential needs of a modern regulator include handheld units giving enforcement officers on-line access to vehicle and driver records; systems that collect and report taxi trip information; real time up-to-the-minute access to information on trips; and data systems to analyze dispatch performance and compliance records of taxi companies and individual operators.

    In order leave the meter rate unchanged in 2013, is recommended that short run funding come from medallion lease revenues generated by an accelerated expansion of the taxi fleet. In the long run, stable funding should come from a nominal charge on the meter. A nickel charge on the meter generates approximately $1.4 million per year.

Industry Position on Meter Rates and Gate Fees

Industry stakeholders strongly support there being no meter rate increase in 2013, despite significant increases in the cost of insurance and fuel.

Positions on the gate fee cap are mixed. Large companies want a substantive increase in the gate fee cap to reflect their higher costs, and to catch-up for the lack of adjustment since 2008. Requests range from $10 to $15 per shift. Large companies also feel that they may not be able to raise actual gate fees to the new cap level because of the shortage of drivers. However, given the infrequent historical adjustment of the gate cap, the companies want the assurance of an increase in the cap now so that they will have more flexibility going forwards, even if they are unable to charge the full amount immediately.

Smaller companies are largely opposed to changing the gate fee cap. They are hit harder by the driver shortage, and feel they may not be able to adjust gate fees at all. Those opposed see no benefit to raising the gate fee cap. They also see that any increase in the gate fee benefits medallion holders, including the larger companies who recently received 8000 series medallion leases at fixed lease rates from the SFMTA.

Drivers are also of mixed position on the gate fee cap. Most drivers expected the gate fee cap to increase to follow the 2011 meter rate increase. They recognize the need for adjustment to cover increased costs in insurance and other items paid for by taxi companies. Suggested increases in the cap by these drivers ranged from $5 to $10 per shift. Drivers with medallions also supported increasing the cap on gate fees, since it affects the medallion lease rates that companies pay to them. Some representatives of non-medallion drivers expressed the strong opinion that gate fee caps should *not* be increased and that gate fees were already too high because of the medallion system.

There remains a consensus within the industry supporting the continued existence of a gate fee cap to protect drivers, particularly non-medallion drivers.

Recommendations on Meter Rates and Gate Fees

Hara Associates recommends:

- **No meter rate adjustment to cover cost increases in 2013.** With industry costs up 5.8% since 2011, it would be normal to raise meter rates an equivalent amount. This approach is not recommended for 2013 owing to San Francisco's high rates relative to other cities and the current competitive threat from unregulated taxis operating under cover of shared-ride services.

  The only meter rate adjustment recommended is the above-mentioned 35 cents per trip to relieve drivers of credit card processing fees to improve credit card acceptance and to finance the continued availability of the Passenger Information Monitor that lets passengers swipe their own cards.

- **Gate fee cap increase of ($9.75 + $6.25 = $16).** The recommended increase in the gate fee cap is $9.75, plus a further $6.25 to cover the assumption of credit card processing fees by taxi companies. The total is$16 for hybrid vehicles, increasing the cap from $104 to $120. For non-hybrid vehicles, the cap would increase $15, from $96.50 to $111.50). This move is a long-delayed follow-up to the meter rate increase of 2011, where gate fees were left unchanged. It provides taxi companies with some relief for their rising costs, notably insurance.

  The $9.75 falls at the low end of suggested adjustments by companies and at the high end of suggestions by drivers. Companies are not required to raise their gate fees, and may not do so, given the current shortage of drivers. However, the higher cap provides room to maneuver and

plan for new investment in improved service. In the long run, gate fees will likely rise to the new cap limit.

- **Cost Index formula for regular annual adjustment.** To provide for industry stability in the future, it is recommended that meter rate adjustments and gate fees be reviewed at the same time annually based on changes in industry costs.

  A cost index approach is recommended. The formula simplifies regulator review by estimating cost increases based on cost shares of gas, insurance, etc., and cost increases as measured by indexes of gas, insurance, wage, and vehicle costs published by the US Department of Labor. This formula would be used as the basis for annual reports by the Director of Transportation to the SFMTA board on recommended rate changes.

Impact of Recommendations on Passengers and Industry

The net result is improved service to customers and a financial framework that enables the taxi industry to plan and invest to meet competitive challenges from alternate services.

- **Passengers.** Passengers gain:
  - reliable and easy credit card acceptance, without moral resistance by the driver, and the ability to swipe their own credit card on the official backseat unit;
  - continued and improved access to services provided through PIMs , including GPS tracking on a map, customer feedback opportunities, and accommodation of sight and hearing disabilities;
  - a new option for shared ride taxi service at a flat rate of $11;
  - expanded and more reliable taxi dispatch to homes;
  - a safer and higher quality taxi service by
    - modernizing regulator technology for oversight and enforcement
    - ensuring that taxi service is being managed directly by a person or company licensed by the regulator;
  - better taxi dispatch service, by giving the taxi industry a stable financial framework that supports investment in service improvements.
- **Drivers.** Drivers gain from the elimination of credit card fees and the meter rate increase of 35 cents per trip, but pay more for gate fees to the extent that companies are able to raise fees in the presence of the driver shortage. If gate fees rise to the full extent of the new cap, drivers who do not have medallions will experience a reduction in annual income of about $1,100. However, they will still be significantly ahead relative to the period prior to the 2011 meter rate adjustment. The 2011 meter rate increase was 20% (covering five years of cost increases since 2006), while the recommended increase in the gate fee cap is approximately 10%. Drivers with medallions will be net ahead, since any higher gate fee they pay will be more than offset by eventual increases in the medallion lease fees they receive. Experienced and skilled drivers will also gain higher revenues from improved dispatch service by companies.
- **Medallion holders.** Medallion holders gain from regular adjustments to gate fees, which in turn support their medallion lease payments. This strengthens current returns, and increases the demand for their medallions as the predictability of long-term returns offers increased security.
- **Taxi Companies.** Taxi companies gain partial relief for their increased costs, and long-term assurance that meter rates and gate fees will be responsive to price increases. In addition, they gain incentives to expand dispatch volume and recover investment made in better dispatch.

Companies that received any of the 150 “8000” series medallion leases from the SFMTA will also gain directly from any increase in gate fees.

- **Payment service providers.** PSPs lose some control over their business as the role of merchant of record within the credit card system is assumed by taxi companies. They gain to the extent that the long run business case for their fees will be determined by their competitive bids for service contract renewals with taxi companies, rather than regulation by the SFMTA. Removing the disincentive of drivers to accept credit cards will also increase the share of trips processed by credit cards through their systems, increasing PSP business volume.

1 INTRODUCTION

The San Francisco Municipal Transportation Agency (SFMTA) assumed responsibility for regulating San Francisco taxis in 2009, as a result of a ballot initiative. The SFMTA is now undertaking a comprehensive review of its regulatory practice to improve the taxi industry's ability to serve the community and operate sustainably.

A previous study in this series, *Managing Taxi Supply,* reviewed taxi supply and demand conditions in San Francisco and assessed whether more taxis were in the public interest. A significant increase in taxi numbers, phased in over time, was recommended to meet undersupply and improve dispatch service to homes. Future studies will address enforcement, administration, vehicle standards, and driver training.

The present study examines taximeter rates. Recommendations address:

- The current level of meter rates;
- The current level of the *gate fee cap*, the maximum amount per shift that taxi companies may charge drivers for the use of a taxi;
- Methods for ongoing adjustment of meter rates and gate fee caps over time.

Assessment of rate levels is affected by the competitive pressure experienced from industry structural change. There is growing competition from limousine services enabled by smartphone apps, such as Uber. In addition, current regulatory uncertainty at the State level over shared ride services such as SideCar and Lyft is providing cover for the rapid growth of unregulated or poorly regulated taxis. These vehicles do not bear the costs of meeting regulatory standards for taxis, such as insurance, driver training and testing, or vehicle quality and safety. Meanwhile, the costs of licensed taxi operation continue to rise with time. Notably, the cost of taxi insurance has risen as much as 55% since the last meter rate adjustment in 2011.

This study also addresses the structure of fares and gate fees with a view to improving customer service and eliminating unnecessary costs to taxi companies. Issues include:

- Improving credit card acceptance by drivers;
- Creating incentives for good dispatch service;
- Relieving the cost squeeze experienced by taxi companies from third party management of taxi medallions operating outside the gate fee caps;
- Financing the use of new technology to provide better and more efficient regulatory oversight of service quality and safety.

While the taxi industry shares many common elements from city to city, each city is unique. Multiple lines of evidence were explored to assess San Francisco's taxi industry. The review included:

- Experience reported by San Francisco stakeholders;
- Structural analysis of San Francisco's industry;
- Comparison to peer cities;
- On-street observations of taxis;
- Surveys.

To ensure comprehensive outreach and understanding, surveys were conducted of taxi drivers, of San Francisco residents, and of visitors to San Francisco. Survey results and analysis are available in separate volumes, *Taxi User Surveys* and *Taxi Driver Survey*, under the series title *Best Practices Studies in Taxi Regulation*.

1.1 ORGANIZATION OF THE REPORT

This balance of this chapter introduces terminology used in the industry and in this report. Chapter 2 analyses the San Francisco taxi industry and identifies key issues relevant to meter rates and gate fees. Chapter 3 presents stakeholder views, as expressed to the study team during interviews, and through the survey of taxi drivers. Chapter 4 provides analysis and recommendations for managing meter rates and gate fees to improve customer service, while respecting the livelihoods of industry participants.

1.2 SOME IMPORTANT TERMS

Each city has its own terminology to describe the relationships among taxi drivers, taxi vehicles, and companies. Even within a city, usage may vary. This report adopts terms based on common San Francisco usage. An understanding of these terms will help clarify some of the issues of concern to drivers and other stakeholders:

- **A-Card.** The taxi driver permit issued by the SFMTA after a driver has completed required training and testing.
- **Medallion.** The license to operate a taxi vehicle. The majority of these are "Proposition-K" or "Prop-K" medallions issued after a 1978 ballot initiative that required a medallion be held by an active A-Card holder. Proposition K created a class of owner-drivers who controlled the medallions of the cars they drove. The medallion takes the form of a small metal plate that may be transferred from vehicle to vehicle. It is displayed on a clip mounted on the taxi dashboard. The term medallion is widely used in the industry, most famously, in New York City. There, however, medallions are metal disks attached by a bolt to the hood of the taxi, which limits their transferability from car to car. Medallion holding taxi drivers are a minority of all taxi drivers, since the taxi is required to operate many more hours than a single driver can drive. There are 1735 full time medallions but over 7,500 A-Card-holding drivers.
- **Spares.** Taxi operators are permitted to have up to 20% more vehicles than medallions. The extra vehicles are termed spares. The spare vehicle is placed into legal operation by transferring a medallion to the spare. Historically this has been allowed only when the primary vehicle is being mechanically serviced, although recently the use of spares has been authorized to supply additional taxi vehicles during short periods of extremely high demand.
- **Color or Color Scheme.** All San Francisco taxis are required to associate with a color scheme (e.g., Yellow, Bay Cab). SFMTA regulations use the term *color scheme* to describe both the taxi company and the colors it has registered. A color scheme must use a dispatch service, but may maintain its own dispatch service or contract out that function and share it jointly with other companies. A taxi dispatch can maintain the brand identity of the colors when passengers call. In practice, smaller companies sharing a dispatch service end up answering one another's calls when customer service requires it.
- **Gas and gate.** The arrangement whereby a driver pays a color scheme a *gate fee* when taking a taxi on a shift basis. The fee includes the taxi, the medallion, insurance, and everything except fuel. The driver receives a full tank and refills it at the end of his or her shift. Thus, the driver pays "gas and gate." Gate fees vary by the desirably of the shift (e.g., Tuesday morning versus Friday night). The average fee over all shifts is regulated by the SFMTA.

- **Affiliate leases.** Medallion holders do not have to give their medallions to a color scheme to manage. They can manage it themselves, and pay an affiliation fee to a color scheme to receive dispatch services and use the company colors.
- **Medallion Lease.** This is the fee paid *to* the medallion holder by a color scheme (or third party broker) for the right to operate a taxi using the medallion.
- **8000 Series Medallion.** A group of 200 medallions leased directly to color schemes on a three-year term at $2000 per month ($1900 to the SFMTA and another $100 per month to a fund for drivers). 150 are in operation at the time of writing, with another 50 yet to be allocated.
- **Passenger Information Monitor (PIM).** The computer screen and speakers installed at the back of the screen for the passenger's use and information. It is usually integrated with a credit card swipe to permit passengers to handle their own card while paying for the taxi, and with a real-time credit card clearance. The screen menus allow quick selection of a tip. Other information is provided, such as local shows, taxicab rules and where to provide feedback, the opportunity to provide direct feedback, and options to assist those with visual or auditory disabilities.

  PIMs are usually packaged with credit card processing capacity. The principal San Francisco suppliers are *payment service providers.* However, the PIM does not have to be bundled this way. For example, Taximagic offers a booking system integrated with a PIM in many cities.
- **Payment Service Providers (PSPs).** A generic term for companies that provide credit card clearing services through in-taxi equipment that they provide (including the PIM). Current major providers are Creative Mobile Technology, VeriFone, and Anderson Group/Wireless Edge.

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2 INDUSTRY STRUCTURE AND ISSUES

This chapter reviews the current state and structure of the taxi industry in San Francisco, and compares meter rate and gate fee practices to other jurisdictions. Topics include:

- Industry reluctance to raise meter rates at present
- Competition from limousines and unregulated taxis
- Long-term implications of proliferation of unregulated taxis
- Shortages of taxi drivers and impact on accessible taxi service
- Crisis in insurance markets
- How medallion holders are the final bearers of cost increases
- How money flows from the meter to other industry stakeholders
- The cost squeeze on companies from high medallion lease prices.
- Why transfers to cover cost increases are indirect and approximate
- Cost and revenue profiles of a San Francisco taxi in 2013
- Changes in industry costs between 2011 and 2013
- Comparison of meter rates and gate fees with other cities.

Knowledge of several industry terms listed in Chapter 1 will assist the reader in understanding these issues.

2.1 ENVIRONMENTAL FACTORS

2.1.1 Rising Costs and Industry Reluctance to Adjust Rates

Meter rates were last adjusted in the spring of 2011, taking effect in September of that year. Previously, rates had not been changed since 2006. The 20% increase in 2011 was intended to catch up for increased operating costs in the intervening five years.

Since 2011, the price of gasoline in San Francisco has risen a further 15.8%.[1] The cost of insurance in San Francisco has risen from around $6700 to as high as $10,400 per taxi, depending on the company and time of renewal.[2] That is an increase as high as 55% over two years.

Within the industry, taxi companies are particularly hard hit. The amount they charge drivers for providing an insured taxi is capped by SFMTA regulations. That cap on gate fees has been unchanged since 2008 at an average of $104 per shift for a hybrid vehicle. Most industry participants expected an adjustment to the gate fee cap following the 2011 meter rate adjustment. That has not yet happened.

With rising costs, one would expect the industry to be seeking an adjustment to meter rates and the gate fee cap. However, both taxi company and driver representatives have expressed reluctance about increasing meter rates given the other challenges faced by the industry, notably competition from limousine services and from non-commercial vehicles being operated as taxis under cover of shared ride services (discussed below). The recent California Public Utilities commission draft decision to license shared ride services reinforced this concern. *Taxi industry town hall meetings held by the SFMTA, held*

[1] Based on the Consumer Price Index for San Francisco – Oakland – Fremont (U.S. Bureau of Labor Statistics Series CUURA422SETB01). Comparison is from February 2011 to February 2013. Fuel prices rise seasonally, so it is important to compare the same months within a year. February is the lead up month to the May 2011 SFMTA Board meeting where the rate decision was made.

[2] Averages based on multiple sources.

after the release of the draft PUC decision, were close to unanimous in their desire to leave meter rates unchanged. This position was shared by company and driver representatives.

With respect to the gate fee cap, the case is mixed, with divergent views between smaller and larger companies.

Large companies want a substantive increase in the gate fee cap to reflect their higher costs, and to catch-up for the lack of adjustment since 2008. Requests range from $10 to $15 per shift (a roughly 10% to 15% increase). At the same time, they feel that they will likely not be able to raise gate fees to their desired new cap, as they would lose drivers and not be able to fill all shifts. There is a shortage of drivers at present (also discussed below), due in part to the taxi fleet expansion underway, and in part to the loss of drivers to shared ride and limousine services. Despite continued demand for taxis by the public, shifts are going unfilled due to driver shortages. However, given the infrequent historical adjustment of the gate cap, the larger companies want an assured and stable financial future by raising the gate fee cap to catch-up since 2008, and restore their historical share of the gross revenue earned by their taxis. They feel having

Smaller companies are hit harder by the driver shortage, with some feeling they are not in a position to adjust gate fees at all, and at least one reporting that they are charging less than the gate fee cap at present. These companies see no benefit to raising the gate fee cap and wish it to remain unchanged.

Drivers are also of mixed position on adjusting the gate fee cap. Most drivers expected an increase in the gate fee cap to follow the 2011 meter rate increase. They also recognize that some allowance needs to be made for increased industry costs in areas paid for by companies out of the gate fee (e.g. insurance). Suggested increases in the cap were of a lower range than suggested by companies, ranging from $5 to $10 per shift. Drivers with medallions also benefit from a gate fee increase through higher medallion lease fees paid to them for use of the taxi medallion when they are not driving themselves. Some representatives of non-medallion drivers expressed the strong opinion that gate fee caps should not be increased, and that gate fees were already too high because of the medallion system.

There remains a consensus within the industry supporting the continued existence of a gate fee cap to protect non-medallion drivers.

2.1.2 Competition from Limousines and Unregulated Taxis

The taxi industry is being challenged from above and below. From above, premium limousine services (notably Uber) are taking a growing share of the dispatch market using smartphone apps and state licensed limousines. While it is illegal for limousines to take street-hail fares, illegal pick-ups are occurring and are an enforcement problem. Further, the distinction between dispatch and street-hail is increasingly blurred by smartphone apps.[3]

Added to this competition is a newer threat created by regulatory uncertainty over shared-ride services such as Lyft, SideCar, InstantCab, and UberX. The concept of ride sharing has legitimate roots in carpooling and bulletin boards for shared rides between cities. The addition of new technology in the form of smartphone apps makes matching drivers and customers far more effective. However, under cover of this new technology, a very old threat is emerging: unregulated or poorly regulated taxi service. Drivers of unknown qualifications using uninspected vehicles offer commercial passenger service. Shared ride services actively participate in this commercialization. For example, InstantCab's website says it matches "*customers* with drivers" [italics added] and is "looking for drivers to help us launch a promising high quality service to anyone who needs a ride." Lyft's site advertises "Drivers are making

[3] See discussion in *Managing Taxi Supply.*

$35/hour and choosing their own hours." SideCar's website quotes a review "Sidecar makes it super easy to either arrange a ride or *earn extra dollars."* Payment for these services is typically automated through credit card accounts set up through smartphone apps.

The shared ride services are effectively acting as taxi companies, with these differences:

- They are not subject to the regulatory standards that taxi companies must meet.
- They take limited responsibility for the vehicles or drivers that are provided. Although some may attempt to test and screen providers, they also position themselves as smartphone applications. Even Uber, which provides both a limousine service and a shared ride service, had this language in its terms of service[4]:

  > THE QUALITY OF THE TRANSPORTATION SERVICES SCHEDULED THROUGH THE USE OF THE SERVICE OR APPLICATION IS ENTIRELY THE RESPONSIBILITY OF THE THIRD PARTY PROVIDER WHO ULTIMATELY PROVIDES SUCH TRANSPORTATION SERVICES TO YOU. YOU UNDERSTAND, THEREFORE, THAT BY USING THE APPLICATION AND THE SERVICE, ***YOU MAY BE EXPOSED TO TRANSPORTATION THAT IS POTENTIALLY DANGEROUS, OFFENSIVE, HARMFUL TO MINORS, UNSAFE OR OTHERWISE OBJECTIONABLE, AND THAT YOU USE THE APPLICATION AND THE SERVICE AT YOUR OWN RISK.***

- The drivers do not have to pass the training, or testing required of taxi drivers. Criminal record checks have also been optional – although this may change with the latest PUC proposed decision.
- The vehicles are not subject to the standards or inspections that are required of taxis.
- Insurance, where required by the service, may be personal auto insurance and may not be valid for commercial activity. Passengers in the car, and anyone struck by the car, may not be covered.

The recent draft decision by the California Public Utilities Commission (PUC), discussed below, suggest correction to some, but not all of these ills. Under the PUC draft decision, vehicles and drivers would still not be licensed, and oversight of driver training and vehicle safety would be the responsibility of the companies providing the smart-phone apps. On-street enforcement would apparently remain at the minimal levels now applied to limousines. In this sense, individuals offering taxi service through shared-ride services would still remain largely unregulated.

Longer term risks of unregulated taxis

The higher risks to the passenger of unregulated taxi service are apparent. Less easy to see in advance are the *systemic risks* that occur once the cheaper unregulated (or poorly overseen) taxis proliferate. These include:

- **Street pickups by unmarked cars in the dark.** With increased numbers on the street, there is little to prevent unmarked cars, or cars with removable trade dress, from cruising for fares and picking street-hails from those who do not fully appreciate the risks. Thus, the smartphone enabled car moves from a dispatch basis to street-hail. At this point, the unregulated taxis become illegal, even if the operation is otherwise permitted by state law.
- **A niche for predators.** With the advent street-hail pick-ups by unmarked cars, there is little to prevent individuals from getting into unmarked cars without even the slim protection of identification of the driver through a smartphone app. Further, there is no guarantee that the individual is even registered with a service. A fertile ground for predators is created.

[4] As of June 2013.

- **Control of the streets is lost.** The reason taxis have unique color schemes and large permanent numbering is so that fleets can identify and control their own. Customers have the opportunity to identify the vehicles that serve them, and fleets have the opportunity to spot vehicles bearing their colors that are not registered with them.
- **The risk of gang involvement rises.** As the number of unregulated or poorly regulated operators increases, there is competition for the best locations for pick-up. Gangs, often beginning as small groups related by family or ethnic ties, begin to protect turf. They start to send plainclothes touts into airports and transit terminals to intercept travelers and channel them to the unmarked cars, or cars carrying easily removed identification.
- **Conflict with licensed taxi drivers.** As numbers grow, especially in the presence of gangs, there is conflict around official taxi stands, potentially physical. Ironically, the licensed taxi drivers are likely to get the worst of it because their identity and location are better known to public authorities.

There are reasons why taxis are regulated around the world with marked colors, numbers, and licensing. The regulations protect against the unpleasant alternative of what happens when illegal or unregulated taxi service becomes an underground institution. Risks to passengers abound to a degree that individuals may not fully appreciate. Especially vulnerable are visitors and those with low income.

A well-documented example of the above risks, even in the presence of a well-developed police force, is the city of Moscow's experience following economic liberalization in the 1990's. Details of this experience are provided in Appendix C.

2.1.3 Potential Impact of PUC Draft Decision

At the time of this report, the PUC had published a draft decision on rules governing Transportation Network Companies (TNCs)[5], a term covering on-line shared-ride services such as Lyft SideCar, InstantCab, and UberX (Uber's shared-ride service). The proposal is to license these companies, but *not* the drivers and vehicles that operate through the TNCs. The draft PUC decision off-loads the training and background checks of drivers onto the private companies. . Other key features of the PUC draft decision are:

- Shared-ride companies are found to be engaged in the transportations of persons for compensation (i.e. not just an app, and not just extended car-pooling with cost sharing).
- Explicit acknowledgment that the services use personal non-commercial vehicles.
- Requiring that TNC's carry insurance covering at least $1 million dollar per incident, "regardless of whether a relevant TNC driver maintains insurance adequate to cover any portion of the claim".[6]
- Requiring that TNC's obtain proof of insurance from drivers.
- Requiring that TNCs do background checks, establish a driver training program "or mentor program", conduct and document vehicle inspections on 19 safety points.
- Requirement that TNC vehicles display "consistent trade dress", which may include magnetic or removable trade dress.
- Forbidding TNC vehicles from accepting street-hails.
- Requirement that TNCs provide to city officials, on request, sufficient record to establish that any ride was pre-arranged through their system.
- Forbidding TNC "operations" on airports without permission of the airport authority.

[5] *Proposed Decision of Commissioner Peevey (Mailed 7/30/2013); Decision Adopting Rules and Regulation to Protect Public Safety while allowing New Entrants to the Transportation Industry.*
[6] Ibid. Pg. 22

- Data collection requirements to support potential future consideration of requirements to provide wheel-chair accessible service.

Implementation of Insurance Requirement is Crucial

The above points are only guidelines to a second stage of PUC decision-making – the actual drafting of rules. Future impact on the taxi industry depends significantly on the details for implementation. If each shared-ride vehicle must carry insurance coverage that matches taxi insurance, it is difficult to believe that the insurance industry would charge less than the cost of taxi insurance. The service is the same, and the supervision of driver and vehicle quality is lower.

At minimum, the effective cost of insurance per ride should add up to the cost of taxi insurance policies. More likely, given the inability of insurance companies to monitor the use of the vehicle, the net cost of equivalent coverage should be higher. In the extreme case, if each Lyft vehicle required $10,400 per year for insurance, this would significantly reduce the number of participants, and put taxis and shared-ride vehicles on a more level playing field. Implementation of the insurance requirements is likely to be hotly contested.

In general, the PUC decision is written from a public safety perspective. If implemented fully, the competitive threat to taxis is greatly reduced, as the costs of regulatory compliance will be more closely comparable to taxis. However, the standard set by the PUC for protection of public safety remains rooted in the approach to limousine regulation – there is very little direct enforcement, and supervision of the vehicles and drivers is minimal and the responsibility of the licensed companies. Low oversight for limousines comes from the historical context that limousines were a luxury personal service where the user was responsible for knowing their supplier. It implicitly relies on the existence of a more regulated taxi service as an alternative.

Along with the lower level of oversight comes a lower cost of regulatory compliance for TNCs, a competitive disadvantage for taxis. Adding to this disadvantage is the inherent unfairness of the PUC apparently off-loading enforcement of the “no street-hail” prohibition onto municipal authorities. It is the taxi industry that pays for on-street enforcement through licensing fees that support SFMTA officers (or the Department of Transportation in Los Angeles). Thus, the taxi industry would be forced to pay for the on street policing of their competitors. While it’s valuable that the draft decision empowers municipal officers to collect trip data from TNCs, this provision underlines the intention to put the enforcement burden onto municipal officers funded through fees levied on the taxi industry, rather than fees levied on the shared-ride industry itself.

What if the PUC draft decision is fully implemented?

Under full implementation of the PUC draft decision, the threat of unregulated taxis operating under cover of shared-ride services remains, but is greatly reduced by more appropriate insurance requirements and other measures. Competition would be similar to that provided by smart-phone dispatched limousines. The PUC draft decision effectively tries to extend the limousine level of regulatory supervision to the TNCs. However, the inadequacy of traditional limousine regulation for equivalent to taxi dispatch service remains, as would the unfairness of forcing the taxi industry to pay for their competitors regulatory costs.

We note that New York city has long had a dual system supporting taxis with medallion values as high as a $1 million while simultaneously supporting limousine and black car operations in great numbers. In New York’s case, taxis and limousines are under the same regulator and all parties share in paying the cost of regulatory enforcement and protecting public safety.

Whether the actual rules established by the PUC for shared-ride are sufficient to provide a fair playing field for all services remains to be seen. At present, concern by the taxi industry is well justified.

2.1.4 Current Impacts and Driver Shortages

Owing in part to the significant shortage of taxi service in San Francisco, taxi demand remains strong.[7] Industry reports on the impact of competition from alternative services are mixed. Everyone agrees shared ride vehicles and limousines are increasingly seen on the street, but not everyone agrees on their impact on actual business volume. Some companies report a decline in trip volume, while others do not. Impact appears concentrated in firms and drivers who specialize in dispatch trips. Overall, taxi business volume remains strong. As identified in *Managing Taxi Supply*, the principal need for San Francisco is to expand taxi supply to provide the level of service that people want. This will eliminate the gap in service that causes people to turn to alternatives, when what they really want is a taxi.

A bigger related challenge for the industry is a recent shortage of taxi drivers. Some companies report difficulty in filling all their shifts, although the customer demand is there. The shortage of drivers is a new phenomenon with more than one cause:

- The expansion in the number of taxis now underway requires more licensed taxi drivers.
- A shortage of personnel at the SFMTA, now addressed, limited throughput of new taxi driver licensees.
- Drivers, and potential drivers, are being attracted to shared ride and limousine services by the lower and quicker qualification requirements, and by the lower costs of unregulated operation.

The driver shortage is exacerbated by the temporary unreal cost environment. For example, taxi drivers are reported to have left the industry and, instead, rent a car and book onto multiple ride-sharing services. The attraction is not having to pay the gate fee for a taxi. The gate fee includes, among other things, the cost of taxi insurance. There is a clear coverage gap between rental car insurance (perhaps even via a credit card program) and coverage for commercial activity – but this will not be immediately obvious until insurance companies refuse to pay. Drivers who use their personal vehicle and personal car insurance have a similar coverage gap. The present situation is occurring under interim arrangements between the PUC and shared-ride operators, pending rule making by the PUC.

Since companies may be tied into fixed arrangements with medallion holders for one to three years, they find it difficult to lower gate fees to retain drivers.

As noted above, smaller companies are experiencing driver shortages to a greater degree. These companies lack the dispatch volume that adds to the value received by drivers for the gate fee they pay.

The shortage of drivers is also making it difficult to fill ramp taxi shifts. These taxis are less preferred by drivers because of their longer load times and increased time spent running empty to reach priority dispatch calls serving wheelchair passengers.

The requirement to serve all passengers, including persons with disabilities, is another reason that regulated taxis have protection from competition by unregulated service.

[7] See previous study in this series: *Managing Taxi Supply*

2.1.5 Crisis in Insurance Markets

The cost of insuring a San Francisco taxi has increased sharply, from around $6700 in 2011 to as much as $10,400, depending on the company and the policy. The increase is partly due to local factors, and partly due to a broader crisis in insurance markets.

The insurance market is global. Local insurers reinsure their net risks internationally. At the end, there is someone of wealth who has agreed to take a share in bearing the risk. Recent economic downturns and the continuing economic crisis in Europe have hit the wealth backing the insurance system hard. Greater numbers of extreme weather events have also hit insurers, and increased their perception of future risk. The result has been a general increase in insurance premiums. Personal auto insurance, for example, has risen an average of 8% over the past two years, compared to a 5.5% increase in the consumer price index.

The impact of changes in global insurance markets varies by city because taxi insurance is also local. The best rates are offered by local insurers who know their clients, and know their risks. As long as these insurers continue in a given city, insurance rates rise commensurate with local risks and the global market. Alternatively, when local insurers withdraw due to the difficulty of finding reinsurance, local rates can suddenly spike.

Local factors can influence the withdrawal of insurers, and the ability to find new ones. One factor is the rate of insurance claims and settlements in a city. This is a product of local preferences concerning litigation, and the approach taxi companies and their insurers take to handling claims. Driver safety records also are relevant. Industry practices in promoting safe taxi driving vary. New technology has added means by which taxi companies can promote safe driving. For example, camera systems installed in taxis usually include acceleration triggers and records that can be used to increase the rate of recording, and can be monitored to identify aggressive driving in advance of an accident.

The regulator too has a role to play. Some companies allege that part of the reason for higher insurance costs in San Francisco is the poor safety record by taxis operating on an affiliate basis by third party brokers who are neither a licensed color scheme nor the medallion holder (see analysis and recommendations in Chapter 4).

As a result, taxi insurance rates are very local. The up to 55% increase in local costs is not experienced by all cities, and is partly bad luck for San Francisco—it being one of the cities where local insurers have withdrawn or changed their offerings. However, future insurance rates and the redevelopment of alternative insurance suppliers is partly in the hands of the industry through collective management of approaches to claims and driver safety. The regulator can help by ensuring that taxis are operated only by parties licensed and supervised by the SFMTA.

2.2 CREDIT CARD ACCEPTANCE AND PROBLEMS FINANCING PIMS

The Passenger Information Monitor (PIM) is a bundle of services and equipment central to modernizing the passenger experience. PIM systems are currently provided by *payment service providers (*PSPs) like CMT, VeriFone, and Anderson Group/Wireless Edge. They recover their expenses and ongoing monthly costs through the 3.5% charge on credit card trips processed through the PIM. Currently, the driver pays these charges.

There are two issues regarding PIMs. One is that drivers are resisting credit card use in the taxi to avoid the 3.5% fee. The second is that the business model financing the PIMs via credit card processing fees may be failing.

Driver Resistance to Credit Cards

Drivers resist credit card use because they must pay 3.5% of the charge in processing fees. If a driver takes home half of revenue in net pay, this 3.5% translates into 7% of net income from credit card fares. The processing fee is high because it pays for more than credit card processing. The PIM package not only clears credit card charges in real time, but also provides passengers the security of being able to swipe their own card, GPS tracking and display of the taxi's route, tourism information, and other information. It also provides assistance to those with vision or hearing disabilities. In upcoming standards, a person with a vision disability will be able tap the screen three times to receive audio information concerning their ride. Taxi drivers question why they should pay for the PIM package instead of the taxi company that provides the equipment.

Drivers are also using internet-based credit card clearing devices linked to their smartphones instead of the PIM systems. Services such as Square are charge only a 2.75% processing fee because they do not pay for the PIM package. Using these devices leaves customers less comfortable because their card is usually swiped by the driver through an unknown device that is not part of the taxi. Receipt generation is also time-consuming and problematic.

Real Time GPS Tracking on a Passenger Information Monitor (PIM)

From a customer service perspective, San Francisco passengers considering taking a taxi do not know in advance if their card will be accepted. If it is accepted, it may be swiped by the driver through an unknown device rather than by the passenger through the taxi's PIM. In contrast, smartphone dispatched limousines and shared rides accept credit cards automatically as part of the advance booking process. For some services, the card need not be produced in the car at all, as all has been arranged in advance.

Problems with Business Model Financing PIMs

A related second issue is how the package of services represented by the PIM will continue to be financed. The original business model, pioneered in New York and Boston, is suffering. In that model, equipment, including credit card clearance and ongoing telecommunications infrastructure, was provided free by the payment service providers who processed the credit card transactions (e.g., VeriFone, Creative Mobile Technologies, Anderson Group/Wireless Edge). In return, the providers received a 5% of credit card processing fee plus whatever advertising revenue was generated. Drivers benefited from receiving credit card payments the next day by deposit to a personal bank account, rather than waiting a month for a taxi company to process their chits.

In San Francisco, the 5% was rolled back to 3.5% by the SFMTA[8] as an early response to driver concerns. In addition, many San Francisco taxi drivers are now diverting transactions to cash, or to alternatives such as Square. The PIM share of credit transactions is further eroded by the use of smartphone apps such as Taxi Magic, Flywheel (formerly Cabulous), or Uber's taxi service to book taxis. These credit card transactions are processed through the smartphone app service, and do not generate revenue for the provider of the PIM. In San Francisco, credit card trips that are paid through the PIM are down to

[8] Payment service processors are not directly under SFMTA jurisdiction, however color schemes, taxi equipment, and charges to customers and drivers are.

between 25% and 40% of all trips, compared to around 50% reported in other markets. Market share varies by fleet and provider, but all are under pressure.

The installed base of PIMs in San Francisco will need to be replaced over time, especially with the upgrades required to meet new standards for the vision and hearing impaired.[9] Given the above challenges to the original business model, financing of these systems is under threat. The cost of the current equipment is reportedly between $2600 and $3100 per unit, plus installation. In addition, there are ongoing costs of maintenance, the exchange fees for processing credit card charges, monthly telecom fees for each taxi, and the general overhead of the payment service provider.

2.3 HOW THE MONEY FLOWS

General Background[10]

As of June 2013, there were 1,735 taxis operating in San Francisco, plus another 450 taxis authorized and in the process of reaching the streets through 2014. Taxi drivers number more than 7,500.

San Francisco has an owner-driver oriented system. Most of the medallions are held by taxi drivers who must remain active to retain their license. This is a significant advantage to these drivers, who can gain more than $2500 per month through saved medallion lease fees; in addition to fees, they may collect by allowing other drivers to use their medallions. Under current market conditions, medallions are in virtually continuous use, many more hours than a single driver could drive. The monthly earnings of a medallion are such that there is no shortage of takers at the $250,000 price set by the SFMTA in past medallion transfers.

High medallion values and medallion lease rates are not unusual in large cities (including Boston and Miami among the peer cities)—they follow from the limitation most cities place on the number of medallions. Limits on medallions have their source in the special vulnerability of the industry to excess entry during economic downturns. Most cities imposed limits during the Great Depression of the 1930s. The alternative—no limits—has a mixed history. Experiments in deregulation of taxis during the 1970s were largely failures, resulting in unexpected higher prices and declines in customer service.[11]

Owner-driver systems are generally thought to have benefits to customers as well as to those drivers who obtain medallions. Owner-drivers have a longer-term attachment to the industry, resulting in an experienced core of drivers who know the city well, take pride in their profession and, on average, are thought to provide better service.

Gate Fees

In an owner-driver system, there are still more non-owner drivers than owners. In San Francisco, taxis are driven two shifts a day, seven days a week. Drivers on the other shifts are non-owners.

Many medallion holders, including owner-drivers, place their medallions under the management of a taxi company (a licensed color scheme). The company may then put the medallion on vehicles leased on a shift basis to drivers. The per-shift fee paid by the driver is the *gate fee,* and covers everything but gas

[9] New standards require, among other things, a larger screen and the ability to shift to audio for the visually impaired after a triple tap of the screen.

[10] For a more complete background on San Francisco taxi industry structure, please see *Managing Taxi Supply,* Chapter 2.

[11] Two of the peer cities discussed below, San Diego and Seattle, are prominent among these. See for example, Roger F. Teal and Mary Berglund, "The impacts of taxicab deregulation in the USA." *Journal of Transport Economics and Policy.* .Vol. 21, No. 1 (Jan., 1987), pp. 37-56.

for the vehicle. Maximum gate fees are capped by the SFTMA at an average of $104.00 per shift for a hybrid vehicle. Actual gate fees vary by shift—weekend nights cost more, weekdays less. The term for this arrangement is *gas and gate.* Drivers may also enter into a longer-term arrangement with taxi companies, but their maximum fees are still governed by the gate fee cap.

Alternatively, medallion holders may choose to operate the vehicle themselves, and pay an affiliation fee to a taxi company for dispatch and use of their colors. In this case, drivers may pay the medallion holder directly, but the fees are still protected by the gate fee cap.

A third arrangement is for the medallion holder to lease their medallion to a third party who runs the taxi, hires the driver, and pays an affiliation fee. The agent may not be a licensee of the regulator. This practice has recently grown, with resulting issues addressed in this report.

2.3.1 Medallion Holders Rule—and Bear the Final Burden

An important dynamic of the San Francisco industry is that medallion holders bear the final burden for cost increases—even if they do not pay the cost directly. This includes increases in the cost of insurance that are paid by the vehicle provider, such as the taxi company.

With medallions in limited supply, taxi companies compete to attract them to increase the size of their fleet. Competitive pressure to bid for medallion leases means that medallion holders get the cream of any surplus profit available above the normal rates needed to sustain the taxi company's capital investment. It also means that when that surplus profit declines, so does the market for medallion leases and the returns to medallion holders. Increases in costs transfer to the medallion holder.

In the long run, increased insurance costs will be reflected in a lower willingness to pay for medallion leases. This will not happen immediately because of fixed term contracts, and because each taxi company does not want to be the first to reduce medallion lease prices and lose medallion holders to other companies.

The reverse is also true. If gate fee increases exceed cost increases to companies, the excess will result in higher lease fees paid to medallion holders in the long run.

2.3.2 The Meter Pays for it All

As with most cities, all stakeholders ultimately derive their income from the taximeter fares paid by the customer. Taxi companies are not paid by passengers, they are paid by gate fees and affiliation fees by drivers and affiliate taxi operators.[12]

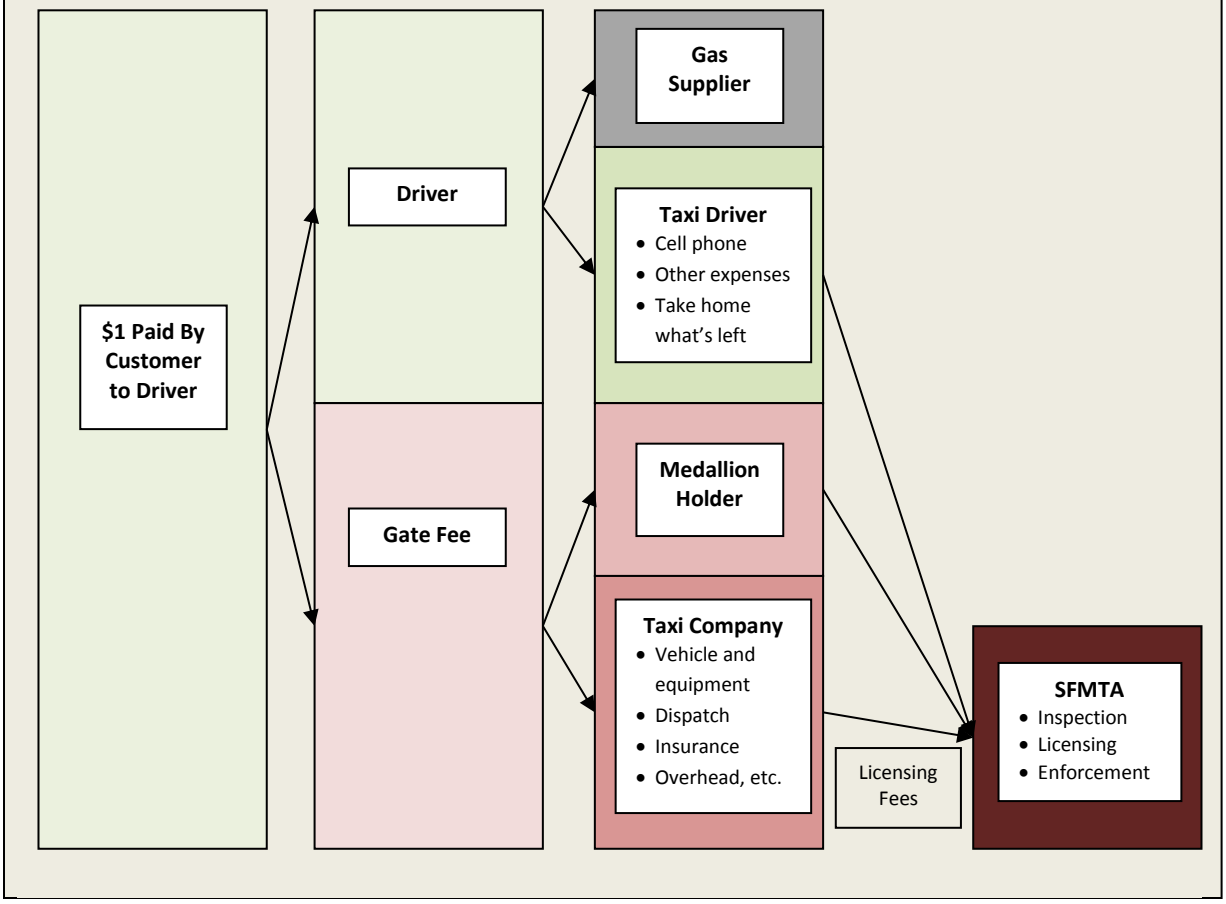
This means that the costs to all participants in the industry must be covered by the meter rate, and that the industry has no substantial source of funds independent of what is provided through the meter.

Figure 2.1 illustrates the flow of money from the meter to all industry stakeholders. All funds initially pass from the passenger to the driver. The driver pays for the taxi, typically through a gate fee. What is left over goes to cover expenses and to take home. The driver's own expenses include gas and cell phone. Gas money goes to the gas supplier, which may also be the taxi company if the driver chooses to fill up on returning the taxi to the lot.

The gate fee is paid directly to the taxi company, but only a portion is actually retained. The rest goes to the medallion holder as a medallion lease.

[12] Exceptions are service fees that can be collected by the company through internet or smartphone dispatch—a relatively new practice.

Figure 2.1: Where a dollar from taxi fare goes



A small portion of this money, less than half a percent, is passed on in turn to the SFMTA through license renewal fees from medallion holders, taxi companies, and drivers. These are the funds used to support the activities of the regulator in licensing, monitoring, service, and enforcement on the street. In years when there are no medallion sales, this is the only source of funds for taxi regulation.

2.3.3 Transfers to Cover Cost Increases are Indirect and Approximate

The flow of revenues complicates fare policies. For example, if the meter rate were increased to cover higher insurance costs paid by taxi companies, the extra revenue would end up with drivers who collect the fare. In order to transfer the funds to taxi companies, gate fees would have to be allowed to rise, so that the money collected was passed on. This indirect method is only approximate, since drivers earn varying amounts according to skill and the shifts they drive.

Similarly, if meter rates are adjusted to cover improved regulation and enforcement, the resulting funds are collected only indirectly through higher licensing fees. The SFMTA is at the end of the revenue chain, while the meter is at the beginning.

2.4 COST SQUEEZE VIA MEDALLION LEASE PRICES

As reported in *Managing Taxi Supply* taxi companies are also in a cost squeeze with fixed gate fees and high costs of medallion leases. Medallion leases are the payments to medallion holders by taxi

companies for the right to operate a taxi under that company's color scheme. Prices are being bid up by two sources:

- Third party agents who lease medallions directly from medallion holders and then run taxis with color schemes on an affiliate basis. These third party agents are not directly licensed by the SFMTA (an issue addressed in this report), and may not be adhering to all regulations or the cap on gate fees. This gives them a cost advantage over taxi companies in bidding for medallion leases.
- Lower overhead companies, operating without significant investment in dispatch and other facilities, have lower costs but receive the same gate fees. This puts a squeeze on the higher cost companies.

Companies allege that the cost squeeze is forcing them to either running affiliate taxis that bypass gate fee limits, or potentially running parallel limousine services to offload their excess taxi dispatch calls. These are credible concerns.

2.5 COSTS OF TAXI OPERATION IN SAN FRANCISCO

How important is gas or insurance to the total cost of taxi operation? Knowing this is important to judging whether and how much meter rates or gate fees should change.

Some data, such as gross meter revenue per taxi, is easy for taxi companies to provide. Other data is sensitive commercially. Taxi companies compete with each other and, like all competitive businesses, have a legitimate interest in protecting details of their operations.

Revenue Profile

Hara Associates sought the cooperation of taxi companies and driver associates by surveying them on a confidential basis for cost breakdowns expressed as per-taxi operating costs of a taxi operated on a gas-and-gate basis.[13] Figure 2.2 represents the resulting distribution of revenue for a typical gas and gate taxi—it is a composite average of a very wide range of operations. As discussed in other sections, some taxi companies run low overhead operations and contract out dispatch, while others have fully integrated operations with a 24-hour garage and in-house dispatch. Gas costs and revenues also vary widely by type of driver, and whether they choose to spend more or less time in airport and hotel queues.

While the average shift over all seasons has 19 customer trips, skilled drivers report almost twice as many—as much as one trip every fifteen minutes on a 10-hour shift. These figures are based on meter data. The related average annual revenue is $215,000 per taxi at current meter rates.

The composite model used here takes a middle case with the following features: a recent model hybrid vehicle purchased and run for three years, a driver who uses a high end smartphone to bolster personal business development, access to internet data such as flight delays and—potentially—participation in smartphone app dispatch services. The taxi is also assumed to adhere to the cap on gate fees charged to drivers.

Not surprisingly, the biggest part of taxi operation cost is the drivers. Combined for all shifts, drivers net an estimated 55.0% of revenues from the average taxi. Fuel is 6.7%, and the cell phone is 1.7%. Drivers are also charged a credit card processing fee of 3.5% of credit card transactions processed through the in-taxi system bundled with the PIM. The composite model shown assumes a 30% share of trips (more credit card trips may be processed through other systems), and an average credit card fare of $25.[14]

[13] Gas and gate still represents the core of the San Francisco taxi model, despite the growth of affiliate operations.
[14] See discussion of credit cards in Chapter 4, analysis and recommendations.

Figure 2.2: Revenue Breakdown
Average Gas & Gate Taxi - 2013

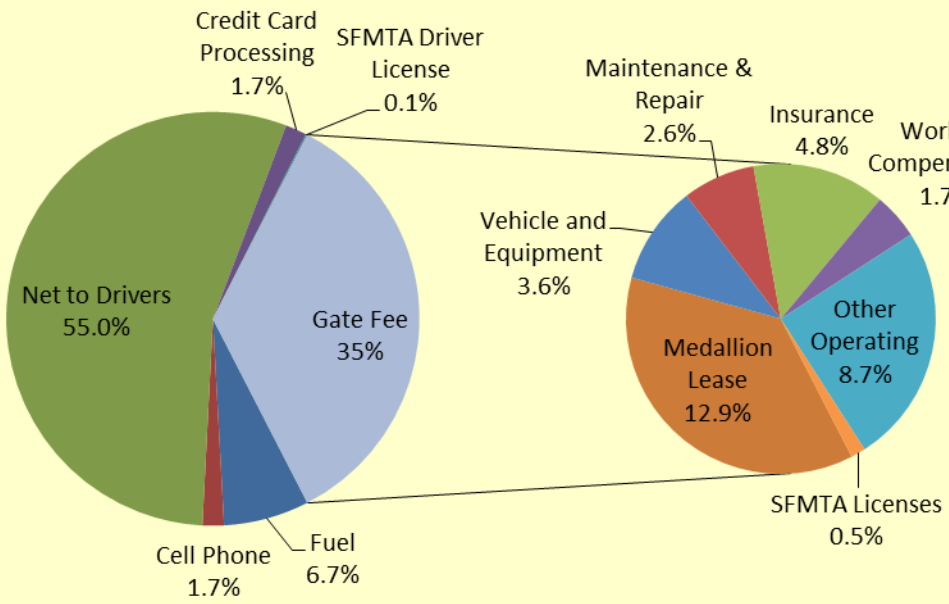
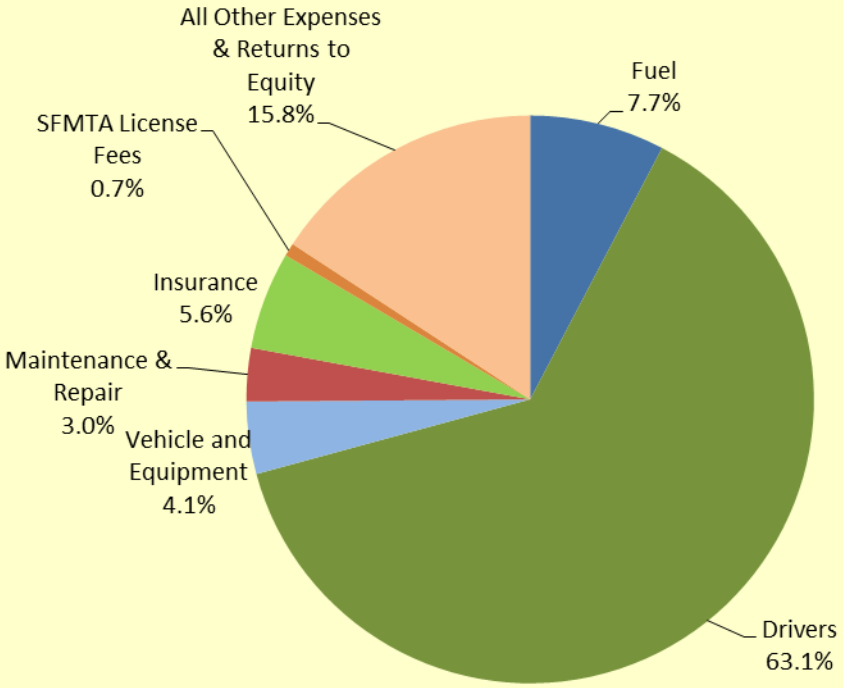


Figure 2.3: Consolidated Costs of Average
Gas & Gate Taxi - 2013



The gate fee is 35% of revenues, and is broken down further in the breakout of Figure 2.2. An estimated 12.9% of revenues goes to medallion holders. Approximately half a percent goes to SFMTA renewal fees for color schemes, taxis, and medallions.

Cost Profile

Revenues are not costs. The difference between revenues and costs is net returns to the system—in this case the returns that accrue to medallion holders because of competitive bidding for medallion leases. Deducting medallion lease costs from revenues provides an estimate of total costs.[15] The balance of items represent real inputs to providing taxi service, ranging from drivers' time to investment in dispatch systems, to the real cost of accidents represented by average insurance costs.

Figure 2.3 shows consolidated costs of taxi operation by major item. For example, fuel is 7.7% of costs, insurance is 5.6%, and the driver is 63.1%.

Increases in Cost of Taxi Operation

The cost profile in Figure 2.3 can be combined with other data to obtain a rough estimate of the increase in average cost of taxi operation between 2011 and 2013. Table 2.1 draws on US Bureau of Labor Statistics estimates for some cost elements, and uses San Francisco data validated from multiple sources for cost of taxi insurance.

Table 2.1 – Estimated Increases in Costs of Taxi Operation

2011 to 2013

Item	(Data Source) Description	(Data Source) Bureau of Labor Statistics Statistics Series Identifier	Individual Increase in cost 2011 to 2013*
Gas	Price of gas in San Francisco-Oakland - San Jose CA	CUUSA422SETB01	15.8%
Maintenance and Repair	Cost of vehicle repair - US City Average	CUSR0000SETD	3.7%
Insurance	Industry Reports – Multiple Sources		55.2%
Vehicle & Equipment	Cost of Automobile Western Urban USA	CUUS0400SETA	2.7%
Return to Drivers	Wages in Transportation Sector of San Francisco	OCC: 53-0000	0.6%
Other	General Consumer Price Index San Francisco - Oakland - San Jose, CA	CUUSA422SA0	5.5%

** Basis Feb 2011 to Feb 2013. February is used for comparison as the available data month preceding the May 2011 decision to adjust meter rates that year. Accurate comparisons should use the same calendar month in each year as some prices, such as fuel, rise and fall seasonally.*

[15] This distinction is important to correctly account for the impact of costs on meter rates. Medallion returns will rise when meter rates and gate fees are adjusted proportionately. Counting medallion leases as a cost would cause one to increase meter rates as a result of having increased meter rates—a form of double counting.

Combining the increase in individual cost elements with their respective share in the cost of taxi operation results in an *estimated increase in the overall cost of taxi operation of approximately 5.8% for a taxi operated as gas and gate*. This suggests a meter rate increase of 5.8% would be necessary to cover cost increases since the 2011 meter rate adjustment.[16] Higher insurance costs are balanced by the relatively low growth in San Francisco wages in the transportation sector—moderating the returns necessary to retain taxi drivers. The impact of these cost increases was not shared equally by all industry stakeholders. *Looking at taxi companies alone, their average cost of operation rose an estimated 15.8% because they pay the insurance for the gas and gate taxi.*

2.6 COMPARISON WITH OTHER CITIES

2.6.1 San Francisco Meter Rates at High End of Range

Figure 2.4 compares San Francisco to other US cities of comparable population (700,000 to 900,000), and others that provide perspective on meter rates. The chart is for a typical fare of five miles.[17] New York and Washington DC are included as examples of meter rate and credit card processing innovation discussed later in this report. Los Angeles is included both because it, too, is in California and its proximity. Included as well are the five cities selected as peer cities for this series of studies (marked in orange).

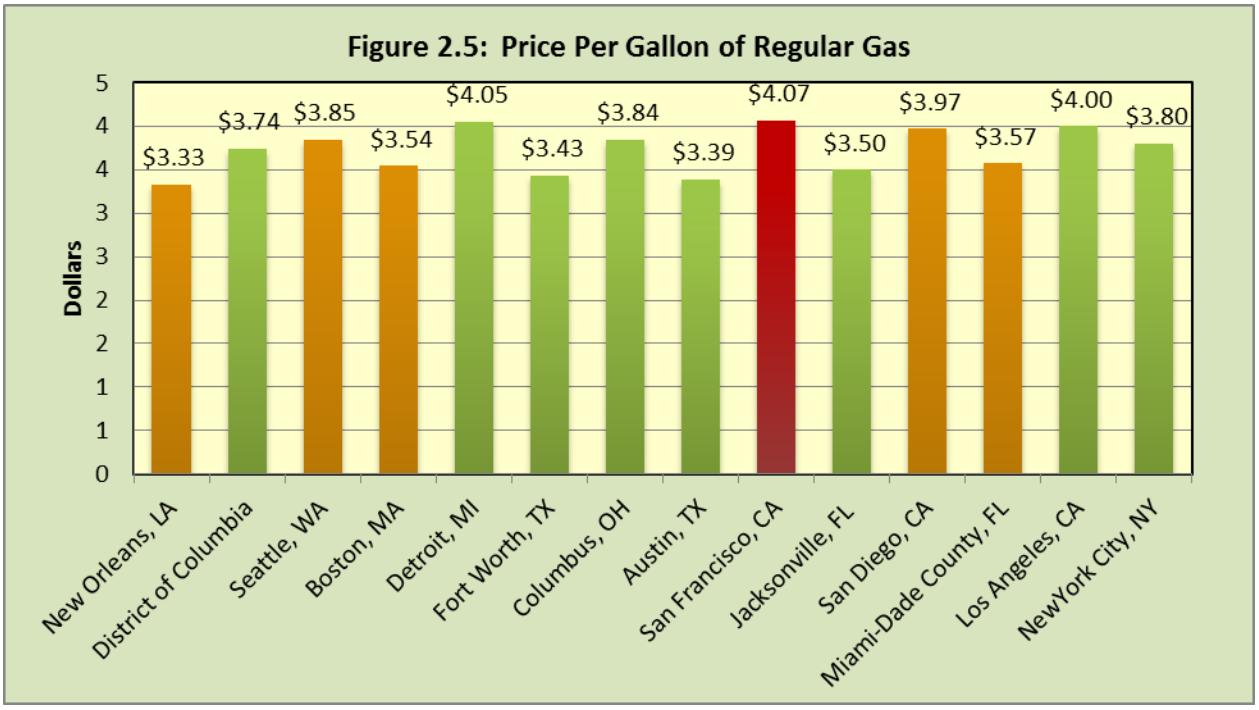
Although taxi industry costs have risen, San Francisco meter rates remain at the high end among comparable cities. Only San Diego is higher. San Diego's rates vary between companies, below a maximum ceiling. The rate shown for San Diego is the average charged across companies.

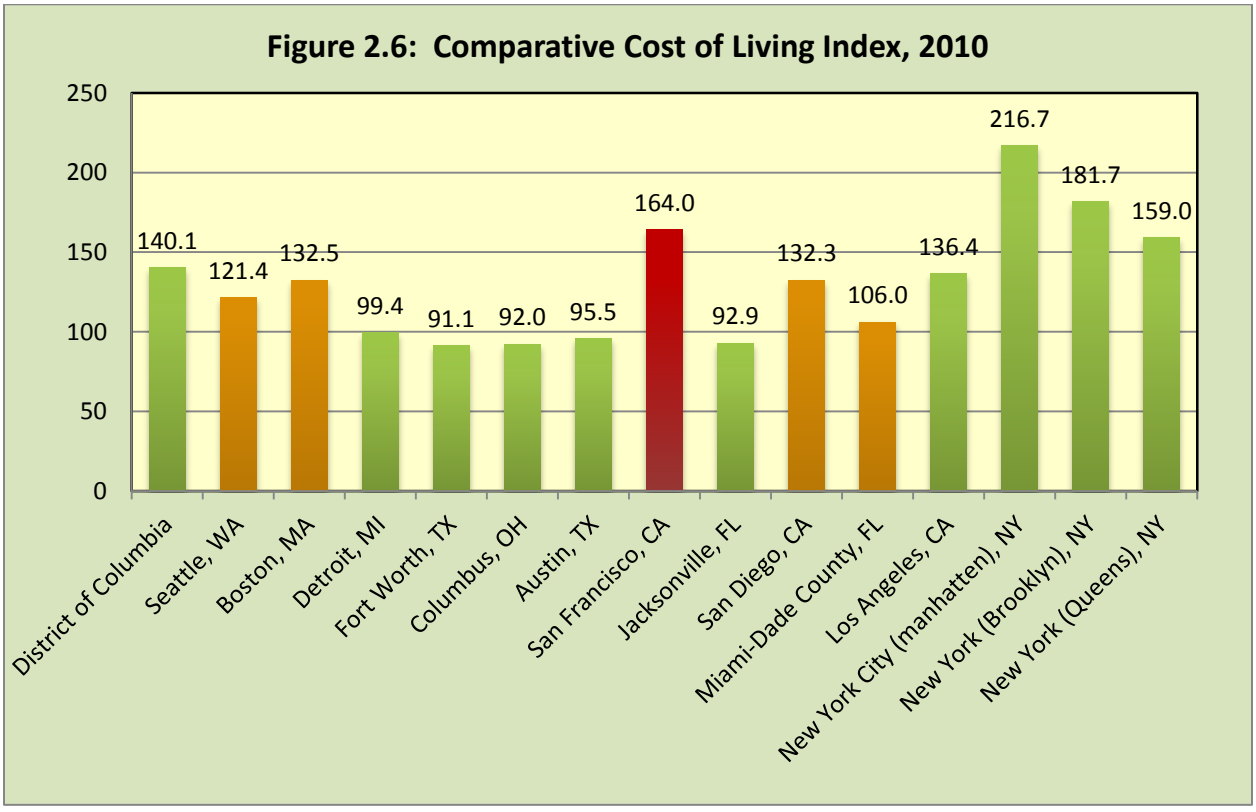
More significantly, the higher cost of living in San Francisco means it is necessary for drivers to earn more to retain them in the industry. As estimated previously, drivers are more than 55% of the cost of

[16] 5.8% is the average of increases in Table 2.1, weighted by the percentage cost shares in Figure 2.3.

[17] Fares shown are for distance only—actual fare may vary by traffic speed. Fares are calculated on an average basis, rather than "on the nickel".

operating a taxi. Figure 2.6 compares cost of living estimates by the US Census.[18] The cost of living in San Francisco is markedly higher than its peer cities, and exceeded only by living in some parts of New York City.





[18] US census 2012 Statistical Abstract, The National Data Book Table 728 Cost of living index - selected urban areas. New Orleans estimate not available.

2.6.2 Regulation of Meter Rates by Peer Cities

For this series of studies, five cities were selected as comparable to San Francisco in terms geography, population, size of transit system, and level of tourism.[19]

- Boston
- Seattle
- San Diego
- Miami
- New Orleans

These cities are marked in orange on the preceding diagrams. Appendix B compares their meter rate and gate fee practices in depth.

All Peers Manage Meter Rates

Consistent with widespread practice, all the peers regulate mete rates. With the exception of San Diego, they all set fixed rates that operators must adhere to. San Diego sets a maximum rate.

The universal regulation of meter rates reflects the broader North American experience with taxi deregulation, followed by unsatisfactory experience and reregulation. Two cities, Seattle and San Diego were among deregulation experiments in the late 1970s.

Seattle introduced rate regulation in 1914. Sixty years later, city council moved to deregulate, declaring that license code requirements "should not be used: ... (c) to suppress legitimate competition; or (d) to set prices or rates unless monopoly conditions exist that cannot be eliminated or otherwise controlled."[20] Council further decided in 1979 to remove all controls regulating rates or the issue of taxi licenses. They expected that freeing market forces would result in lower fares and improved service. Contrary to expectations, fares did not go down, and total demand fell, as did service quality.[21] Fares were fixed again in 1984.

San Diego replaced standard rates with a rate ceiling in 1978, but that too was removed in 1980. Here, the motivation was a little different, influenced in part by a rate setting scandal involving the dominant company. As in Seattle, fares did not fall and demand, as measured by total trips, fell causing a steep drop in driver income.[22] A rate ceiling, set 20% above the average taxi rates for the previous year was re-imposed in 1983.

The Rate Setting Process

Each peer city has a different approach to rate setting. Requirements for taxi companies to submit financial records vary with the requirements of each city's approach.

- **Boston.** State legislation empowers Boston's police commissioner to regulate the number of hackney carriage licenses, and to set maximum and minimum rates from time to time. While the

[19] See *Managing Taxi Supply*, Chapter 2.
[20] Quoted in Leisy, Craig, "Taxicab Deregulation and Reregulation in Seattle: Lessons Learned," presented at the International Association of Taxicab Regulators (IATR) Conference, Tuesday, September 11, 2001.
[21] Teal, Roger F., and Mary Berglund, "The Impacts of Taxicab Deregulation in the USA", *Journal of Transport Economics and Policy*, January 1987, pp. 37-56.
[22] Teal and Berglund, *op cit.* See also True North Research, Taxicab *Permitting Process Study Final Report,* prepared for the Metropolitan Transit System, October 21, 2011, p.14.

rate setting procedure is not set out in the legislation, the commissioner or his designate may examine radio association books, accounts, records, and minutes.[23] Medallion holders and drivers are consulted as a part of the process.

- **Miami**. In Miami, authority for setting rates is with the Board of County Commissioners. Either the board itself or the county manager may request the department to prepare a report concerning existing rates.[24] Operators (which may be companies or individuals) are compelled to keep and make available various financial records for this purpose. The report is forwarded to the county manager, who makes a recommendation to the board, which holds a public hearing before determining the rates.

  The factors considered include relative changes in the Consumer Price Index over the preceding two-year period, with an estimation of what rates would be if they were adjusted. The department also analyses vehicle operating costs, including maintenance, and repairs; salaries for drivers, dispatchers, and supervisors; insurance costs; taxes and license fees; and administrative and general expenses. Costs incurred in the acquisition of a license and political contributions are not considered.

- **New Orleans.** In New Orleans, the Department of Safety and Permits reviews fares every other year, and submits a report (without a recommendation) in a nationwide peer city comparative analysis format to the mayor and city council.[25] The latest report was completed and sent to council in late 2012. Meter rates were last revised in 2009. Financial reporting by companies is, in consequence, comparatively light.

- **Seattle.** In Seattle, rates are periodically revised by city council, following an analysis by the director of the Consumer Affairs Department and public consultations. The 2012 revision replaced rates set in 2008. While Seattle requires significant reporting by taxi associations, vehicle maintenance costs are not a particular focus. The department also uses outside data in its analysis.

  Seattle's regulations for its rate setting process are the most comprehensive among the peer cities. They require consideration of owners' operating expenses, license fees, and a reasonable profit. In considering drivers' requirements, the objective is to provide a living income after costs such as taxi leases—including taxes and contributions to workers' compensation—fuel costs, and cashier's fees. Also taken into account is the effect of meter rates on other modes of transportation, rates in similar jurisdictions, and the need to coordinate with rates in surrounding King County.

- **San Diego.** Alone among the five comparison cities, San Diego's regulatory authority does not analyze costs or other factors. It bases its annual rate revision on the average rate charged by companies in the previous year. The financial records that owners are required to keep and file do not include operating costs.

Overview of Peer Experience

There are three common approaches to taximeter rate regulation:

[23] Rule 403-7-j.
[24] Section 31-87 (C).
[25] Section 162-741.

- **Cost inquiry.** A regular in-depth review of costs and revenues of taxi companies, drivers, and other industry stakeholders.
- **Consumer Price Index (CPI)**. Adjust meter rates in proportion to rises in the general cost of living as measured by the CPI maintained and published by the US Department of Labor.
- **Taxi cost index**. Adjust meter rates in proportion to changes in cost as measured by a taxi cost index—an index utilizing published data sources, including elements of the CPI, but based on the cost of taxi operation rather than the cost of living.

The advantages and disadvantages of each are analyzed in Chapter 4. Looking at San Francisco's peers, we see that although there are several references to analysis of industry costs (the cost inquiry approach), most also utilize other sources. Miami does a baseline exercise based on the CPI, and then considers cost information and stakeholder input. Seattle uses outside data as a complement and crosscheck against the industry data it receives. New Orleans relies on a review of other city's meter rates, and San Diego simply sets a maximum fee based on the average fees charged by taxi companies in the previous year.

The reasons for seeking external data sources are understandable. As discussed in Chapter 4, the cost inquiry approach is resource intensive, and relies on data provided by the industry. In addition, cost inquiries are based on an underlying requirement in law that is often redundant in the case of the taxi industry. The requirement is that regulators who set prices (i.e. meter rates) must set them high enough to allow the industry to earn just and reasonable rates of return. In the case of the taxi industry, this requirement is already demonstrably met if someone is willing to pay to gain entry to the industry (by the purchase of a medallion).

There are risks to having a demanding cost inquiry process in that they tend not to be timely. Seattle's rates remained unchanged from 2008 to 2012, although industry conditions must have changed during that period. New Orleans had a similar period without a change. This parallels the experience of San Francisco, where meter rates went without adjustment from 2006 to 2011.

The cost index approach is not explicitly used by any of the peer cities, although some of the analysis it entails is in Seattle's process. However, a cost index has been used by Los Angeles for twenty years, and is also in use in Minneapolis.

2.6.3 Regulation of Lease Rates

Only a minority of US cities regulate the lease rates charged drivers. In addition to the peer cities of Boston and Seattle, leading examples are Chicago, Minneapolis, and New York City.

The nature of arrangements differs widely from city to city. Unlike San Francisco, which caps shift rates by limiting the average rate that can be charged for all shifts, the other cities all place caps on the amount that can be charged for any single shift.

Almost all them provide an incentive for the usage of environmentally friendly (green) vehicles through higher lease caps. Minneapolis does not, but its permit-based system allows the city to provide incentives directly to companies in the form of waived licensing fees. Lease cap practices are summarized in Table 2.2 (tax not included).

Lease rates implicitly include the lease of a medallion, the value of which varies by city. Thus if one city's lease rate seems relatively high, that does not necessarily mean the driver is getting a worse deal—it

also depends on the revenue per shift. Higher revenue per shift is associated with tightness of taxi supply, higher medallion values, and higher lease rates.

Table 2.2: Per Shift Taxi Lease Caps in The United States

City	Cap Type	Shift Length	Non Green Vehicle	Green Vehicle	Medallion or License Value
Boston	Per shift	12 hours	$77.00	$95.00	$610,000[26]
Chicago	Per shift	12 hours	$59.00	$74.00 (highest tier of green vehicle)	$350,000[27]
Minneapolis	Per shift	12 hours	$85.00	$85.00	$0.00 (open entry)
New York	Per shift	12 hours	$113.36 (average cap across all shifts, credit card surcharge not included)	$116.36 (average cap across all shifts, credit card surcharge not included)	Individual: $987,500.00 Corporate: 1,320,000.00[28]
San Francisco	Average of all shifts	10 hours	$96.50	$104.00	$250,000 (administered)
Seattle	Per shift	12 hours	$85.00	$100	Charles: $146,000.00 (2011 average)

Comparison to San Francisco Lease Caps

Details of individual regimes are provided below. Overall, San Francisco's is the simplest—in this case, a virtue.

- **San Francisco sets a single average cap.** This leaves companies and drivers free to negotiate relative prices that reflect the difference between Monday day and Saturday night. The regulator does not require an elaborate process to determine the relative differences.

  Similarly, San Francisco does not have to work out the appropriate discount for weekly or monthly leases. These arrangements remain flexible so long as the average cap is respected. This prevents the regulator from making mistakes that cause all taxis to become daily shift vehicles, or none. A mix is desirable, as is present in San Francisco.

- **San Francisco does not regulate medallion-only leases to drivers.** In San Francisco, the term "medallion lease" refers to companies leasing medallions *from* drivers. This is because San Francisco is an owner-driver system. In other regimes, the same term, "medallion lease" refers a company leasing a medallion *to* a driver who provides his own vehicle.

  Since it is the limited medallions that drive up the price of taxi shift leases, it is natural to seek to control excess medallion lease prices directly. Unfortunately, there are practical difficulties with doing so. For example, medallions may be priced artificially low to avoid controls, but come packaged with an overpriced car lease or equipment rentals. In the end, it is more practical to

[26] Median Sale Price for April, From <www.carriage-news.com>
[27] Median Sale Price for May, From <www.chicagodispatcher.com>
[28] Median Sale Price for May, from <www.nyc.gov/taxi>

regulate the price of the whole package that drivers lease—thus the regulation of shift leases only. San Francisco used to regulate medallion only leases, but has ceased to do so.

Below are descriptions of individual lease rate capped regimes, including San Francisco.

Boston

In Boston, shift rates and medallion lease rates are set by the Hackney Carriage Division of the Boston Police Department. There is no official process for reviewing shift and lease rates. The police commissioner may establish any rate so long as proper notice is given.[29]

On paper, Boston has strong regulations pertaining to enforcement. Punishment powers are broad and can include revocation of the medallion in cases of retaliation against a driver. However, recent media reports have called the effectiveness of enforcement into question, noting that there had been no penalties despite apparent systemic violations. Like San Francisco, excess tipping of company staff by drivers is widespread.[30] Boston is currently undertaking a major review of its taxi regulations and enforcement.

Shift rates are capped at maximums that vary according to the number of drivers permitted on the car, shift length, and the duration of the agreement. The rates are shown in Table 2.3 (tax not included). In addition to the shift rate, medallion owners and leasees sell collision damage waivers (although drivers can choose not to purchase them). If a driver works seven consecutive 24-hour shifts, or 14 consecutive 12- hour shifts, only the weekly lease rate is charged.

Table 2.3: Boston Lease Rates

Type of Shift	Basic Cap	Clean Taxi Premium	Damage Waiver
12-hr Shift	$77.00	$18.00	$5
24-hr Shift	$139.00	$33.00	$9
One-Driver Weekly Rental	$700.00	$170.00	$45
Two-Driver Weekly Rental	$800.00	$170.00	$45
One-Driver Yearly Rental	$710.00 per week	$170 per week	$45 per week
Two-Driver Yearly Rental	$810.00 per week	$170 per week	$45 per week

Boston also regulates medallion-only leases, limiting the maximum rate to $500 per week. In addition to the medallion lease fee, the lessee must pay a radio association fee.

Chicago

In Chicago, taxi lease rates are regulated by the Department of Business Affairs and Consumer Protection (DBACP). Its commissioner is responsible for setting maximum lease rates. There is no formal requirement that lease rates be reviewed with a specific frequency, nor is there a process in place whereby industry stakeholders can formally request a review.[31]

[29] Boston Police Department. "Rule 403 Hackney Carriage Rules and Flat Rate Handbook." August 29, 2008.
[30] Saltzman, Jonathan. "Boston Takes First Steps on Cab Industry Abuses" *The Boston Globe*. May 27, 2013.
[31] Municipal Code of Chicago Chapter 9-112, January 17, 2012.

Chicago's regulations establish two policy goals for lease rate caps. First, medallion and taxi lessors should be afforded a reasonable rate of return on their investment. Second, lessees should also be able to earn a fair and reasonable income. When determining lease rates, the commissioner must consider the costs to lessors and lessees as well as the extent to which lessors (and those who have invested in them) derive additional indirect income from their taxis and medallions through providing other services to the industry.

Chicago's DBACP takes an active role in lease rate enforcement, levying fines and enforcing the repayment of excess charges to drivers. It is aided in this activity by regulations that permit enforcement of a standardized lease agreement, require that lessors provide records on demand, and expressly prohibit retaliation against taxi drivers who make complaints.

Chicago regulates both shift and medallion-only leases. The cost for these leases depends primarily on the type of vehicle or medallion being leased. For vehicle leases, this is based on the leased vehicle's fuel efficiency. These lease rates are shown in Table 2.4.

Table 2.4: Chicago Lease Rates

Type of Shift	Less Than or Equal to 24mpg	Between 25 and 35mpg, or Less Than 20mpg for Natural Gas Vehicles	36mpg or Better, or 21mpg or Better for Natural Gas Vehicles
12hr Shift	$59.00	$69.00	$74.00
24hr Shift	$85.00	$93.00	$101.00
12hr Weekly	$413.00	$483.00	$518.00
24hr Weekly	$595.00	$651.00	$707.00

Medallion-only leases depend on the type of vehicle for which the medallion is being leased. The cap for leasing a medallion for use on a regular taxi is $275.00, while the cap for leasing one for use on a wheelchair accessible taxi is $350.00.

Minneapolis

Lease rates in Minneapolis are regulated by the Licenses and Consumer Services division of the city's Department of Regulatory Services. The city prohibits the leasing of taxicab licenses, but does permit the leasing of taxis to drivers on a shift basis. There is no process in the taxi ordinance for reviewing shift rates and they have not been changed since 2005. Minneapolis does have an official taxi cost index, which they use for fare setting purposes.[32] It is likely that this would be considered in any review of lease rates under the provision for use of other data.

Minneapolis has extensive powers to revoke, suspend, and refuse to renew taxi licenses. These can be used when lease caps are violated. Drivers are not explicitly protected from retaliation.

Shift rate caps in Minneapolis are simple. No driver may be charged more than $85 for a 12-hour shift. Due to the nature of the licensing regime, which is based on temporary permits, Minneapolis incentivizes the use of green vehicles and wheelchair accessible taxis by waiving license renewal fees for companies with fleets that exceed specified goals.

New York

[32] Minneapolis Taxicab Ordinance, December 2011.

The New York Taxi and Limousine Commission (TLC) is responsible for regulating taxi shift rates and medallion leases in New York City. The chairperson of the TLC is required to hold a public hearing on lease caps by April 30th of each odd-numbered year. In addition to considering industry and driver costs, the ensuing report must contain facts relevant to specific policy goals including: retention of experienced drivers, compensating drivers for projected increases in the cost of living in the region, and accounting for changes in the economic circumstances of medallion holders as well as providing them with a fair and reasonable rate of return. After the public hearing, the TLC has until the end of July to state whether or not it intends to change lease rates. Lease caps and fares are evaluated and adjusted concurrently,[33] and apply to all owners and drivers, except those who are party to a collective bargaining agreement that provides alternative lease price regulations.

New York has strict rules that penalize brokers who overcharge for leases and protect drivers from retaliation for speaking out. Since the TLC formed its lease enforcement unit in 2012, more than $42,000 dollars of excess charges have been refunded to drivers, and more than $110,000 of fines have been levied.[34] The unit currently has one full time staff member.

New York has several distinct kinds of leases available to drivers. Taxis can be leased on a shift basis with or without gas and they can be leased long term with the option to purchase the vehicle. Additionally, medallions can be leased on their own.

For shifted vehicles without gasoline included, the lease rate is the same for all day shifts, but varies by night shift. Drivers cannot be charged more than the weekly rate if they drive six or more shifts in a seven-day period and do not operate and pay for the vehicle on a shift-by-shift basis. Additionally, drivers may be charged more for using a hybrid or diesel vehicle. These rates are shown in Table 2.5 (tax not included).

Table 2.5: New York Lease Rates

Type of Shift	Basic Cap	Hybrid/Diesel Premium
12hr Day Shift	$105.00	$3.00
12hr Night Shift on Sunday, Monday, and Tuesday	$115.00	$3.00
12hr Night Shift on Wednesday	$120.00	$3.00
12hr Night Shift on Thursday, Friday And Saturday	$129.00	$3.00
Weekly Day Shift	$630.00	$18.00
Weekly Night Shift	$737.00	$18.00

In addition to lease and shift payments, New York permits a credit card processing surcharge on all forms of leases. The surcharge starts at $10 per 12-hour shift (weekly driver leases counted as having six shifts and long term leases of all types are counted as having 12 shifts per week). This surcharge is reviewed every June and December. If the TLC finds that the average credit card revenue per shift over the previous four months is greater than $200, it may propose and support an increase in the surcharge to 5% of the current average (rounded to the nearest dollar).

When gasoline is provided by the taxi lessor, the driver may be charged a gasoline surcharge. This is based on the trailing six-month average of the New York City Gasoline Price Index. When the index is

[33] New York Taxi and Limousine Commission. "Rulebook Chapter 58: Medallion Taxicab Service." June 20, 2013.
[34] Donohue, Pete. "Agony of the Fleet: Taxi and Limousine Commission Offers Little Help to Cabbies Ripped Off by Greedy Garages." *NYDailyNews.com*. May 19, 2013.

less than or equal to $2.49 per gallon, the surcharge is $16 dollars per 12-hour shift ($96 per week). It increases by $3 per shift ($18 per week) for each $0.50 increase in the gas index and caps out at $31 per shift ($186 per week). The gasoline surcharge for hybrid and diesel vehicles is discounted by $3 per shift ($18 per week).

Aside from shifting vehicles, New York also provides for long-term leases of taxi vehicles that include conditional purchase agreements. These arrangements are capped at $1,269 for alternative fuel cabs and 1,227 for others. They can last a maximum of 156 weeks. Lessors are prohibited from charging additional fees to the lessee, but may offer to sell them physical damage coverage for up to $50 per week.

Medallion-only leases for hybrid taxis are limited to $994 per week, while other medallion-only leases are set at $952. With the introduction of the OTV (the "taxi of tomorrow") the higher cap will apply to all new medallion leases.

San Francisco

San Francisco started regulating lease rates in 1998, while taxis were under the jurisdiction of the San Francisco Taxi Commission. Currently, lease caps are enforced and reviewed by the San Francisco Municipal Transit Agency, which is required by its regulations to hold a hearing reviewing both meter rates and gate fees at least every other year.

The transportation code sets an administrative fine of $528 for the first, second, and third instance of a color scheme overcharging gate fees. There are no fines established for independent operators who overcharge, although they could have their medallion suspended or revoked.

San Francisco has a very flexible method of capping shift rates. Instead of setting a maximum rate for each type of shift, it imposes a maximum average per shift. The limit for a 10-hour shift is $96.50 with an additional $7.50 premium if the vehicle is rated as a SULEV or better by the California Air Resources Board.

Shifts longer than 10 hours are counted as 10-hour shifts for the purpose of calculating the average gate fee charged, while shorter shifts are prorated on an hourly basis. This structure means that companies can charge a variety of fees for different days of the week and times, so long as the average limit is respected

San Francisco does not regulate medallion-only leases, having dropped the practice some years ago.

Seattle

Seattle is a relative newcomer to the practice of regulating lease rates, having first imposed lease caps in 2008, after drives complained of low incomes. Lease caps are set by the director of the Department of Finance and Administrative Services following a review that must be undertaken by the beginning of September of each even year. Additionally, any licensee may request a special review if industry costs increase significantly in the intervening period. The primary focus of each review is to document changes in the industry's cost structure.[35]

Seattle requires that all lessors file a lease summary sheet with the regulator within five calendar days of the lease agreement taking effect. Punishment for violating leasing regulations is severe; the first

[35] Seattle Municipal Code Chapter 6.310: Taxicabs and For-Hire Vehicles. March 15, 2013

offence results in a 14-day license suspension, the second in a 60-day suspension, and the third in revocation.

Seattle limits vary depending on whether the lease is daily, weekly, or monthly. Drivers who lease by a 12-hour shift cannot be charged more than the weekly cap during any one week. Cab drivers who wish to lease a taxi for 24-hour periods are subject to double lease caps and cannot sublease the vehicle. The only permissible additional charges are for green vehicles. If the vehicle is an electric, hybrid, fuel cell, compressed natural gas, propane, or clean diesel vehicle placed in to service when it is at most four model years old, then a green vehicle surcharge may be levied. The costs of different kinds of shifts and the associated green vehicle surcharges are summarized in Table 2.6.

Table 2.6: Seattle Lease Rates

Type of Shift	Basic Cap	Green Vehicle Surcharge
12hr shift	$85.00	$15.00
12hr Per Day Weekly Shift	$475.00	$105.00
12hr Per Day Monthly Shift	$1,900.00	$420.00

3 STAKEHOLDER VIEWS

This chapter reports the views of San Francisco stakeholders in the taxi industry, as expressed to the study team in interviews, and via the Taxi Driver Survey. Full analysis and results of the Taxi Driver Survey is available in a separate volume. Views expressed in this chapter are not necessarily those of Hara Associates, and may cover topics outside the scope of this study. The chapter is intended to provide decision makers with contextual information on the issues. Comments relevant to the mandate of this study are incorporated in the analysis and recommendations in other chapters.

Interviews were conducted in person, in the summer and fall of 2012, supplemented by follow-up interviews in 2013 with companies and driver associations that had expressed interest in further discussions during the first round of interviews. Town Hall meetings over drafts of this report also influenced the final version. Industry views evolved in response to the competitive challenge of shared-ride services and proceedings of the California Public Utilities commission. A partial list of respondents is provided in Appendix A. The identity of some driver respondents has been protected.

3.1 VIEWS ON METER RATES

Drivers, company owners, and customers alike all agree that rates currently are not too low. “The drivers are happy,” said one company owner, “they’re getting about $40 more per shift.” Are the rates too high? The majority think they are now about right.

Driver representatives and companies were especially conservative in light of the pressure they feel they are experiencing from limousine services and shared rides. Those interviewed after insurance rates had increased markedly were asked if now was the time to adjust meter rates to cover the expense. The majority replied “no.” Taxi industry town hall meetings were nearly unanimous in their desire to leave meter rates unchanged under present competitive uncertainty

On the current rates: “The initial fee seems high,” said a representative of the hospitality industry, “but the cost of the whole trip isn’t bad. Still,” this person continued, “San Francisco has the third highest rates in the country. But on the other hand, Uber charges more.” The last point was made repeatedly. Another added “Meter rates seem reasonable. No one complains about it.”

Another person, also from the hospitality industry, said, “It feels like you pay too much and get less than you should. The price here is very high. Time is of increasing value to people, and they’re getting less patient. If you have to wait half an hour and then pay a lot, too, people get really annoyed.” This person also noted that Uber charges even more than taxis, but claims people feel it’s worth it if the service is reliable. Another said that as a SF resident, public transit is his first choice, but when he’s really in a hurry, he calls Uber. For many people, reliability trumps cost as a concern.

A few, however, including a fleet owner and the manager of another company, thought the recent increase (around 20%) was too high. “It hurts drivers in the long run,” claimed one. Another pointed out that the current rate structure provides “too much incentive for people who stay at the airport; the recent change means you can make $7-8 more on an airport run. The time spent waiting at the airport for a fare—an hour-and-a-half, on average—is that much time a driver isn’t serving the rest of the city.” This mirrors the hospitality industry representative who said, “Rates in the city are fine, but it is pricey from the airport; it costs $45 to reach the city limits.” A taxi company manager pointed out that bumping up the price of a cab makes it more difficult for working class people and those who can’t afford a car. At least one city supervisor is adamant that rates rise no further until service improves.

Reliability in relation to cost, rather than the current rate per se, was how most stakeholders articulated their concerns about price. In terms of reliability, the issue most frequently raised was the difficulty of getting a cab in the neighborhoods. Strong views here were discussed in the previous study *Managing Taxi Supply,* and also reflected in the survey of San Francisco residents. Suffice to say here, that a number of interviewees—passengers, suppliers from the high tech industry, as well as taxi industry representatives across the board—suggested the possibility of a surcharge or some other monetary incentive to improve neighborhood service. All made the suggestion knowing that it might increase fares for at least some passengers. Several pointed out that even a ten percent premium would still make a cab ride cheaper than using Uber.

The nest question was when and how meter rates should be set in the future. Stakeholders not directly employed by the industry were less aware of the huge gap—some eight years—that justified the recent, obviously large 20 percent hike. A few suggested there be an annual adjustment. Most, however, hastened—unprompted—to say this would be too frequent. Those in the industry were, naturally, highly cognizant of the length of time that preceded the last increase, and thought a review every two years would be reasonable. Some thought it mandated already, that there was supposed to have been a formula under the direction of the Comptroller that didn't happen. A few put forward the idea of a trigger for reviewing rates, such as a spike in gas prices. However, when asked if that would mean that a drop in gas prices should trigger a decline in fares, most favored a regular review—although, having been burned at the pumps, they were reluctant to completely ignore the possibility of somehow considering oil price spikes.

Stakeholders were then asked how they would like to see rates set. Three options were suggested: using the Consumer Price Index (CPI); using some sort of taxi cost index that specifically takes taxi-related costs (insurance, fuel, etc.) into account; or waiting until the demand is so strong that it can no longer be ignored.

Several loudly decried the third option, which they pointed out, is what commonly has been used. Most initially favored the CPI as they are familiar with it, but even a brief explanation and discussion of the taxi cost concept resulted in its being favored. Sample responses and follow-up concerns included:

> Yes. I like the taxi cost index concept a lot. But is it perhaps more applicable to gate fees than to meter rates? (driver)
>
> I like the taxi cost index concept, but maybe a big spike in gas should trigger an increase. (driver)
>
> I like the idea of a model related to the actual cost of operating a taxi. (driver)
>
> I lean towards the cost index approach to meter rates. I don't think San Francisco has ever considered looking at that kind of model. (dispatcher)
>
> If we have a cost profile [based on a taxi cost index] that is continually kept current, maybe what the profile showed would trigger a review rather than simply a fixed date. We want the drivers to make a good living, and you want to have a safe service. It needs to work in conjunction with the public transportation system. (company owner)
>
> Definitely, rates should be adjusted based on a formula that reflects the cost of operating taxis. (driver)
>
> I think the CPI approach. It is more transparent. (driver)

Transparency—how the public will view the method used to set fares, which inevitably means raising them—is the main concern about adopting any given method. Consistency—that the same method will be employed every time rates are set, is a complimentary concern. One company owner took a somewhat cynical, albeit from his perspective, realistic view, saying, "Intellectually I like the taxi cost index. But in reality, I'll go with letting the pot boil, since that's what usually happens." Most participants who were in a position do so agreed to provide basic information to support the development of a cost index.

A final point about the meter rate made by stakeholders across the board (although not by all individuals), was that it can vary; it can be used as an incentive to alter patterns of service. As mentioned above, this will be discussed again in the section on dispatch and neighborhood service, but here it is worth noting some of the ways it was suggested it might be implemented, as this would affect meter rates.

For at least one fleet owner, incentivizing radio calls ranks as a top priority. He points out that Uber is one of the taxi industry's biggest threats. "Their whole model is that you are going to pay more for a cab, but it is going to be reliable. We need to address this." He suggests charging more for a radio call. It might be more or less than the drop fee. He also likes the idea of a surcharge for radio calls because it would benefit companies that have invested in providing good dispatch, and serve as an incentive for drivers to work for such companies. He believes that if drivers took, say, 15 radio calls per shift at even a $2 surcharge, it would make a significant difference. Over time, drivers would use the radio more, and use it more effectively. "Not that you'll see a dramatic difference overnight, but you'll see a gradual encouragement, and better service," he says. He thinks the incentive readily could work out to an extra $320 per month for drivers.

Similar suggestions were put forward by some of those taking part in the San Francisco Travel roundtable discussion. One proposed congestion pricing for peak periods. Another suggested increasing the rate by about ten percent, again during peak periods. A fleet owner also suggested a surcharge at peak hours. For him, the idea is that customers would make offers—that is, bid—to get reliable service.

A Paratransit Coordinating Council member, speaking of the disabled medallions, pointed out there already is an incentive program that offers $750 quarterly for exceeding minimum requirements. The stick portion of the equation—citations that can lead to medallion suspension—also helps. He wondered whether a similar regime couldn't be applied to all vehicles.

Another suggestion was that there be a guaranteed pick up fee like Uber's—if a cab is called and the person is a no-show, a fee is charged. It could be less than Uber's $10, but the principle would be the same. Perhaps it would only operate at certain times.

One driver spoke at length about implementing a fee for taking calls in the neighborhoods, and, like the director, charging a fee to no-shows

Speaking with some of San Francisco's technology innovators, they too suggested the possibility of offering incentives, such as premium fees for serving certain areas, or letting customers offer a bonus when calling a cab. Whatever the incentive—or disincentive—technology can play a role in expediting the arrangement and also in enforcing its terms. For example, a meter could be shut down if a driver does not comply with an agreed-upon arrangement.

Last but not least, passengers, including paratransit users, all thought guaranteed, reliable, timely service, would be worth a premium. The question is how to define such service and what the premium should be.

3.2 VIEWS ON GATE FEES AND OPERATIONAL COSTS

Current Gate Fees and the Gate Fee Cap

Gate fees are largely an unknown consideration to those outside the immediate industry. Industry stakeholders who commented were often ambivalent:

> I'm of two minds. The current fee is OK if an incentive program is implemented. On the other hand, costs like insurance and maintenance are rising. Perhaps $5 more per shift now. In future, maybe more in line with costs. At the same time, much of the cost is what is being paid to medallion holders. You somehow have to leave non-medallion holders ahead. (owner of a relatively large company)

The latter concern was echoed by a driver who maintained that, "Gate fees are too high. The price is driven up by the high fees companies pay medallion holders." Another driver said that the current fee is too high for most drivers, and suggested that it be reduced for slow nights and raised on busy ones. Other drivers felt the gate fee should rise. "Owners should push for an increase the way drivers did," said one. Others suggested they "go up a little bit" or "be reviewed."

Taxi company owners who felt the current rate was OK or could rise slightly pointed out that with the introduction of hybrids, gas costs had been greatly reduced, thereby effectively lowering costs to drivers, and through the bonus paid to companies that acquired hybrids, effectively raising their take. Said one, "Increased gate fees go into the pocket of medallion holders, which increases the competition for medallions." He also stated that maintenance costs on hybrids are 70% of those for Crown Victorias, and further, that accident rates on the hybrids seem to be lower as well. Another thought it "not politically a good idea to raise them now."

Several owners suggested specific amounts to which the gate should rise, most citing an additional $10.00 to $15.00 above the current rate. Only one owner was adamant that "gas and gate needs to go up. It should be reviewed annually. One problem," he said, "is that SFMTA adopted an indexing process for penalties, permits, etc. We need a level playing field. Costs are going through the roof—especially insurance—and cars need to be replaced every three years. We need a 20% profit," he added.

In later interviews, following the sharp increase in insurance costs, larger companies were emphatic that a significant increase in the gate fee cap was needed. This position was taken even though some company owners expressed concern that raising gate fees now would worsen driver shortages they were experiencing. The point was made that there was a great lack of trust in any ongoing cost adjustment process by the SFMTA given the many year lag between rate adjustments in the past. Thus, even if the companies did not fully take advantage of a higher gate fee cap now, they would have the security of flexibility in the future.

In contrast, some smaller companies opposed any adjustment in the gate fee cap. They felt that, given current driver shortages, they would be unable to take advantage of any change in the cap. Higher gate fees would mean fewer drivers and unfilled shifts.

Reviewing the Gate Fee Cap

Whether they believe the gate fee cap should rise, stay the same, or be adjusted according to various factors affecting drivers and/or companies, virtually all stakeholders with views on this topic agreed there should be an accepted process for their review and adjustment. As one person put it, "Gate fees have to be regulated, or the colors will rip people off."

Most of the drivers and owners interviewed suggested there be a simple proportionate increase to gas and gate whenever meter rates rise, perhaps with a slight lag on the gate to let drivers benefit from meter increases. "When the meter and gate went in tandem, the gate was too high for drivers," said one. A dispatcher claimed the meter increase a couple of years back led to drivers making $50 more per shift than they had previously.

Those interested in a more complex process for determining gate fees also tended to be irate about the breakdown in the legislated process of reviewing gate rates. "The law," said one "is that the Comptroller is to review the fee every two to five years according to specific factors. This hasn't happened." Suggestions for alternatives to a simple proportional gate fee adjustment often included differential fees that would depend on the services a company provided as well as the following suggestions:

> Gate fees should be adjusted in accord with company investment and be revisited regularly. When there was no cap, [company X] had a high gate and good service. Now the cap is the same for all regardless of service. (Executive with large company other than X)
>
> Keep the cap. It should be a percentage of the meter increase, rising in tandem. If fees are too high for drivers, they take it out on the car; they hustle at the cost of safety. We need a cap, but perhaps it should vary based on company size. Drivers could look for cheaper companies, they would have a choice. (Owner small company)
>
> I would prefer an index. We need to avoid situations where this is all done politically. (Supervisor)
>
> Maybe some model like the [Hara] Taxi Cost Index. (Driver)
>
> The only way to determine the gate fairly is to have companies open their books to regulators. The gate fee is a package that includes returns to the medallion holder, as are long-term leases and affiliates, which also should be regulated. (Driver)
>
> We should have competition, not caps. Companies should compete on the basis of the service they offer drivers. But if there is going to be a capped fee, it should be reviewed regularly. Full service companies have been hit the hardest by the failure to raise the fee. We're having to look at changing to an affiliate model. (Owner large company)
>
> I think this is the first time there has been a meter increase without a gate increase . . .actually, I'd prefer lease caps to gate caps. (Executive with large company)

Although several stakeholders suggested that companies were circumventing the established gate fee caps while claiming they used it, only one provided an example of how this is done. "Companies are generating money from short shifts, where someone comes in early, and the next guy pays the full shift," he said. He claimed this enabled companies to make up to $200 per shift or $6,700 to $8,000 per month on a single medallion.

As well, there is a vocal minority who question the current gas and gate regime:

> It's not a good system. It discriminates against non-medallion holders; they pay for bad shifts. It should be market based. You offer better service, you charge a higher fee. (Owner midsize company)
>
> Companies should be able to realize more value for value delivered. Fleets add quality. If companies can't charge more at the gate, they will consider whether upgrades are worthwhile. Gate fees are a signal to drivers that a company has a better product. Fleets add quality. There are no quality standards without fleets. Is controlling gate fees a good idea? Some cities don't control gate fees. In theory there should be other controls—the MTA, the police—but in fact, they aren't doing their part. So right now raising fees might be a good idea, but opening them completely will just push drivers to low charging fleets that are not as reputable. (Technology company executive)
>
> Wipe out gas and gate and replace it with a split meter. Companies are getting around the cap anyway. They make money from leasing taxis; it doesn't really matter whether the taxis actually do any business. (Driver)

As another driver pointed out, this basically is how Uber is set up (on an 80/20 split), and it seems to be working for them.

Medallion leases, affiliates and related costs and issues

A number of stakeholders recalled that a decade ago, medallion holders received from about $1500 to $2200 per month from companies to lease their medallions. For 2012, the figures cited ranged from a low of $2200 per month to as much as $4000. Most company representatives said they were paying between $2300 and $2500, although some medallion holders claimed to be getting somewhat more or less from these same companies.

Repeatedly, however, it was stated that companies offering fewer services (referred to by some as "outhouses") pay at the higher end. "The big three companies," said one person associated with the paratransit community, "are experiencing unfair competition from smaller outfits. The larger companies have upgraded their services, but drivers leave if medallion holders are paid more at companies that don't offer equivalent service." This person went on to compare the taxi situation to that in retail and restaurants, where low overhead pop-ups are, well, popping up. The owners and senior managers of larger and/or full service companies stated repeatedly that the situation is making it hard—if not impossible—for them to compete. Because of this, say the larger company representatives, gas and gate has dropped from about 80% of their business to around 60% as medallion holders look to lease their medallions to companies offering the highest returns, which are the companies that do not provide full service.

This leads several to suggest that these lease rates be regulated, especially from long-time drivers:

> The City doesn't know what medallion holders are being paid. (Driver)
>
> In 2000, medallion holders got $1500 per month; now it's about $3000. There should be a cap. (Driver)
>
> You can't pay more than about $2500 and service the neighborhoods, or run or belong to a dispatch service. (Driver)

> There should be a standard agreement for medallion leases. Most new medallion holders don't necessarily know how to negotiate an agreement, or even that they can. (Banker involved in financing Pilot Program)

The three largest companies briefly mentioned what they charge medallion holders who lease them their medallions when they drive. One refers to this as an owner-driver shift fee and charges $75, one-third of which goes to a pool shift credit. Another charges an unspecified monthly fee. The third, while not commenting on this arrangement, stated that owner operators pay $500 per month for the color scheme and dispatch, and that some 40% of medallion holders go this route. At this company, it was also stated that in 2000, about 80% of their vehicles operated as gas and gate, while now only about 60% do so.[37] "Why the shift?" asked the owner rhetorically. "Because what is happening now," he explained, "is that medallion holders are giving their medallion to someone who will pay more [than $3500 per month] because they are not full service companies. Someone else altogether drives. Traditionally, affiliate arrangements were with owner operators. Now medallion owners are approached by others—by brokers—who may not even be companies at all, and offered way over standard gas and gate rates, but claim the arrangement is gas and gate. These brokers then approach companies to use the medallions they have obtained." He estimated that 30% of medallions are being handled this way. Another large company stated that it had had 200 medallions on gas and gate, but that now it is down to 95.

The amounts cited for non-medallion holders to lease a medallion were between $5000, and $6000 per month. One driver with a multi-year sublease on a medallion said he used to pay $2500 per month and is now paying $5100, which covers insurance, colors, and Workers' Compensation. He buys the car and hires a second driver. For him, this is more lucrative than a standard gas and gate arrangement. He also claimed that one company that offers medallion holders $3300, charges non-medallion holders $5500 and also makes the driver buy a salvaged car from them for about $25,000. Some who cite rates such as these feel they are exorbitant; others find them reasonable. Another driver suggested MTA lease medallions to drivers and set $5900 to $6400 as a fair rate.

The longstanding practice of affiliate arrangements between non-medallion drivers and medallion holders, companies, or others operating on behalf of medallion holders is complex. None of the stakeholders interviewed claimed to have a handle on its precise dimensions.[38] They did, however, have strong points of view:

> Gate fees are too low, our operating costs are higher. We're being squeezed. Medallion holders are escaping the gas and gate by switching to an affiliate system. Affiliate leasing means the companies don't see the cars and are forced to pay competitive fees for medallions. (Owner large company)

> MTA is thinking of leasing medallions to drivers, but this would lead to brokers taking over. Drivers don't necessarily know how to lease out a vehicle, how to run a business. If everyone is leasing out medallions, it becomes like 500 separate companies. Gas and gate is a better model. There could be a requirement that medallion holders use full service companies. Direct leasing would still, of course, go to third party brokers. (Owner large company)

[37] This figure was also cited by a representative of the insurance industry.

[38] It should be noted here that while "broker" is not an official term in that there is no broker's license as in some jurisdictions, it is the term commonly used to describe companies and individuals managing medallion leases on terms other than gas and gate.

> Our company pays medallion holders $2500, but other organizations offer $4000. These brokers are not legitimate. They are operating illegally and have no overhead. It's hard to keep medallion owners [with the company] because most prefer not to drive and are happier to have an under-the-table relationship with a broker. (Employee large company)
>
> In this company, every cab is a shift cab. Gas and gate feels fine. We don't do any affiliates. It's a lot of uninsured risk. Medallion holders don't necessarily know who's getting their car on other shifts. I'm not looking for every last buck. Every medallion holder here gets the same $2400 per month. With affiliates, medallion holders are being paid up to $3500 for their medallions, which are then being leased for $5-6000 per month. Affiliates are being used to get around caps. There's a lack of enforcement on gate control and it's driving the loss of shift cabs at some of the big companies.
>
> At company X, they turn medallions over to someone who works with them. He charges whatever he wants and kicks money back to the company. In effect, he's running a color scheme without a license.
>
> Affiliate leases go through brokers. Big color scheme companies basically are brokers anyway. A medallion holder goes to the company and either buys the color and uses the car themselves, or they give the company the medallion and the company operates it on their behalf. With brokers, when someone wants to make more money, they don't go to a company, they use it as a cover; they find someone who will run the car and deal with the drivers. There are all kinds of shenanigans. The guy who runs that kind of deal doesn't pay the overhead costs companies have, so they can pay medallion holders more than the companies can. Brokerage is the big problem for the industry. (Owner small company)
>
> Brokers are everywhere. They operate within X and Y [large companies]. I'm not sure this is a big problem, but I think these guys need to be held responsible for what they do. (Owner small company)
>
> Drivers make a lot of money. I can't compete against these medallion holders. Company X works with them. (Owner large company)
>
> Long term leases and affiliates should be regulated (Professional associated with paratransit)

Insurance

Rising insurance costs were cited as a major problem by numerous stakeholders, especially by those claiming current gate fees are inadequate. San Francisco is not unique in this respect, but there are local factors that exacerbate the problem. Liability here is required to be $1,000,000[39], which is high—in Chicago it reportedly is $300,000. The Bay Area is considered inordinately litigious, which may or may not be true, but is perceived to be a factor. Accident rates actually are down, but claims have gone up. As a result insurers are dropping coverage. Those remaining in the game charge more.

Companies are trying different schemes, from self-insurance to variable deductibles, to try to keep the cost down. There is also an independent operators program that covers about a third of the medallions.

According to a stakeholder with extensive experience in the insurance industry, accident rates traditionally were lower among those who owned their own cars or had independent leases than with

[39] To qualify for city programs where users are subsidized.

those on gas and gate. In part, this was because many of the former go mainly to the airport and also are longer-term drivers—which at least statistically, means they are better drivers.

This is shifting however, as leasing of medallions has moved farther and farther from the actual medallion holder. "If a broker is involved—that is, someone other than a color scheme—he might have two or three clients, who in turn might have three drivers each. It is the holder of the long-term lease who gets insurance, not the drivers. It goes by car." The brokers offer to pick up all the management functions of running a cab. More and more medallion holders are using brokers. The long term leaser usually buys the vehicle—although some brokers may even be doing that—but the broker arranges the insurance. For its part, the insurance company has a list of the medallions and VIN numbers; it does not necessarily have the names of all the drivers. As drivers are further and further removed from both the City and the medallion holder, accidents with long-term leases are rising faster than those on gas and gate.

Consultants working with the taxi industry on a variety of issues reiterated these points:

> Accountability has to be clear. People closest to the medallion—the individual driver/owner, the color scheme—have to be the ones responsible. With the broker system, everything is moving too far down the line. Currently, the company that does the least can offer the best deal to the medallion holder. As a result, full service companies pay a premium.

Combined with the changing structure of the industry, according to several stakeholders, is the inability or failure of the City to enforce various requirements, most notably the accuracy of electronic waybills and making sure drivers have A-cards. The insurance professional said estimates of the number of drivers lacking the latter are as high as one in ten.

Workers' Compensation

As with insurance rates, the larger companies in particular complained that workers' compensation rates are going through the roof. A long-time driver suggested that if companies pooled worker's compensation costs, it would be to their benefit.

Other Cost Issues:

Stakeholders raised a couple of issues repeatedly. The first had to do with credit card fees. A number of drivers claimed the costs were being passed on to them. The mid-sized to large companies all claimed they pay the fee, not the drivers. The owner of one large company stated that some companies are charging drivers up to 10% on their credit card fares.

A second issue, raised most often by Taxi Advisory Committee members, is that SFMTA has benefited enormously from the industry—having taken in some $23 million—but that very little if any of this is being plowed back into the industry.

4 ANALYSIS AND RECOMMENDATIONS

The previous chapter established that San Francisco's taxi industry is facing significant challenges:

- **Competition from alternative services.** While still experiencing strong demand for taxis, there is competitive pressure from smartphone dispatched limousines (Uber) and shared ride services (Lyft, SideCar, Community Cab, UberX).
- **Unregulated taxi operations.** An old threat to the industry and to public safety has emerged under the cover of shared ride services: unregulated taxis operating with unlicensed drivers and vehicles. These services also pick up street-hails illegally, creating larger risks as unlicensed operation becomes institutionalized.
- **Driver shortages.** Some companies report being unable to fill all available shifts, due to both a shortage of SFMTA training and testing staff (now addressed) and the loss of drivers to the less stringent requirements of shared ride operations.
- **Higher insurance costs**. Taxi operating costs have increased. Since the last meter rate increase in 2011, overall operating costs have risen by 5.8%. For taxi companies, cost increases have been as much as 15.8%, driven by taxi insurance costs rising by up to 55%
- **Lag and uncertainty in rate adjustments**. The cap on gate fees, the source of taxi company revenue, has not changed since 2008. There is no clear rule or formula from which ongoing adjustments to meter rates or the gate fee cap may be anticipated.
- **Cost squeeze.** Taxi companies are under a cost squeeze as they compete for medallion leases against third party agents who are not directly accountable to the SFMTA, and may not be adhering to vehicle and driver requirements, nor to the cap on gate fees. Hardest hit are smaller companies trying to invest in expanding San Francisco's taxi dispatch market.

All these factors are relevant to reviewing current meter rates and gate fees. In addition, the discussion of industry structure established that:

- **Revenue is driven from the meter.** Taxi company revenue and medallion owner revenue all come from passenger's payment to the driver. The passenger pays the driver. The driver pays the taxi company; the taxi company pays the medallion holder. When third party affiliates are involved, there is an extra step from the driver to the taxi operator, and from there to the taxi company and medallion holder. Whatever the path—revenue begins with what the passenger pays the driver.
- **Medallion holders ultimately bear the cost.** When gate fees do not keep pace with operating costs, the taxi company bears the cost in the short run. In the long run, the lowered willingness of taxi companies to pay medallion leases means that medallion holders ultimately pay the price in lower medallion returns. In the San Francisco system, most medallions are held by senior owner-drivers.

This chapter provides analysis and recommendations on meter rates and gate fees. Recommendations are oriented to customer service, while seeking a balance with the need to address the industry's cost issues. Recommendations address:

- Ensuring credit card acceptance
- Improving dispatch service
- Financing new technologies for more effective regulatory monitoring and enforcement

- Responding to increased industry costs
- Responding to likely PUC regulation of shared ride services
- Method for regular review of meter rates and the gate fee cap

For critical choices, more than one option is identified. Among these, Hara Associates recommends a preferred option. The chapter concludes with a summary of recommendations and net impacts for passengers and industry stakeholders.

4.1 PRINCIPLES FOR RECOMMENDED STRATEGY

San Francisco taximeter rates are at the high end among comparable cities (see Chapter 2). Although this is consistent with the higher cost of gas and the cost of living for drivers in the San Francisco area,[1] it also places the industry in a vulnerable position. Given the current environment, Hara Associates suggests a strategy based on these principles:

- **Now is not the time.** Despite the increase in industry costs over the last two years, now is not the time for a broad rate adjustment. The industry is in a period of uncertainty. It is under pressure at the high end of the market by smartphone dispatched limousine services, and at the low end from unregulated taxis operating under cover of shared ride services. Such taxis also increasingly operate illegally in the street-hail market.

  The reluctance to adjust official taximeter rates, expressed by many industry stakeholders, is well founded. The first concern should be stability and improved service while regulatory clarity is achieved.

- **Strengthening the brand.** In the long run, a well-regulated taxi industry cannot compete with an unregulated or under-regulated taxi industry on a price basis. A safe, reliable, and good quality taxi system costs more to provide, and is what customers want. The taxi industry will thrive based on strengthening its brand in these areas. A stronger brand, combined with regulatory clarity and enforcement, will best serve the industry and protect the public.

  This, in turn, means some rate adjustments may be necessary to finance the technology necessary to make San Francisco taxis a modern and enjoyable experience for users, competitive with alternative service offerings.

- **Value to the customer.** In the present context, any changes to rates and fees should be linked directly to service improvements that the customer will value.

- **Relief for higher costs**. The industry has experienced higher costs, notably an up to 55% increase in the cost of insurance, over the last two years. In addition, taxi companies have been under long-term pressure from third party agents who drive up the lease costs of a medallion by operating outside the regulated caps on gate fees charged to drivers. Hardest hit have been companies that have been trying to sustain the larger overhead required for high quality dispatch systems. Hara Associates' earlier report, *Managing Taxi Supply*, identified dispatch service to the home as a key area where San Francisco taxis need improvement. A combination of rule changes, improved enforcement, and direct financial relief is needed.

- **Quantity matters.** The taxi industry's issues will not be solved by changes to the rate structure alone. *Managing Taxi Supply* found that a significant shortage of taxis has led to poor taxi dispatch service in San Francisco, leaving an unsatisfied demand that provides fertile ground for the emergence of competing services. The survey of San Francisco residents indicated that what most individuals using these services really want is reliable and easily available taxi service. A large increase in the number of taxis was recommended over the period from 2013 to 2015.

[1] See Chapter 2.

Increased taxi availability will do much to solve the dispatch problem. Reforms to direct leasing of medallions will also provide more effective enforcement of gate fee caps and provide relief to taxi companies, which must compete for medallion leases with third party agents operating outside the gate fee caps.

An expanded taxi fleet is part of an overall strategy to better serve the public and improve the health of the industry. However, time is required for the expansion of San Francisco's taxi fleet. At present, the new medallions recommended for release in 2013 are still completing the operator approval process and have not yet reached the street. Full expansion of the fleet will not come into effect until 2015, but changes to rate and fee structure can improve some aspects of customer service immediately

4.2 ENSURING EASY CREDIT CARD ACCEPTANCE

Two related issues were identified in Chapter 2.

- **Credit card acceptance not reliable.** Customers cannot count on drivers easily accepting their credit cards because of driver resistance to being charged a 3.5% processing fee on cards processed through the Passenger Information Monitor (PIM) system. Drivers often resist the use of credit cards, or request to pass the card through private systems attached to their smart-phones, rather than use the taxi's PIM. This leaves customers surrendering their cards and having them passed through an unknown device. Receipt generation is possible, but problematic.

Passenger information monitor (PIM) & back seat credit card swipe used by Creative Mobile Technology (CMT)

- **Business model for PIM is in trouble**. The Passenger Information Monitor (PIM) is a bundle of services and equipment central to modernizing the passenger experience. They provide easy credit handling where the customer swipes their own card in the back seat, real-time clearance of the card, GPS display of the trip, an opportunity to register customer feedback immediately, tourist information, and accommodation of sight and hearing disabilities.

  PIM systems are currently provided by payment service providers (PSPs) like CMT, VeriFone, and Anderson/Wireless Edge. They recover their expenses, and the ongoing monthly costs, through the 3.5% charge on credit card trips processed through the PIM. However, the number of trips charged this way is down to as low as 25% for some fleets, compared to around 50% in other cities. Credit card fares booked through smartphone apps do not go through the PIM, and drivers are diverting passengers to cash or to cheaper credit card clearance through their smart phones. Credit card clearance is cheaper through smart-phone systems because those systems do not have to finance the PIM or its other services.

Passengers want PIMs

Passengers want the option of credit card use in taxis, and they prefer the security of swiping their own cards. Passengers also value other features offered by PIMS, such as display of the taxi's route using real-time GPS. The survey of San Francisco residents conducted by Hara Associates found that PIMs with information screens and a backseat swipe were one of the few service improvements for which

residents were willing to pay more on the meter. Two-thirds of respondents indicated they would pay at least ten cents more per fare to ensure availability.

Options to Pay for PIMs

To ensure drivers reliably accept credit cards, there are four broad approaches:

- **Do nothing.** Do nothing and wait for driver resistance to moderate.
- **Credit card user fee.** Add a credit card user fee to offset credit card processing fees charged drivers.
- **Fixed fee per trip.** Finance the PIM with a fixed fee per trip for all trips, regardless of payment methods, and reduce or eliminate processing fees to drivers.
- **Fixed fee per shift.** Replace credit card processing fees per trip with a fixed charge per shift to drivers, independent of rate of credit card acceptance by individual drivers. Optionally, this may include a meter rate adjustment to offset a portion or the entire credit card processing fee.

Each of these options is discussed below. The choice among them is influenced by varying degrees of complexity in implementation, and legality.

Credit Card Option: Do Nothing.

Payment service providers argue that passenger tips on credit cards rise when their systems are used, since the menu offers easy options for selecting a percent or amount of tip. The increase in tips appears to more than offset the 3.5% or 5% processing fee charged the driver. In other cities, driver resistance to the systems has tended to decline the more drivers experience the reality of this assertion. Unfortunately, driver resistance remains strong in San Francisco, even at the lower 3.5% being charged. Drivers also complain about the difficulty accessing their funds through bank fees and other charges. This approach also does nothing to address the incentive for drivers to use cheaper credit card services like Square. Nor does it deal with the increasing diversion of credit card fares to non-PIM systems, such as smartphone-dispatched taxis.

Credit Card Option: Credit Card User Fee

With this option, the passenger pays a fixed fee, such as $1.00, to use the in-taxi system to pay with a credit card. This is added to the meter. The driver receives this as extra revenue to offset the 3.5% processing fee. At $1.00, the driver is net ahead for fares up to $28.50. For higher fares, up to $133, the net cost to the driver is still less than the 2.75% charged by alternative credit card processors such as Square.

This approach makes credit card use cost-free to the driver overall, with processing fees for large trips more than offset by the average net positive revenue on smaller trips. The driver is net ahead, and significantly better off than the 3.5% of processing fees that they currently pay. A principal source of credit card resistance by drivers is removed.

The passenger pays a dollar when they use a credit card, but receives the assurance that credit cards will be easily accepted whenever they wish. In addition, with the future financing of the PIM assured, the passenger retains the security of being able to swipe their own card and receives the other services the PIM offers, including accommodation of visual and auditory disabilities.

Payment systems providers continue to receive their 3.5% of credit transactions. Their position is improved by the higher volume of transactions put through the PIM from having eliminated driver resistance. The gain in volume of transactions will be partly offset by the disincentive for passengers to

pay for short trips using a credit card, but this disincentive already exists with current driver resistance to credit card use.

A fee for credit card use is rarely used by taxi regulators. Credit card providers (e.g., VISA, MasterCard, Amex) have historically resisted fees that result in credit card users paying more than cash customers. Their contracts with vendors typically forbid it. However, charging fees for use of the transmission system in taxis is legitimate. For example, Las Vegas charges passengers $3.00 extra to pay a taxi fare using a credit card, of which $2.50 goes to the payment service provider to finance the system, and $0.50, goes to the taxi company.

The advantages of a credit card fee are:

- **Leaves general fare unaffected.** By financing the PIM through a fee specific to users, it is not necessary to raise general meter rates.
- **Simplicity for regulator**. The regulator can implement this as a fee on the meter without changing how credit cards processing fees are collected, or requiring changes to the relationship between taxi companies and payment service providers. This simplicity is somewhat marred by complications with the California Civil Code, discussed below.

Disadvantages of a credit card fee are:

- **Charges for a previously free service**. Credit card use in taxis is free to the passenger at present. Adding a fee gives potential passengers another reason to use non-taxi services, or to book taxis through smartphone apps that bypass the PIM. It also puts the financing burden for the PIM on credit card users when the PIM also provides services to other passengers with its GPS functions, information provision, and aid to persons with disabilities.
- **Additional administration by taxi companies to prevent cheating.** The credit card fee offsets the 3.5% credit card processing fee to the driver, but the 3.5% is still there. If systems permit, there is a temptation for the driver to charge the $1.00 credit card fee, but still process the card using their smartphone device and pay just 2.75%. This might be prevented by appropriate sequencing in when the charge is added to the meter (for example, after initiating the credit card payment screen on the PIM).

  Alternatively, the processing fee to the driver might be lowered to a more competitive 2%, with a portion of the credit card fee going to the payment services provider to compensate for lowering the volume fee to 2%. Although more complex, the appropriate split of the credit card fee can leave the average driver ahead, while removing the incentive to divert credit card processing to the drivers' smartphone. For San Francisco, this might be a reduction in processing fees from 3.5% to 2.5%, combined with a $1 credit card fee split 60 cents to the driver and 40 cents to the payment services provider.
- **California Civil Code.** California's state Civil Code forbids retailers (including service providers) from charging credit card users more than other customers. 1748.1. (a) states "*No retailer in any sales, service, or lease transaction with a consumer may impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check, or similar means. . .*"

If the credit card user fee option is preferred, Hara Associates suggests that the provisions of the Civil Code might be dealt with using one or more of these approaches:

- The charge is not a charge for using the credit card; it is a charge for the use of the in-taxi payment system. In evidence of this, a credit card can be used to pay for a taxi without bearing the fee if booked through a smartphone app (of which there are now many) or, in many cases,

the taxi company website. The city of Ottawa, Canada, takes this position in defense of its $1.50 credit card processing fee.

- The fee could be implemented as a charge by the SFMTA, which may in turn choose to contract with payment systems providers to collect the fee and transfer it to drivers for operating the PIMs system. While the taxi is a retailer of services under the Civil Code, the SFMTA is not.
- The intent of the fee is to promote credit card use, not to divert customers to cash. Thus, it is consistent with the intent of the Civil Code provisions.
- The fee could be implemented as part of the regular fare, with a discount equal to the fee offered for cash or other payment methods. This approach is permitted by the Civil Code, but raises the problem of communicating the roundabout arrangement to passengers. What appears on the meter before a customer is asked how they wish to pay? It is not the SFMTA's intention to encourage cash payments, but it would be difficult to avoid this impression.

Credit Card Option: Fixed Fee per Trip

Charging a fixed fee that is added to *all* trips would eliminate the current 3.5% processing fee charged to drivers. The underlying idea is that all passengers are served by having the option of paying their fare by credit card within the taxi, whether or not they choose to do so for a particular trip. It also recognizes that PIM features, such as GPS tracking and accommodation of visual and hearing disabilities, are unrelated to credit card use.

Washington DC is in the process of implementing a variant of this approach, adding 25 cents to the meter when companies install PIMs and payment systems compliant with regulator specifications.[2] This 25 cents is collected by payment service providers and remitted to the DC Taxicab Commission to support its operations.

For San Francisco, a charge of 35 cents per trip would go to the payment service providers themselves. It would more than cover their current revenues from the 3.5% credit processing fee, as well as any likely increase from expanded credit card use in the immediate future (see text box *How much revenue?*).

With a fixed fee, drivers keep 100% of credit card payments, and collect an additional 35 cents per trip on the meter, which they pass over to the payment services provider. Drivers are better off having eliminated the 3.5% credit card processing fee. Payment service providers are also better off. The 35 cents per trip provides more revenue than is generated by the current processing fee. From the passenger's perspective, for 35 cents per trip, they gain assured credit card acceptance, continued ability to swipe their own card on the PIM, and the other conveniences provided through the PIM.

A variation of this approach would be to add just 25 cents to the meter, and lower the processing fee for credit cards from 3.5% to 1%. Here the drivers would still gain significantly from the processing fee reduction, but continue to bear part of the burden of supporting the in-taxi equipment. The 1% is low enough that drivers will find it cheaper to use the PIM than alternatives like Square.

An important question with this option is how do payment service providers receive the 35 cents per trip? Technically, it appears simple. The payment system providers know the total number of trips, both cash and credit, through the information now collected by the integrated PIM, meter, and credit card clearance system. They also pay drivers their credit card trips directly, usually the next business day

[2] Earlier proposals by the DC Taxicab Commission had been based on 50 cents, 25 cents to the Commission and 25 cents to operators to cover the costs of the PIM. Operational priorities have put the emphasis on the Commission requirements .

How Much Revenue is Generated by Credit Card Processing Fees at 3.5%?

Making credit card acceptance easier may involve changing how the credit card clearing systems installed in the taxi are paid for. At present the systems are provided by payment systems providers (CMT, VeriFone, Anderson/Wireless Edge) in exchange for a 3.5% processing fee on credit card transactions. An important question for designing any change is: how much revenue is being generated now in San Francisco systems? Actual amounts are commercially confidential in this competitive sector of the industry. However, a reasonable estimate of gross revenue is defined by:

3.5% × $Average Credit Card Fare × [Number of Credit Card Trips by Average Taxi]
= 3.5% x $Average CC Fare × [Total trips by average taxi × % of trips charged to cards]

Dividing the above by total number of trips yields an average revenue per trip. From meter data provided by industry representatives, a typical San Francisco taxi averages 19 trips per shift over the year, at an average fare of around $15.70, for gross annual revenue around $215,000. There is substantial variation according to type of driver, shift, and season. . The current proportion of trips charged through the in-taxi PIM ranges between 25% and 40% depending on the company.

The average credit card charge per trip varies depending on the % of trips charged to cards. If 100% of trips are charged to credit cards, then the average credit card charge is the same as the overall average of $15.70. More realistically, there is a tendency to put more expensive fares on credit cards, and pay smaller fares with cash. The lower the market share of credit card trips, the higher the average remaining fares put on cards. Where few credit cards are processed through the PIM, the average credit charge is reported to be around $25. Thus the average credit card fare will decline from $25 to $15.70 as credit card trips expand from 25% up to 100% of trips. Taking this decline into account, current credit card processing fees divided by all trips average 21.9 cents per trip to 28.5 cents per trip, depending on the share of rides (averaged over all trips regardless of payment method). Thus 28.5 cents per trip would likely compensate all payment service providers for the loss of current revenue from the 3.5% processing charge.

The story does not end there. If successful in ensuring easy credit card acceptance, the share of trips charged through in taxi equipment would rise to 50% of trips, similar to other cities. This means higher processing costs to the payment service providers. Equivalent revenue at 50% of trips would be 32.9 cents per trip, ***or 35 cents*** *after rounding to the nearest nickel. The same fee expressed on a per shift basis is* ***$6.25 per shift.***

through bank accounts established for each driver. This means the driver can remit the 35 cents per trip they collect by authorizing the automatic deduction of the amount due from the payments owed to them for their credit card fares. Calculation is automatic, and payment uses existing systems. Since the payment systems provider is not presently under SFMTA jurisdiction, the regulatory framework would likely work through requirements placed on color schemes.

Disadvantages of the fixed fee per trip are:

- **Ongoing communication required.** Drivers will still see money being deducted from their accounts with the payment services providers. Initially it will be obvious to most drivers that the 35 cents per trip being deducted is linked to an extra 35 cents per trip they receive on the meter, and that they have benefited from processing fees dropping to zero. In subsequent years, this may no longer be clear. It will be necessary to communicate on an ongoing basis that the fee is based on an amount collected *per trip* and is unrelated to credit card use, but is included in the fare money collected by drivers. One way to keep this message clear is to include

it as a note in meter rate notices circulated to driers, posted in taxis, or appearing on the taxi PIM. Explanatory posters on the SFMTA bulletin boards maintained by taxi companies, and inclusion in new driver training, may also be helpful.

- **Pursuing non-payers.** There will a small number of drivers whose credit card fares average less than the amount necessary to pay the 35 cents per trip owed. Payment service providers and/or the taxi company will face the administrative burden of collecting the difference. The number of drivers involved is likely to be low. To be in this position the driver must average credit card fees totaling less than approximately $6.25 per shift (see text box *How much revenue?*). Since the average fare under current meter rates is around $15.70 per trip with approximately 19 trips per shift, this is unlikely to happen consistently to a driver. If it is happening repeatedly there is likely an issue of credit card refusal by the driver—something that should be identified and pursued in any event.

- **Regular rate review required.** The estimated 35 cents per trip gives payment services providers more revenue than they are earning now, and covers the equivalent of 3.5% processing fees to the point where approximately 50% fares are charged through the PIM systems. If successful in making credit card use easy, we expect credit card use through the PIM to rise. This places the risk of significant losses on payment service providers once the anticipated market share is reached. Every dollar on a credit card incurs exchange fees that must be paid by the payment services provide. The fixed fee per trip option puts the PSP in a fixed income position. As the share of credit card trips increases, their costs go up while their income remains the same. The regulator must review the system regularly to ensure that the per trip fee covers 3.5% of actual credit card transactions running through the PIM systems. New York acknowledges this by reviewing rates twice annually (see fixed fee per shift option below).

- **Short-run incentives in the wrong place.** In the short run, payment services providers have an incentive to *reduce* credit card use of their systems under this option by providing poor service. With revenue determined by total trips, their profit increases the lower their costs from processing credit card transactions. To counter this problem, regular rate review is very necessary. With regular rate review, the long-run revenues accorded payment systems providers will be positively related to the success of their systems in generating credit card use by serving passengers well.

Credit Card Option: Fixed Fee per Shift

Under this option, drivers get 100% of credit card charges credited to their account, but pay a fixed fee per shift. New York has moved to permitting this approach. Taxi companies may now charge $10 more per shift if they take on liability for the 5% transaction fees (i.e., assuming an average of not more than $200 in credit card charges per shift). In addition to making the driver indifferent to cash or credit,[3] New York taxi companies are opting into this arrangement because the actual average credit card charge at this time is less than $200. The per-shift fee is to be reviewed twice a year to adjust for changes in the volume of credit card usage, since the cost of credit card processing rises with the volume of transactions.

For San Francisco, it is estimated that credit card processing charges on the PIM average between $119 and $155 per shift, generating from $4 to $5 in processing fees per shift at the current 3.5% rate. Thus adding $5 per shift to the gate fee would provide equivalent revenue to any loss in current processing fees. However, if the system is successful, the number of credit card transactions via the PIM would rise, thereby increasing costs. Were credit card use to increase to the 50% of rides seen in other cities, the

[3] This leaves aside the question of drivers seeking to avoid a record of their income. This is not as a big a concern as in the past since most drivers know meters now record income and driver identity anyway.

estimated average credit card charge per shift would be $178.60. Covering this with a fixed fee would require approximately $6.25 per shift.

An important variation on this approach is to simultaneously add something to the meter rate to reduce or eliminate the burden on drivers. Without an addition to the meter rate, drivers are still paying the processing fees since only the form of payment has been changed to encourage use of the PIM for credit card transactions. Drivers actually end up worse off than at present, because the fixed fee per shift must be enough to cover the risk to companies that credit card transactions will expand, driving processing fees higher than the fixed rate set by regulation for that time period. Without adding something to the meter to relieve drivers of the financing burden, principled resistance by drivers to credit card use might continue.

An advantage of the fixed fee per shift approach is that it works easily with existing systems. San Francisco already has a gate fee system, with gate fee caps. The fixed fee per shift for credit card processing could be added to the existing gate fee cap.

Unique disadvantages of fixed fee per shift include:

- **Taxi companies become merchants of record.** Payment service providers will expect that the taxi company become the *merchant of record* for credit card providers. At present, the payment service providers assume this role and deal with all paperwork and administration. They are able to do so under the current system because they collect the processing fee at the same time as they clear the credit card transaction. Under a fixed fee per shift, revenue is received from taxi companies who collect it in shift fees from drivers. Payment service providers will not wish to be liable immediately for the processing costs while depending on taxi companies to pay invoices. San Francisco taxi companies would likely be able to contract administration of the system back to the payment systems provider (e.g., VeriFone, CMT, or Anderson/Wireless Edge), but would have to assume responsibility for the final outcome, and for some aspects of the relationship with credit card providers. In New York, taxi companies are often the merchant of record, so the shift from 5% to a fixed fee per shift is easier, as well as potentially more profitable.
- **Good drivers cost the company**. This is another case of incentives in the wrong place. Skilled drivers, who use the taxi more efficiently and generate more revenue, end up generating more credit card transactions and costing company money. Since the shift fee revenue to the company is constant, the company may have an incentive to rid itself of the most efficient drivers. This issue may be offset by the contribution better drivers make to fleet capacity and company reputation.

Recommended Option

With the exception of doing nothing, all the above options would remove the main reason that San Francisco taxi drivers resist credit cards. Greater success will occur with variations that reduce or eliminate the processing fee charged drivers, rather than just changing the form of payment. Table 4.1 summarizes the advantages and disadvantages of each approach.

The credit card fee option is the simplest to implement from a regulatory perspective, but adds a new user fee and creates potential administrative headaches for companies. Companies must ensure that drivers who charge the credit card fee actually run the charge through the PIM rather than through their smartphones. The incentive to do this will still exist given the 3.5% processing fee via the PIM, versus 2.75% processing fee with alternatives.

Table 4.1: Options for Easy Credit Card Acceptance

Option	Advantages	Disadvantages	Impact on Industry Stakeholders
Do Nothing Wait for driver resistance to moderate as higher tips from credit card use through the passenger information monitor (PIM) are experienced.	Simple.	Does not appear to be working. Incentives remain for driver to use cheaper smartphone credit card clearing services. Risk to current business model where PIM systems provided for free by PSPs.* Drivers question why they are the ones to pay for taxi equipment when they already pay a gate fee.	Drivers paying 3.5% processing fees on credit card charges processed through PIM systems. Payment service providers (PSPs) losing share of credit card transactions to cash, internet credit card clearing devices attached to driver smartphones, and taxi dispatch apps on passenger smartphones.
Credit Card User Fee Charge 1$ to pay using a credit card in the taxi.	Removes principal cause of driver resistance to credit cards. Leaves general meter rates unaffected. Simple for regulator to implement.	Charges for previously free service. Additional administration to prevent cheating. Complications from Civil Code prohibition.	Drivers have processing charges covered. PSPs keep their 3.5% fees and gain from transaction volume.
Fixed Fee per Trip Add 35 cents per trip to meter and eliminate fees to driver. Variant: add just 25 cents per trip and reduce processing fees paid by driver to 1% from 3.5%.	Removes principal cause of driver resistance to credit cards. Spreads support for PIM service package more fairly among all passengers. Can be implemented using existing driver accounts with PSPs.	Regular rate review required. Ongoing communication required to explain deductions from driver PSP accounts. Companies must pursue small number of non-paying drivers. Short run incentive for PSPs to provide poor service. Requires increased meter rate to be effective	Drivers pay zero processing fees (or 1% under variant). PSPs make more money initially, but risk loss if program successful and rate review not timely.
Fixed Fee per Shift Add $6.25 per shift to gate fee cap and reduce credit card processing fee to zero. Variant: In addition, increase meter by 35 cents per trip to cover cost to average driver.	Aligns driver incentives towards accepting cards. If implemented with meter rate increase, removes causes of driver resistance to credit cards. Can be implemented through existing gate fee system.	Regular rate review required. Likely requires taxi companies to become merchants of record. Short-run incentive for PSPs to provide poor service. Incentive for companies to dump good drivers.	Drivers pay zero direct processing fees, and are completely relieved of burden if meter rates are increased to cover increased gate fee. Taxi companies gain $ in short run but risk losses if rate review not timely. PSPs become administrators for to taxi companies at reduced risk, and loss of potential gains from long run market growth.

*Payment Service providers include Creative Mobile Technologies (CMT), VeriFone, and Anderson/Wireless Edge

Simplicity from the combined perspective of all parties is found in the fixed fee options, either per trip, or per shift. New York is already leading the way in charging a fixed fee per shift to support the PIM and credit card processing. However, the fixed fee per shift makes the taxi company the merchant of record for credit card clearance, placing the taxi companies between the driver and collection of their credit card fares. This may be an issue for drivers, while the administrative burden of being merchant of record may be an issue for some companies. There is also the irrational result that it becomes in the interest of taxi companies to get rid of high performing drivers because of the higher volume of credit card processing fees they generate.

The fixed fee per trip is the simplest to administer. Credit card processing fees to drivers are reduced to zero, eliminating the main source of driver resistance to credit cards. To finance credit card processing and the PIM, payment service providers (CMT, VeriFone, Anderson/Wireless Edge) receive a fixed fee per trip that is included in the meter rate paid by the passenger. The collection of this fee can be automatic through the accounts drivers use to receive their credit card fare payments from the PSP. Drivers would see 35 cents per trip (cash or credit) deducted from their credit card fares, but also have in hand an extra 35 cents per trip from the fares paid by passengers. This leaves drivers net ahead because of reducing credit card processing fees to zero.

Payment service providers expressed a strong preference for the fixed fee per trip over the fixed fee per shift. They would prefer to maintain their current role and retain control over their businesses. However, they also strongly disputed the continuation of the 3.5% level of compensation, or its equivalent in fixed fees. The PSPs feel they invested in San Francisco based on their business model of receiving 5% processing to fund the PIMs, and would like a fixed fee level that retains that – suggestions ranged from 45 cents to 75 cents per trip.

The deciding factor between the two fixed fee approaches is the communications burden. The fixed fee per trip is the simplest, but comes with an ongoing need to explain to drivers that the deductions they see on their accounts with the credit card payments processor are not a processing fee, but a recovery of the per trip fee. The fixed fee per shift for the elimination of credit card processing fees is easier to communicate, and requires communication only once. Accompanied by an equivalent meter rate adjustment (discussed further below), it will relieve drivers of paying this fee and remove much of the reasons for resisting credit cards.

A further administrative advantage of the fixed fee per shift approach is that it takes the SFMTA out of having to dictate whether fees should reflect 3.5% or 5.0%. After making an initial allowance in adjusting the gate fee cap, the ongoing balance of the arrangement can be worked out by competition between payment service providers for contracts with the taxi companies. Taxi companies are well able to receive and assess competitive bids.

Recommendation 1: **Credit card acceptance.** Hara Associates recommends that:

- credit card processing fees charged to taxi drivers by payment system providers be reduced from the present 3.5% to zero;
- color schemes be required to provide credit card processing services and meet Passenger Information Monitor equipment requirements.
- adjustments to the cap on gate fees paid to color schemes include an increase of $6.25 per shift to cover credit card processing (based on covering 3.5% of credit card volume).
- The meter rate be inceased by 35 cents per trip on the initial charge, in order to relieve drivers of the net burden of credit card processing fees.

- Color schemes be required to credit the driver for credit card receipts at the end of the shift, and to allow application of this credit towards the gate fee.
- the Director of Transportation be authorized to require regular reports from color schemes on trip volume by method of payment, average meter charge, and average meter charge according to payment method, and average total charge (including charged tip) for payments processed through in-taxi systems.

With the elimination of credit card processing fees, drivers no longer have a financial disincentive to refuse cards. There is also no financial gain to diverting card payments through private smart-phone systems. For their 35 cents per trip, passengers gain the assurance of easy acceptance of credit cards, the ability to swipe the cards themselves, and the continued improvement of other services delivered through the Passenger Information Monitor. This is of value to the passenger, improving the attractiveness of taxi service over competing alternatives and matching the ease of credit card use offered by these alternatives.

Immediate credit to drivers will cost companies, since the delay in credit card clearance can be up to three days depending on the credit card. However, we note that payment service providers in San Francisco claim they are paying the driver next day (as per current regulations), and that New York has already demonstrated the feasibility of requiring payment at the end of the shift. Companies will also gain the flexibility to work out competitive terms with payment systems providers.

Drivers gain from the elimination of the 3.5% processing fee. The higher shift fee cap will, on average, be off-set by the 35 cents per trip added to the meter Drivers will also gain from being paid their credit card receipts at the end of the shift, and from not having to cope with administration and fees related to their individual accounts with payment service provider financial institutions.

4.3 IMPROVING DISPATCH SERVICE

4.3.1 Matching Competitor Cancellation Fees

As documented in *Managing Taxi Supply*, it is difficult to get reliable and timely dispatch taxi service to San Francisco homes. The absence of service has provided fertile ground for premium limousine services and shared ride services—when often what people really want is a taxi. When asked why they used a limousine service, the leading reason given by San Franciscans was “because a limousine is more likely to come to your home.” This outranked vehicle quality and driver quality by substantial margins.
The main strategic response to poor taxi dispatch is to expand the number of taxis to answer demand. The recommended increase is being phased in over 2013, 2014, and 2015.

Complementary to expanded service, taxi dispatch can also be substantially improved immediately by matching what competing services already do: allow a cancellation fee. For example, Uber charges its limousine passengers a $10 cancellation fee if they cancel the fare after a grace period of five minutes. Table 4.2 details cancellation policies and prices of other services based on recent advertisements. Cancellation fees range from $5 to $10 for most services, usually with a grace period.

The cancellation fee is a benefit to both customers and drivers. It tells the driver that the customer is definitely intending to be there when he arrives while the customer knows the driver who accepts the call will reliably appear. This solves a market failure observed in San Francisco taxi dispatch today. When drivers commit to the dispatch system, they may arrive at the door to find the customer already departed, either for a street–hailed taxi or because the customer called multiple companies. Customers behave this way because drivers, too, have a natural tendency to take an immediate street-hail while

Table 4.2: Pricing and Cancellation Fees by Alternative Services

Item	Taxi	InstantCab Taxi	InstantCab Community Driver	Uber Taxi	UberX	Uber Black	Uber SUV	Lyft	SideCar
Drop	$3.50	$3.50	Cost approximately matched to cab fare, though the process is unstated.	$3.50	$3.50	$7.00	$15.00	Suggested Donation	Suggested Donation
Drop Distance in miles	0.2	0.2		0.2	0	0	0		
Per Mile Cost	$2.75	$2.75		$2.75	$2.75	$4.00	$5.00		
Per minute cost	$0.55	$0.55		$0.55	$0.55	$1.05	$1.35		
Minimum Fare	$3.50	$3.50		$3.50	$8.00	$15.00	$25.00		
Tip	Discretionary	20% default. Can be changed at the end of the ride		20% Fixed.	Nil	Nil	Nil		
Driver Pays	3.5% on Credit Cards		20%	10% of meter	20%	20%	20%	20%	20%
Additional Charges to Customer				$1 booking fee					
Customer Cancellation Fee	None	$5.00 ($10.00 on busy days)		$5.00	$5.00	$10.00	$10.00	$5.00	None
Cancellation Rules	None	Applies if the ride is cancelled after 5 minutes.	Applies if the ride is cancelled after 5 minutes.	Applies if the ride is cancelled after 5 minutes.				Unstated	Riders with 25% or higher cancellation rates are cautioned then blocked.

travelling to a dispatch call. With both behaviors present, it is difficult for dispatchers to police, with or without high tech equipment. Strategic behavior on both sides, rational on each, results in market failure.

The cancellation fee creates a relationship of trust that allows customers and drivers to rely on each other once the taxi has been booked.

Recommendation 2: **Cancellation fee.** To improve dispatch performance and match the cancellation fee arrangements of services competing with taxis, Hara Associates recommends that:

- color schemes be permitted to charge a cancellation fee of up to $10.00 for dispatch fares booked by consenting credit card dispatch customers, or by consenting customers with established accounts or equivalent;

- customers be provided with the terms of the cancellation fee prior to their giving consent, including any grace period and circumstances under which the cancellation fee will be waived;
- under all circumstances, the cancellation fee must be waived at the customer's request if the taxi has not arrived within 25 minutes of the color scheme accepting the booking.

The principal users of the cancellation fee will be credit card customers using smartphone apps or taxi company web pages to request a taxi. This includes the use of apps such as Taxi Magic and Flywheel (formerly Cabulous) that integrate with taxi company dispatch systems. Companies may offer the cancellation option to traditional telephone dispatch customers if they find it operationally practical. Dispatch customers who decline, or do not have credit cards, will still be able to use telephone dispatch.

Of the range of cancellation fees charge by competitors, the higher $10 is recommended for taxis in order to assure that the higher level of service will be an aspect of this mutual commitment of passenger and driver.

To be an effective policy, taxi driver will need to know if a dispatch call is covered by the cancellation fee. This is already the case for drivers who accept calls directly through Uber Taxi and similar services. It is in the interest of taxi companies to take measures to ensure their systems inform drivers effectively. Not recommended is an extra fee for dispatch calls. This was suggested by many stakeholders. It is not recommended because it does not solve the fundamental problem of no –shows. It does a driver no good to have an extra fee they can't collect. Extra fees to credit card users could work, but a cancellation fee involves zero additional charge to the traveler if the trip goes through. In the interests of moderation on fare adjustments, the cancellation fee is a preferable approach.

Snapshot of Competing Services

Table 4.2 provides a picture of some of the principal competitors to the taxi system currently operating in San Francisco via smartphone applications, as of July 2013. UberX is Uber's shared-ride service using private individuals and their vehicles. Uber advertises this as "cheaper than a taxi" although this appears to mean cheaper than Uber's taxi service, where customers pay the regular meter plus a fixed tip of 20% and drivers contract directly with Uber to rebate 10% of the metered fare. As of this writing, Uber is offering four services: Uber Taxi, Uber X, the original Uber limousine service, and a premium SUV limousine service. Uber X is Uber's competitive response to Lyft, SideCar, and the relatively new InstantCab.

In driver interviews conducted by Hara Associates, Uber Taxi was reportedly in use by a growing number of taxi drivers. Taxi drivers who use it appreciate the reliability of the dispatch call, due in part to Uber's cancellation fee policy.

4.3.2 Rewarding Better Dispatch

Customers pay the driver for the ride, not the taxi company. Companies receive their revenue indirectly, either through gate fees paid by drivers, or through affiliation fees paid by taxis operating independently under the company colors. The per shift gate fee is the traditional method of operation, and the focus of companies who wish to control the quality of their dispatch operation by a direct relationship with the driver and vehicle.

The structure of the current gate fee creates a disincentive for good dispatch service. The cap on gate fees is the same for all companies, currently an average of $104 for a hybrid car (almost all cars at this time). Companies wishing to invest in dispatch service with good transmission, multiple dispatchers, and

good software, receive the same gate fee as those providing minimal service. Worse, the companies that invest the least in dispatch are able to offer medallion holders a higher medallion lease payment, thereby attracting taxis away from companies trying to develop the dispatch market.

In cities where the gate fee is not capped, the gate fee charged to drivers varies with the service package offered by companies. Drivers have a choice of different packages. Drivers who work primarily the street-hail market and the airport go with a company (color scheme) that provides basic service in vehicle quality and dispatch. Drivers who feel they can do well in the dispatch market pay a little more per shift for a company with good dispatch and a good reputation among customers, because that company ultimately will provide the driver with more trips and higher revenue. These companies earn higher gate fees because of their greater investment and service to customers. The differences in lease rates need not be large. Additional overhead of $300,000 per year can be supported by a fleet of 300 taxis with a weekly difference in lease revenues of $20 per taxi, or approximately $1.35 per shift.

In San Francisco, introducing variable gate fees for different service packages provided to drivers would solve some of the incentive problem for good dispatch, while retaining the protection of driver incomes that the gate fee caps are intended to achieve.

Recommendation 3: **Variation in gate fees for good dispatch.** Hara Associates recommends that:

- commencing in the year 2015, color schemes whose dispatch trips, expressed as a percentage of total trips, exceed a minimum threshold be permitted to charge an average gate fee of up to 4% more than the standard gate fee, with the % premium varying according the share of dispatch trips out of total trips;
- the % premium be governed initially by the formula:

$$Premium\% = MaxPremium\% \times \left[\frac{\%DispatchActual - \%Threshold}{Range\%}\right]$$

  Where
  - Premium% is the percentage premium that a particular color scheme may add to the standard shift, and may not exceed the maximum premium.
  - MaxPremium% is the maximum premium—in this case 4%
  - %DispatchActual is the percentage of total trips on the fleet's meter that were dispatched by the company, either through traditional dispatch or through smartphone apps or equivalent services provided by the color scheme. Data based on the previous calendar year;
  - % threshold is the minimum percent dispatch at which companies become eligible for the premium – in this case 20%.
  - Range% is range of dispatch percent over which the incentive increases – in this case 20%. A company achieving 40% dispatch would receive the maximum premium of 4%.
- that the Director of Transportation review the above formula periodically to ensure the ranges it contain provide an effective incentive for good dispatch service.

Given the recommended starting values, the formula gives zero premium to companies with less than 20% dispatch, a 2% premium to companies achieving 30% dispatch, and the maximum 4% premium to those achieving 40% or more trips by dispatch.

Implementation is recommended for 2015 to allow the planned increase in medallions to come into full effect. A larger taxi fleet will better serve the San Francisco market, while simultaneously enabling drivers to experience the practical revenue benefits of receiving good dispatch service. Provisions for this incentive should be adopted in 2013 so that taxi companies can respond to the incentive during their year 2014 operations. Performance from year 2014 would determine premiums for 2015.

The impact on drivers is to provide choice. Drivers can continue to pay the base gate fee for basic service, or take a shift from a company providing a good share of dispatch trips for a bit more on the gate fee.

Passengers will experience better dispatch service as taxi companies are increasingly able to support the higher overhead of good dispatch operations, and strive to attract dispatch customers.

Basing the incentive on dispatch volume lets customers judge what a good dispatch service is by where they place their dispatch business. This avoids having the regulator dictate technical requirements on what constitutes a premium operation. For example, it may appear that having one's own dispatchers at the company office would be necessary for a premium operation. However, this is not necessarily the case. Boutique high quality services could develop that contract out dispatch to other high quality dispatch specialists, or base themselves on good smartphone software. The regulator avoids having to make these determinations, by judging performance on results: San Franciscans like the company's service and prove it by using it.

In the longer run, the formula can be adjusted to reflect quality of dispatch performance, such as percent of calls served within 15 minutes. At present, the first objective should be to expand the volume of dispatch service – which will in turn speed dispatch service and solve many dispatch quality issues.

4.4 OFFERING PASSENGERS A TRUE SHARED RIDE OPTION

An attraction of legitimate shared ride services is combining reduced costs with good environmental behavior—theoretically achieved by combining two trips, thereby reducing the overall carbon footprint. If Jane is going downtown to visit a friend, and picks up John on the way for his downtown shopping, two trips are accomplished in one vehicle.

In reality, the environmental benefit is not met when the driver of the shared ride is operating as an unregulated taxi driver. There is only the one trip by the customer – the driver is just there to provide the service in the same way as a regular taxi. If Jane has no trip of her own, and is just there to take John downtown and then move on to the next call, there is no shared ride. There is just a taxi service operating under low regulatory oversight of driver, vehicle, and insurance.

The taxi industry has the opportunity to provide San Franciscans with true-shared ride service, while at the same time increasing driver income, increasing capacity to handle late-night peak taxi demand, and providing a safer competitive alternative to shared ride services.

The idea is to allow taxi drivers the option of charging a flat rate to customers who are going to the same general area, and are willing to share a taxi at reduced cost. Possible example situations are:

- **Transportation nodes.** Passengers at Muni and BART stops, or other key transfer points, may wish to share taxis to the same neighborhood. The market among regular commuters may be the most likely growth area. A side benefit for public transit is the possibility of relieving

congestion along bus routes that have reached saturation in bus capacity.[4] SFMTA coordination with taxi stand space would boost success.

- **Entertainment districts.** Passengers returning home in the same general direction may wish to share a ride. This happens to some extent already between friends. Even in this case, a shared ride framework may simplify dividing and paying the fare.
- **Smartphone and dispatch innovation.** The taxi industry may find it profitable to organize shared ride service where pick-up is also from different nearby points. The potential effectiveness of taxi dispatch to operate as a fleet would be a competitive advantage over current shared ride services.

  An interesting example along these lines is the "Collecto" service in Brussels, Belgium. Between 11 p.m. and 6 a.m., customers can place a call or send a text message to book a shared taxi at any one of more than 200 stops throughout the city. Taxis are scheduled to leave from the stops on the hour and the half hour, and are dispatched to be no more than 10 minutes late. Upon entering the cab, patrons pay 6 Euros (5 in the case of those qualifying for a discount) and stay in the cab during its intermediate pickups and drop-offs, until it reaches their destination. This program was started to fill in for public transit during the evening hours, and has been in operation since 2008.

Including a fixed, shared ride fare in the rate schedule would be experimental. It should be a voluntary option, for both drivers and passengers. Not every driver will be interested. It requires a certain kind of entrepreneurialism on the part of the driver, especially at the beginning when the option will not be familiar to passengers.

San Francisco would be leading the way were it to provide such a service. With the exception of airports,[5] shared taxi rides at a fixed price are not common. Private jitney services along fixed routes can be found in some cities, San Diego for example, but this is not quite the same thing as a shared ride taxi. There is at least one US example, in New York. In the late 1980s, a neighborhood association in the Upper East Side neighborhood of New York City's Yorkville started a taxi-share stand offering trips downtown for a flat rate. The stand's destinations quickly narrowed to the financial district, which it still serves today, providing one way trips for $6.00 a person.[6] Based on the long-term success of this taxi stand, New York rolled out a number of similar stands, starting in 2010, at points throughout the city. These, like their Yorkville predecessor, offered service from a set location to a particular region of the city. Many of the new stands failed, due to lack of ridership, but several of them persist at high commuter traffic locations.[7]

There is no guarantee that there will be enough uptake by either drivers or passengers to make shared rides viable. When the shared ride option was mentioned in industry interviews, stakeholders indicated a combination of skepticism and open mindedness. There is curiosity about whether it would work.

Recommendation 4: **True shared ride.** Hara Associates recommends that:

- at the option of the driver and with the consent of passengers, taxis be permitted to offer a flat rate of $11.00 per passenger to two or more passengers sharing a taxi for part of the trip;

[4] Buses may reach capacity on a given street during peak hours when adding further buses would only slow net traffic volume and the available dwell-time at each bus-stop approaches full utilization. Such routes are candidates for light rail. In the short run, taxis can provide some relief by taking longer haul passengers on those routes direct to their end-points, perhaps using parallel routes as well to avoid the congested main street.
[5] SFO offers a shared ride van service by private operators using vans with seating capacity ranging from 8 to 15.
[6] Grynbaum, M. "Stand That Blaze Cab-Sharing Path Has Etiquette All Its Own" *The New York Times.* June 18, 2009.
[7] Grynbaum, M. "Taxi-Sharing Sites Adjusted for Demand, or Lack of It," *The New York Times*. January 24, 2011.

- such rates should be recorded on the taximeter;
- the rate would not apply to multi-person parties of related people going to or departing from a common destination, who would retain their right to pay the standard meter rate for the trip;

At $11.00 per passenger, the revenue to the driver from two passengers exceeds the average fare (currently $15.70) while still offering a substantial reduction to individual passengers for the typical trip. More complex rates for trips of different length would cover more cases; however, Hara Associates believes that simplicity will be important, especially at the outset, to promote this new option among both passengers and drivers. Drivers and taxi companies may also respond by licensing vehicles of higher capacity as taxis.

4.5 ADDRESSING INDUSTRY COST INCREASES

4.5.1 Reducing the Cost Squeeze While Improving Public Safety

While rising insurance costs attract attention, a more serious challenge to taxi company profitability is the cost squeeze from rising medallion lease prices. As discussed in *Managing Taxi Supply:*

A. The SFMTA sets a cap on the gate fees taxi companies can collect for their services.
B. Because the SFMTA is not enforcing the cap in gate fees on medallion holders who manage their own medallions and simply pay affiliate fees for dispatch services, there are an increasing number of medallion holders who go the *affiliate* route.
C. The uncapped rates charged by affiliate medallions yield higher revenue, driving up the price of medallion leases when companies seek to secure them.
D. Companies wishing to lease medallions to operate more taxis are forced to pay these higher medallion lease fees, but cannot raise their regulated gate fees to recover the cost. *Thus, the squeeze between rising costs and capped rates.*
E. Smaller companies with large investments in new equipment are particularly hard hit. They need to expand to achieve the scale that would justify the cost—but are faced with bidding for new medallions at the higher rates.
F. To make matters worse, low-overhead companies that provide little service can charge the same gate fees, and can bid more for the medallions that stick within the gas and gate system. *Thus providing good dispatch service and vehicles is negatively rewarded.*

Companies can bypass the cost squeeze by simply accepting affiliation fees instead of leasing medallions and providing taxis themselves. Unfortunately, affiliation is inconsistent with the kind of quality control that companies need to expand their dispatch market.

There is a further consequence for public safety. Currently, provision of the taxi and the driver is often *not managed by a licensee of the SFMTA.* When a medallion is given to an agent to manage on an affiliate basis, the agent or another third party may be the one providing the vehicle and making sure the driver is a trained, tested, and licensed taxi driver. This raises questions of accountability. Only the medallion holder and the color schemes are licensed and accountable to the SFMTA. Under an affiliate lease, the color scheme may never see the vehicle, and the medallion holder may not see the vehicle either.[8] If the vehicle also avoids having an airport sticker to use the airport, the vehicle may evade direct inspection altogether. On a given day, the question of whether the driver is actually a licensed taxi driver is also without accountability. Similarly, adherence to the gate fee cap charged the driver is without direct accountability

[8] A medallion holder may meet the minimum driving requirement with a different medallion.

Recommendation 5: *Elimination of Third Party Brokers.* Hara Associates recommends that regulations be amended to require medallion holders to either:

- manage the operation of their permit themselves by, at minimum,
  - providing the vehicle and insurance in their own name
  - ensuring the vehicle complies with regulations
  - ensuring that only licensed taxi drivers operate the vehicle as a taxi; or

- put the medallion under the management of a color scheme.

In addition, color schemes managing a medallion should be required to provide the associated vehicle and insurance directly, and ensure that only licensed drivers operate the vehicle as a taxi.

This measure ensures that vehicle and driver are under the direct management of a licensed party that is accountable to the regulator. It also provides some relief to the cost squeeze experienced by companies. If enforced effectively, taxi companies will no longer have to bid for medallion leases against third party agents who are not adhering to the gate fee cap or are cutting corners in other ways.

Not Recommended: Differential Standards and Gate Fees for Taxi Companies

Third party brokers are not the only factor bidding up medallion lease fees. As discussed in *Managing Taxi Supply,* companies with large overhead investments in dispatch service receive the same gate fees as low-overhead companies. Competition from the low overhead companies also bids up medallion lease prices.

Companies with investment in full facilities feel that there should be r a difference in gate fees based on company infrastructure, or that all companies should be required to provide the facilities of a full operation. Suggestions of requirements include:

- Garage with 7x24 mechanic on-duty.
- Parking facilities sufficient to meet shift change requirements (such as equal to one-third of medallions associated with color scheme)
- Minimum fleet size.
- In-house dispatching (as opposed to contracting out to a dispatch service).

A problem with this approach is practical enforcement. Any of these rules can be met in a bad way. Companies can unite in various complex contract arrangements to achieve minimum fleet size, without changing operations. A 24x7 garage can be obtained by contract, or co-location with a garage, without actually delivering improved oversight of vehicles. Parking may require a secondary lot – how far away is allowed? (The largest company, Yellow, has a supplementary lot near its main site).

Attempts to follow this path can have some success, but at the expense of

- ever more complex rules to plug loopholes
- individual application and approval processes; and
- the diversion of enforcement resources when the greatest need is on-street enforcement and protection of the industry from illegal operation in the street-hail market.

Further disadvantages of the approach is dictating methods of taxi operation (in-house dispatch may not always be a good idea), and erecting barriers to entry to unique taxi firms wishing to launch new or specialized kinds of taxi service (e.g. shared ride?).

There is a need to have gate fees differ according to different kinds of taxi company operation. The recommendation of a higher gate fee cap for higher volume dispatch companies is intended to address this, without dictating specifics of taxi company operation (See Section 4.3.2 Rewarding Better Dispatch).

4.5.2 Rising Costs, Meter Rates, and the Gate Fee Cap

Since the last meter rate adjustment in 2011, the cost of insurance per San Francisco taxi has risen from around $6700 to as high as $10,400 depending on the company and time of renewal.[9] That is an increase of as much as 55% over two years. The price of gasoline in San Francisco has risen 15.8%,[10] although much of that increase occurred between the spring 2011 decision to increase meter rates, and its implementation in September. As detailed in Chapter 2, the cost of operating a taxi has increased an estimated 5.8 % since the last meter rate adjustment. However, the burden of the cost increase varies by industry role. Most of the cost increase has fallen on the party that pays insurance. Thus, the cost of operation for taxi companies operating a traditional gas and gate taxi has risen as much as 15.8% since 2011.

To what extent should recent operating cost increases be accounted for in 2013 meter rate adjustments? Normally, the principle would be to adjust the meter rate proportionate to changes in operating costs. This meets the regulator's obligation to ensure conditions permitting a just and reasonable rate of return to industry investment. In this case, however, the industry already has one of the highest meter rates among comparable cities. In addition, many industry stakeholders themselves have expressed concern about raising rates in the midst of current challenges from smart-phone dispatched limousines, shared ride services, and regulatory uncertainty at the state level.

Income Distribution within the Industry – No Gate Fee Adjustment Since 2008

A related issue is how gate fees are set. If the meter rate is adjusted upwards, but gate fees are held fixed, then the increased fare does not reach the taxi companies who are bearing some of the increased costs. This happened in 2011. Gate fees were held fixed when meter rates were increased. Gate fees in San Francisco have not been adjusted since 2008. Color scheme costs have risen an estimated 18.8% since then.[11]

This situation is only sustainable because the gate fee covers both taxi company costs, and returns to medallion holders. As discussed in Chapter 2, this means gate fees are well in excess of the cost of providing at taxi. When costs rise faster than the gate fees, the difference is ultimately borne by medallion holders as taxi companies adjust the competitive rates they are willing to pay to attract medallions to their color.

The same is true for increases in gate fees. When gate fees are increased, there is a temporary gain by companies until competitive rates for medallion leases adjust. The long-term benefits end up with

[9] Averages based on multiple sources.

[10] Based on the Consumer Price Index for San Francisco – Oakland – Fremont (U.S. Bureau of Labor Statistics Series CUURA422SETB01). Comparison is from February 2011 to February 2013. Fuel prices rise seasonally, so that it is important to compare the same months within a year. February was the lead up month to the May 2011 SFMTA Board meeting where the rate decision was made.

[11] Based on the cost index discussed further below, adjusted to reflect recent increases in the cost of insurance.

medallion holders. Companies benefit, in the long-term, only to the extent that they have pre-K medallions (or hold fixed term corporate medallion leases from the SFMTA).

Thus, the decision on gate fees is largely one of income distribution. The industry is sustainable at a number of different levels of gate fees, reflecting different rates of return to holding medallions. This includes rates of return that are more than sufficient to sustain the current administered medallion transfer price of $250 thousand. Despite growing competition from other services, taxi demand remains strong enough to more than sustain this level.

Timing of Gate Fee and Meter Rate Adjustments

Choosing how the income generated by taxis will be divided is an issue faced by all cities. San Francisco has taken an approach that values adequate driver income. With proposition K, residents voted to create an owner-driver system where the bulk of medallions are held by drivers – ensuring that income associated with these rights goes to working drivers. For drivers without medallions, a cap has been placed on the gate fees, to ensure that the lease of a taxi and medallion remains affordable. In general, adequate driver income is important to retaining skilled drivers who know the city and know how to serve the customer.

A problem for San Francisco has been that meter rates and gate fees have been adjusted in different years, rather than together. This creates differences in expectations that threaten to cause conflict within the industry, in turn harming the quality of taxi service. If we adjust gate fees by 20% this year to match the 20% increase in meter rates in 2011, then non-medallion drivers (the majority) will experience a drop in annual income of as much as $5,000 per year. Drivers who joined the industry after 2011 would find this particularly shocking.

Options for Meter Rate Adjustment

The principle choices for accommodating cost increases on the meter in 2013 are:

- **Do nothing.** If nothing is added to the meter or the gate fee cap to cover increased costs, the short run burden will be borne by taxi companies paying higher insurance premiums and drivers who are paying higher fuel prices. Smaller companies, especially those already investing in high overhead for dispatch, feel this threatens their existence. The additional $3,800 in annual insurance costs per taxi means hundreds of thousands taken from the bottom line. In the long run, the cost burden will be shifted to medallion holders as companies alter what they are willing to pay for medallion leases. This may not help companies that lack the capital depth to stay in business.

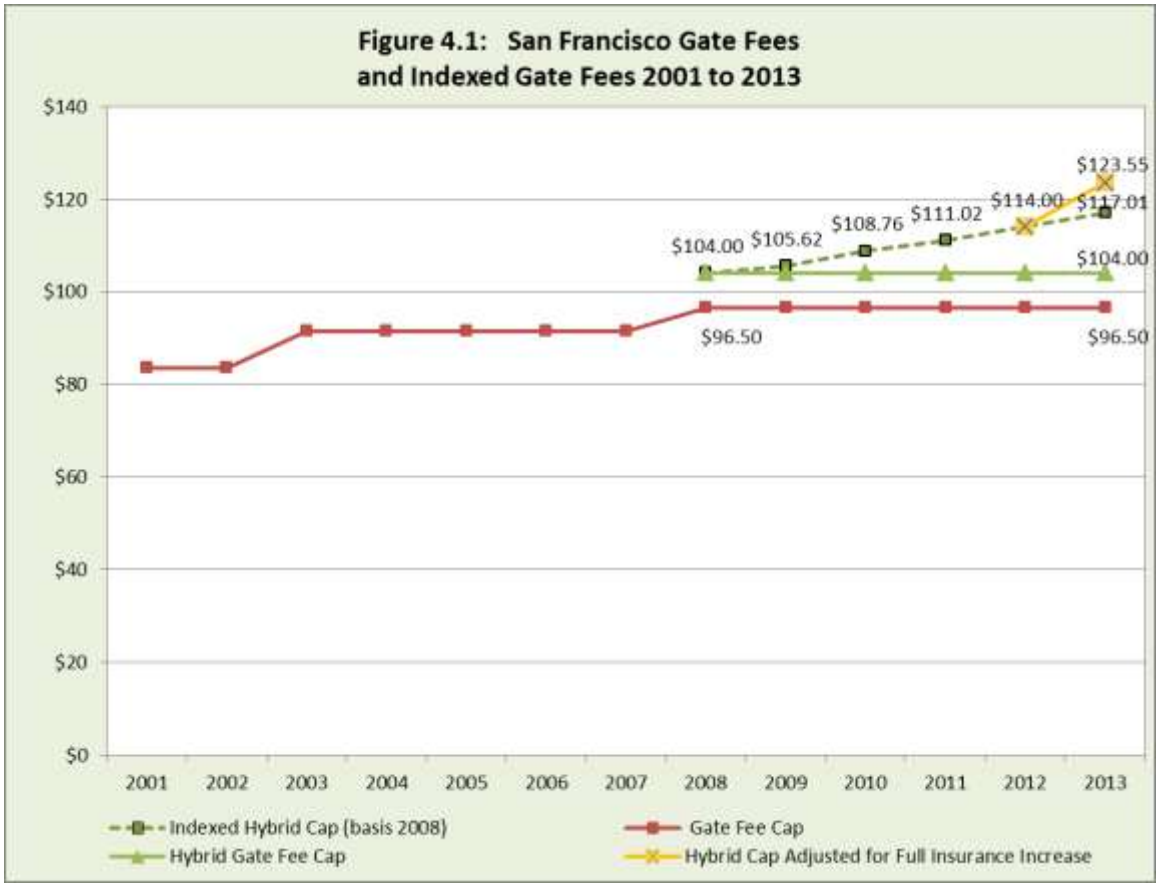
  A further concern is the long-term policy signal given to medallion holders. They receive their funds out of the gate fees charged drivers. The regulated gate fee cap has not been adjusted since 2008. If costs continue to be loaded onto medallion holders without an adjustment in revenues, the business case for being a medallion owner is undermined. At present, medallion ownership is rewarding. However, the purchase of a medallion is based on both present conditions and future expectations.

- **Full relief.** This calls for an increase of 5.8% on the meter. While justified from a cost perspective, this is a lot to add to rates in the current uncertain climate. As discussed in section 4.1, the current focus for the industry should be defending its market by improving the brand and serving customers better, combined with enforcement to protect the public and industry against illegal operators.

  A further concern about full relief is the policy precedent it sets for cost adjustment. It makes sense to adjust meter rates for rising gas prices, because the taxi industry does not determine

gas prices. However, taxi insurance is a very local market, different in each city (see Chapter 2). Automatically giving full coverage to changes in local taxi insurance costs effectively gives insurers the ability to charge whatever the market will bear, and removes incentives for the industry to manage this cost. Rising insurance costs are a general trend across North America, but the degree of impact by locality can vary widely according to the industry's approach to developing alternative insurance providers, managing risk by drivers, and litigation.

- **Partial relief.** Offering some relief for cost increases through a parallel meter rate and gate fee increase is justified, although current circumstances may not permit it. Offering relief provides a rational long-term signal to taxi companies and medallion holders. It may also help struggling companies survive and develop the dispatch services San Francisco needs.
- **Share the pain.** A further option is to share the burden among taxi companies, drivers, and passengers. The 2011 meter rate increase was not accompanied by an adjustment to the gate fee cap. As a result, the meter rate increase went entirely to drivers. Many industry stakeholders expected a gate fee increase to follow—but this has yet to occur. Meanwhile, taxi companies are bearing the burden of the large increase in insurance costs.
- **Catch-up for 2011 exclusion of gate fees**. An even stronger approach to sharing the pain would be to adjust gate fees to catch up with all or part of the 20% meter rate increase of 2011. A proportionate 20% increase in gate fees would more than cover the 18.8% increase in color scheme operating costs since 2008 (Figure 4.1) It would also lower taxi driver incomes by more than $5000 per year. Applying the formula for future rate increases (discussed in the next section) retroactively, suggests a more reasonable 12.5%, or an increase from $104 to $117 per shift for a hybrid taxi. If the pain is to be shared with non-medallion drivers, a lower gate fee increase than this would be called for. If pain is to be shared with customers, a meter rate adjustment would also be required.



4.5.3 Recommendation for 2013 Meter Rates and Gate Fees

Hara Associates shares the apprehensiveness of industry stakeholders over raising meter rates at present. Although industry costs have risen substantially, San Francisco meter rates are already at the high end of the range for comparable cities. The recent proposed decision by the PUC to extend and legitimize the commercial operation of shared ride services also creates regulatory uncertainty until actual rules are clarified. There is also the continued competitive challenge at the high end of the market, smart-phone dispatched limousine services.

Recommendation 6: **No Meter Rate Adjustment for Cost Increases.** With the exception of the recommended 35 cents per trip to relieve drivers of credit card fee processing charges, no meter rate increase is recommended for 2013.

With no financial relief from the meter, the focus of decision-making is the gate fee cap.

The industry itself is divided on the subject. Large companies want a substantive increase in the gate fee cap to reflect their higher costs, and to catch-up for the lack of adjustment since 2008. Requests range from $10 to $15 per shift (a roughly 10% to 15% increase). At the same time, they feel that they will likely not be able to raise gate fees to their desired new cap, as they would lose drivers and not be able to fill all shifts under current driver shortages. However, given the infrequent historical adjustment of the gate cap, the larger companies want an increase in the gate cap, so that they will have more flexibility going forwards, even if they are unable to charge the full amount immediately.

Smaller companies are against a rate cap increase because they are feeling the driver shortages more acutely and may not be able to raise their gate fees in any event. Smaller companies also note that the larger companies pushing for a gate fee increase also benefit through medallions they control. In particular, these companies were the majority recipients of 150 medallion leases issued last year by the SFMTA (termed the 8000 series). The SFMTA allocated these medallions based on quality of service assessments. The 8000 series are leased for three years at a fixed cost of $2000 per month, so any increase in gate fees charged for their use would be a net increase in revenue to those companies.

Drivers are also of a mixed position. Most drivers expected an increase in the gate fee cap to follow after the 2011 meter rate increase. Even so, some drivers who do not hold medallions feel that gate fees are too high at present and should be rolled back. Medallion holding drivers favor a gate fee increase, but at a lower level than suggested by companies.

The decision on the gate fee cap is partly a social decision for San Francisco. What distribution of income within the industry do we wish to preserve? If we wish to preserve the present division between non-medallion drivers, companies, and medallion holders, then we would minimize any adjustment in the gate fee cap. However, the present distribution of income is based on the 2011 meter rate adjustment. That adjustment caught up for five years of cost increases, but gave all that catch-up to drivers by leaving the gate fee cap unchanged. If we want to preserve the distribution of income in the industry prior to the 2011 meter rate adjustment, then we would view a portion of those income gains by drivers as temporary, and restore that share to other industry stakeholders by raising the gate fee cap substantially.

There are also practical considerations. Industry stakeholders cannot be expected to continue to provide, and to expand, the provision of taxis while having returns frozen at 2008 levels. The surprising increase in insurance rates has also placed short-term pressure on the survival of some companies – exacerbated by the competitive challenges from outside the industry. Taxi companies need an assured

financial framework for the future, in order to survive current cost increases and invest in new strategies and services to meet the competitive challenges from shared rides and limousine services. Promising a regular revision of gate fees and meter rates will help, but an immediate assurance is also needed.

The practical reasons speak to the collective interests of the industry, and improved quality of service to the taxi user. As a result, Hara Associates recommends the following:

Recommendation 7: **Gate Fee Cap.** For 2013, Hara Associates recommends an increase in the maximum permitted average gate fee of $16 for hybrid vehicles, and $15 for non-hybrid vehicles, inclusive of the previously recommended $6.25 gate fee adjustment for eliminating credit card processing fees charged to drivers. This raises the gate fee cap to $120 for hybrid vehicles and $111.50 for non-hybrid.

Net of the $6.25 for assuming credit card processing fees, this is a $9.75 per shift increase in the cap for hybrid vehicles (the most commonly used). This amount provides substantive relief to taxi companies and medallion holders, although less than the 12.5% increase in company costs since the 2008 gate fee adjustment.[12] The $9.75 is also at the low end of the $10 to $15 suggested by companies, and at the high end of the range suggested by driver representatives

Taxi companies may not raise actual gate fees to the new maximum, given current driver shortages. Even so, having the ceiling adjusted provides an assured financial framework for the future, and provides companies with maneuvering room to invest in improved service to meet competitive challenges.

Not Recommended: New Cap on Medallion Lease Rates

A different suggestion by some stakeholders was to cap medallion lease rates in addition to, or instead of, a cap on the gate fee. The gate fee cap places a limit on a bundle of services that include the medallion, the taxi itself, insurance, dispatch service, color scheme, etc. However, the main point of a gate fee cap is to ensure that the least cost to drivers is not driven up because of the limited supply of medallions. The question is posed: Why not limit the lease rate of medallions directly? Some cities do this (see Section 2.6: Comparison with Other Cities). It would also seem to address the concern by taxi companies about medallion lease fees being bid too high.

One objection to a cap on medallion lease rates is enforcement. It is easy to bypass with cash payments, or even legally by overpaying or discounting for other services (like affiliation to a color scheme or garage services). San Francisco used to have such a cap, allegedly accompanied by payments in cash envelopes. The gate fee cap has similar enforcement issues, but has the advantage of being a cap on the entire bundle of services necessary to run a taxi. It is more difficult to arrange cross-payments outside the bundle, and the process of taking a taxi out for a shift is more easily policed by under-cover officers (or media reporters – as per recent exposé in Boston). San Francisco taxi regulation has the advantage of a relatively simple approach – an advantage that should be preserved.

A further disadvantage of a cap on medallion leases is that, if effective, it removes the incentive for the medallion holder to move their medallion to the more efficient taxi company. This report has recommend payment of up to a 4% premium to taxi companies who achieve high volume dispatch. Part of the incentive is that such companies would be able to use the higher gate fees to attract medallion holders and expand the fleet. If medallion lease fees are capped at the same level for all companies, there is no reason for medallion holders to move taxis to better performing companies.

[12] As assessed by the taxi cost index discussed further below. The taxi cost index approach limits consideration of insurance costs to changes in the average cost of auto insurance nation wide.

Idea for the Future: Target Driver Income more Directly

Another suggestion raised by stakeholders was to remove the gate fee cap from companies whose records showed that the average driver was making sufficient income. This idea is feasible under modern dispatch technology, since the meter revenue and driver for each trip is recorded of by modern dispatch management systems in order to generate fleet management reports.

This idea requires a system of data exchange and tracking by the regulator that is more developed than exists at present in San Francisco. It also requires development of consensus of what constitutes an acceptable average driver income. The idea comes up now, in part, because the meter rate increase of 2011 occurred without a corresponding gate fee increase. As a result, driver earnings showed a marked jump, which taxi companies are well able to see through their dispatch system records.

4.6 MEETING THE COMPETITIVE CHALLENGE: ACCELERATING SUPPLY

The previous report, *Managing Taxi Supply* had found that a principal reason for the expansion of alternative services in San Francisco was the shortage of taxis, and related failure in taxi dispatch due to lack of taxis. A staged expansion over 2013, 2014, and 2015 had been recommended and is now underway. The qualification of drivers to receive or purchase the 120 medallions recommended for 2013 is now largely complete, although those medallions have yet to enter service.

The draft decision on shared ride services published by the California's Public Utilities Commission places a greater urgency on the expansion of the taxi fleet recommended previously in *Managing Taxi Supply.* That decision opens the door to a possible rapid expansion of the shared ride industry. Some of that expansion may represent the innovative development of a new market, but much will be an expansion into the space left by the shortage of taxis and an unsatisfied demand for taxi service.

In addition, effective competitive strategies by taxi companies call for the provision of more effective smart-phone apps to match the convenience offered by alternative services. The cancellation fee recommended by this report will help improve dispatch reliability, but no app can succeed if there is insufficient supply of taxis behind it. Apps gain their popularity. This means the app must reliably generate a taxi. Without adequate taxi supply to meet demand, any San Francisco taxi dispatch app will founder on its own success as its volume increases.

Recommendation 8: **Accelerating expansion of the fleet.** To the extent possible, the previously recommended 2014 release of 200 medallions should be accelerated, along with subsequent expansion of the fleet. More taxis equal better dispatch service, more effective taxi apps, and satisfying the unmet public demand for taxi service. It is the unmet public demand for taxis that is feeding excess expansion by alternative services.

We note that taxi demand by the public is still strong despite the expansion of shared ride services under the PUCs temporary arrangements. Grey market medallion lease values paid by third party brokers are currently a reported $3000 to $3500 per month. Color schemes are offering upwards of $2500 per month directly. Both amounts are still well above levels justifying the administered medallion transfer price of $250,000. The continued health of the industry depends on getting enough taxis on the street to serve the public effectively in the dispatch market. A wait and see approach will only prevent the growth of effective taxi dispatch and associated taxi apps.

4.7 FUNDING REGULATOR TECHNOLOGY

Effective regulatory oversight is what justifies taxis' protected existence. It is part of the taxi brand. Passengers expect taxis to be a safe and good mode of transportation and that they will have recourse if a trip does not go as expected. Passengers also expect municipal authorities to have enough presence on the street to ensure that when they think they are getting into a taxi, that is what it is—a genuine taxi. Effective oversight is part of customer service.

The bar for effective regulatory oversight is rising. In our wirelessly connected world, why shouldn't we be able to locate a wallet left in a taxi when all we remember is the place and time we left the taxi? Why should a taxi inspector have to phone the office to determine if a driver or a medallion is operating with a revoked license? What if it's after office hours? Do we only have law enforcement during the day? Does the regulator have to rely on the licensees it regulates to provide the information necessary for performance monitoring of those licensees? Having collected masses of data, how does the regulator digest them into a useable picture?

The answer to many of these questions is modern technology applications for the regulator. This may be handheld units that give enforcement officers access to current records and history. It may be systems that collect and report taxi trip information, and give real time up-to-the-minute access to information on trips. It may mean software and record retention to analyze dispatch performance and compliance records of taxi companies and individual operators.

Bringing the regulator's technology up to date is also essential to efficiently using overly stretched enforcement resources for on-street enforcement of illegal operators. This challenge will only grow as an increasing number of outfits operate under the cover of being shared ride or limousine services.

All of this raises the question of funding. How should we fund the new expenses of bringing the regulator's technology up to same degree of modernity as the rest of the industry?

There are four principal sources of funds:

- **The meter – via permit and license renewals.** Traditionally, taxi regulation is funded through license fees and service fees collected from color schemes, medallion holders, and drivers. All of these are ultimately paid from the source of the industry's revenues: the meter. Increased financial requirements typically mean an adjustment to meter rates accompanied by an increase in license fees.
- **The meter –** via payment service providers. Washington DC is currently pioneering direct collection by licensing payment service providers and using the systems already in place for credit card processing. This is technically feasible, although resistance to this new function by PSPs might be high given San Francisco's rollback of their processing fees from 5% to 3.5%.
- **Medallion sales.** Sales of medallions generate revenue. At times, such as the current expansion of medallions, the amounts can be impressive. However, it is also irregular and uncertain. San Francisco went many years without medallion sales, and may do so again in the future.
- **Medallion leasing.** A recent policy approved by the SFMTA is to participate directly in leasing medallions. This is an alternative to medallion sales for at least a portion of medallions, and could be a source of ongoing funding. It is also an experimental policy whose revenue potential remains to be proven.
- **General public revenue.** The public purse could provide funds out of general tax revenue or the broader SFMTA budget. This seems out of tune with current public finances. There is also the

general principal that taxi regulation should be able to support itself from the value it creates for users and the industry.

Industry stakeholders of all quarters strongly oppose raising meter rates to fund new regulator requirements, whether or not new programs result in better value to the customer. At present, there is a substantial short-term increase in revenues from new medallion sales and leases, as the taxi fleet is expanded. In the context of this revenue, industry stakeholders are opposed to increased funding for the regulator through a meter charge or through increased permit renewal fees. The industry feels it is under enough pressure from operating cost increases and from ride-sharing and smart-phone dispatched limousines. Since the industry is not seeking a meter rate increase to cover its own cost increases, it is loath to see the meter rate rise to fund regulatory needs.

However, regulatory oversight and enforcement is an ongoing task that requires a stable funding base. It should not rely on being flush with medallion sales in occasional years. In theory, medallion leasing is more continuous, but in reality, lease revenues will rise and fall subject to economic conditions. This is an advantage in terms of managing taxi supply, but a drawback in terms of stable funding.

The taximeter is the logical choice for a stable funding base. Ultimately, all medallion sale and lease revenue is derived from meter revenue. Medallion lease revenue is comes from returns generated through the meter, and medallion sales borrow from future meter revenue. Adding a fee to the meter collects the same money more directly. A fee of 5 cents on the meter would generate approximately $1.4 million per year. This could be recovered via permit renewals fees for either color schemes or medallions at $730 per medallion (effectively $1 per shift). Among the peer cities reviewed for this study, three of the jurisdictions operate on a full cost-recovery basis, Miami-Dade County, San Diego and Seattle.

In line with leaving the meter rate unchanged for 2013, Hara Associates does *not* recommend the addition of a fee to the meter to fund the SFMTA at this time. However, it remains an important option to move regulator funding to a stable basis, once the fleet expansion has completed, and medallion transfer revenue declines to normal levels.

Recommendation 9: **Funding regulatory technology.** Hara Associates recommends that, in the coming year, funding for new regulator technology be sourced from medallion lease and transfer revenue. Meeting requirements this way is consistent with the acceleration of fleet expansion also recommended in this report.

In the longer run, as the taxi fleet is expanded to its optimal size and medallion revenue declines, the SFMTA should plan to move a portion of its funding requirements to a nominal charge on the meter.

4.8 REGULAR REVIEW OF METER RATES AND GATE FEE CAP

Like all industries, the taxi industry is more efficient when it is able to plan for its future. This is easier when all the players know that meter rates and gate fee caps will be reviewed regularly, and are aware of the basis on which they will be adjusted.

Regular review has not always happened in the past. Meter rates went unchanged for five years from 2006 to 2011. Gate fees have not been adjusted since 2008, seven years ago.

SFMTA regulations now call for a regular review of both, at least once every two years. This section recommends formulas for meter rates and gate fees to guide that review on an annual basis.

4.8.1 Meter Rate Adjustment

The key choices for adjusting meter rates are:

- **Cost inquiry.** A regular in-depth review of costs and revenues to taxi companies, drivers, and other industry stakeholders.
- **Consumer Price Index**. Adjust meter rates in proportion to rises in the general cost of living as measured by the Consumer Price Index maintained and published by the US Department of Labor.
- **Taxi cost index**. Adjust meter rates in proportion to changes in cost as measured by a Taxi Cost Index—an index utilizing published data sources, including elements of the Consumer Price Index, but based on the cost of taxi operation rather than the cost of living.

The advantages and disadvantages of each are discussed below.

Cost Inquiries

In a cost inquiry, the revenue and costs of operating taxis and taxi companies are reviewed to determine if the regulator has met its responsibility to allow a just and reasonable rate of return on capital invested. This approach is rarely used for taxi industry regulation. It is more typical of the rate regulation of large enterprises, like water, power, or telephone companies. Drawbacks to this approach for taxi regulation include:

- *Administrative Expense.* Conducting this form of enquiry requires a great deal of financial analysis by both the regulator and industry stakeholders. The process tends to be adversarial, requiring lengthy hearings. Even regulators of large utilities have tended to move away from this approach and towards index approaches (see below).
- *The test is already met.* The fact that individuals are willing to purchase or lease taxi medallions means that the general rate of return in the industry is already higher than normally available. It is an outcome of limiting the number of medallions—for which there is a long established (and debated) policy rationale. Thus, the normal tests for just and reasonable rates of return on capital are usually met for the industry as a whole.
- *More than one competitor.* When one water monopoly is having its rates reviewed, there is little harm in having its detailed costs put on the public record. The case is different for taxi companies, which compete with each other and may not wish all the details of their operation known.
- *Reliance on industry-provided data.* The process tends to rely on data provided by the industry itself—a potential source of bias that requires careful audit.
- *Perverse results.* There is a large body of literature indicating that regulating in this fashion can lead to perverse results, such as overinvestment in capacity by the industry.

As a result, regulators have sought alternative methods of rate setting that are cheaper, and provide an independent check on industry arguments as to how their costs have changed.

Consumer Price Index

A common alternative approach is to adjust meter rates according to general increases in the price level as measured by the Consumer Price Index (CPI).[13]

[13] There are more accurate measures of inflation than the Consumer Price Index, but the CPI is a relatively well-understood concept based on the cost of living to consumers.

This has the advantage of simplicity in that it uses independent estimates published regularly by the US federal Bureau of Labor Statistics.

The drawback of the CPI is that it measures the cost of living, not the cost of taxi operation. While the cost of living includes the cost of fuel, the weight given to fuel price changes is far less than the importance of fuel costs to taxi operation.

With volatile and rising fuel costs, jurisdictions following the CPI have been forced to add fuel surcharges. Fuel surcharges have drawbacks of their own. What happens when the price of fuel falls again? A good fuel surcharge has a trigger price that turns it on and off, but this too is problematic owing to such things as regulatory lag and seasonal variation in fuel prices. A bigger problem is that fuel surcharges put excessive focus on fuel, when other cost elements, like insurance, may be at least as important.

The CPI provides a useful guide. Even more desirable is an approach that is more sensitive to changes in the costs that are important to the taxi industry.

Taxi Cost Index

A taxi cost index works similarly to a consumer price index, except that that it measures the percentage change in the cost of operating a taxi, rather than the percentage change in the cost of living for the average consumer. Each cost component receives a weight proportional to its share in total costs of operation. For example, if fuel costs were half of total costs,[14] then a 10% increase in fuel would result in a 5% increase in the cost index. The City of Los Angeles has used a cost index for more than twenty years.

A cost index is applied in three steps:

1. **Develop cost profile.** An operating cost profile of a typical taxi is developed. The result is a percentage of cost assigned to each type of cost (fuel, vehicle, insurance, etc.), adding up to 100%.
2. **Monitor changes in cost.** Changes in cost for each element are monitored using publicly available information. For example, the cost of fuel in the San Francisco area is monitored monthly by the US Bureau of Labor Statistics.
3. **Calculate % change year-by-year**. The overall percentage change in costs is calculated each year, relative to the base year when the index was started. The calculation can be automated with a computer spreadsheet. Anyone doing the calculation should find the same a result—providing a transparent process that anyone can verify. If needed, the percentage change in costs can be done in any month using the previous month's published data.

The advantages of a cost index are:

- **Specific to each city.** Costs of taxi operation vary from city to city. Fuel costs vary, distances per fare vary, time spent waiting for a fare varies, etc. The cost index can be based on taxi operation typical of the individual city;
- **Easy to update.** Once the cost profile for the starting year is established, the index can be re-calculated whenever desired using published data from the US Department of Labor or other reliable public agencies. Usually this is done annually;
- **Easy to apply.** If the cost index rises 2%, then rates can be adjusted upward by 2%;

[14] The proportion of "half" is chosen to keep the mathematics simple—it is not a real number.

- **More regular rate adjustments.** Ease of application allows regular small adjustments to fares, rather than large adjustments after a few years. The index should be reviewed and re-based at least every ten years;
- **Standardized methods.** The principles of cost indexes are well known and applied in many fields. Calculation can be embodied in a computer spreadsheet that can be reviewed by anyone and crosschecked against public sources.

The disadvantages of a taxi cost index are:

- **Only preserves the status quo.** A taxi cost index is used to keep the profitability of the industry at the same level as the base year that is chosen. It says nothing about whether the profitability in the base year was too high or too low.
- **Requires updates approximately every ten years.** The cost index assumes that the physical requirements for operating in the industry remain unchanged. In reality, fuel efficiency of vehicles may improve. Other changes also occur, including longer lasting vehicles with lower maintenance requirements or a shift to a new kind of vehicle such as hybrids. When technology changes, the cost index will no longer give the correct weight to each factor. *Cost indexes should be updated at least once every ten years to account for technological change.*
- **Does not capture industry specific price impacts.** Because the index is intended to be easy to administer, it is based on publicly available general statistics related to each cost element. For example, insurance costs would typically be tied to changes in the general cost of private auto insurance as measured by the Bureau of Labor Statistics. The cost of auto insurance to consumers has been rising sharply—up 8.1% since 2011—compared to an average rate of inflation of 5.5% over the same period. This does not fully capture the increases in taxi insurance of up to 55% experienced locally. However, there are also good policy reasons why one does not want to fully compensate for cost changes that are unique to the industry itself (see discussion of "full relief" option in previous section).

Cost Index Recommended for Meter Rates

The advantages of a cost index over the Consumer Price Index are most evident when rising costs are concentrated in areas specific to taxis, such as the recent increases in fuel prices and insurance in San Francisco.

Recommendation 10: **Adjust meter rates with cost index.** Hara Associates recommends that the Director of Transportation:

- maintain a cost index for taxi operation based on a weighted average of changes in the cost of gas, insurance, vehicle maintenance and repair, vehicles purchase, San Francisco wages, and the general price level; as measured by publicly available data sources;
- begin such an index consistent with the cost items, weighing, and data sources listed in Table 4.3:
- submit annually to the SFMTA board of directors a report on cumulative changes in the cost of taxi operation as estimated by the index; and recommended changes in meter rates consistent with changes in costs of taxi operation as measured by the index.

The recommended index is based on the costs of a San Francisco taxi operated on a gas and gate basis, and complying with the gate fee cap. The index is intended to apply starting next year, 2014, following the specific rate recommendations for 2013 made by this report.

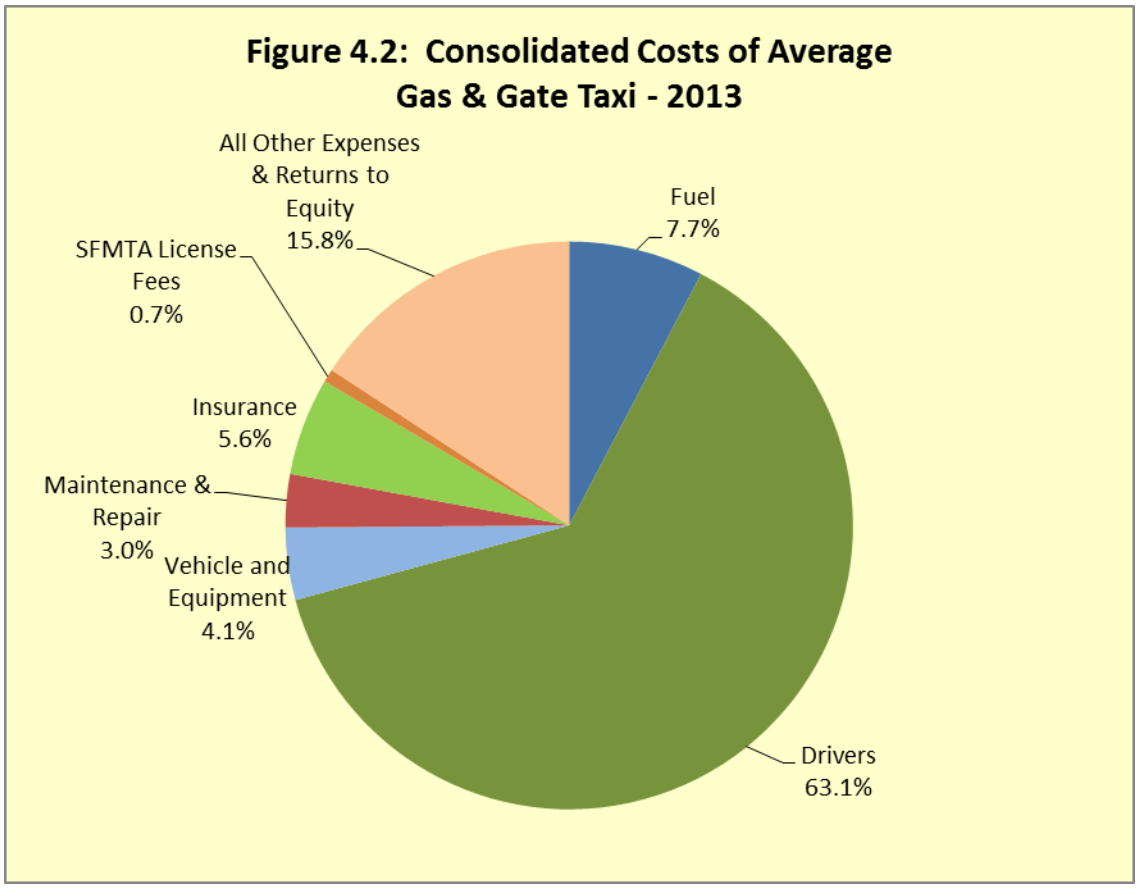


Table 4.3 – Recommended Cost Index Weights and Data Sources

Data Source (US Bureau of Labor Statistics)

Item	Weight	Description	Bureau of Labor Statistics Statistics Series Identifier
Gas	7.7%	Price of gas in San Francisco - Oakland - San Jose CA	CUUSA422SETB01
Maintenance & Repair	3.0%	Cost of vehicle repair—US City average	CUSR0000SETD
Insurance	5.6%	Cost of vehicle insurance—US City average	CUSR0000SETE
Vehicle & Equipment	4.1%	Cost of automobile western urban USA	CUUS0400SETA
Return to Drivers	63.1%	Wages in transportation sector in San Francisco	OCC: 53-0000
Other	15.8%	General Consumer Price Index San Francisco - Oakland - San Jose, CA	CUUSA422SA0
SFMTA License Renewal Fees	0.7%	Actual changes in fees for renewal of taxi driver license, color scheme, and medallion. For every $100 increase in total renewal fees per taxi, meter rates would increase by 0.05% (five one-hundredths of 1%)	
Total	**100.0%**		

The weights column in Table 4.2 shows the impact of a 1% change in cost of a selected item. For example, if gas prices increase 10%, then meter rates would increase by 0.77%.[15] Changes in cost are measured by the publicly available data sources shown in the table. The weighting is based on the cost profile developed and reported in Chapter 2. Figure 4.2 is reproduced from that chapter.

The largest cost of taxi operation is, of course, the net return needed to keep a well-qualified driver behind the wheel. If wage levels rise in San Francisco, it will be necessary to offer similar increases in net returns to drivers, or better-qualified drivers will begin to leave the industry for better wages elsewhere. The table ties the % change of driver net returns to the % change in average wages of transportation occupations in the San Francisco area.

One of the smallest costs of annual taxi operations are SFMTA license renewal fees. Thus, for every dollar of increased fees, the meter rate needs to be adjusted to increase annual yield by a dollar. As a percentage, this is a very small amount—0.05% for every $100 in increased annual fees.

A computer spreadsheet tool, with documentation, has been provided to simplify administration of this recommendation. Also provided is a worksheet to convert percentage increases into meter rates expressed as cents per meter.

4.8.2 Gate Fee Cap

Gate fees charged to drives for shift rental of a taxi also need to respond to increased costs of operation. For taxi companies to invest in the future, and to preserve the viability of taxi shift rental, a regular and transparent method of adjustment is needed. Since gate fees and meter rates are both linked to operational costs, it makes sense to review meter rates and gate fees at the same time.

Recommendation 11: **Adjust meter and gate together.** Hara Associates recommends that, as a matter of policy, meter rates and gate fees be adjusted at the same time.

Given the use of a cost index for meter rates, the method for adjustment of gate fees becomes a trade-off between simplicity and accuracy.

- **Simplicity.** The simplest approach is to adjust gate fees proportionate to meter rates. A 1% rise in meter rates would be accompanied by a 1% increase in gate fees. This has the advantage of being an easily understandable rule that supports the status quo in the division of revenue between drivers, taxi companies, and medallion holders (which includes many drivers).

  The disadvantage of this approach is that it disregards the source of the cost increase. For example, if cost increases are primarily from fuel prices paid by drivers, then companies get an unwarranted increase in fees and drivers lose. If cost increases are primarily from insurance, then the gate fee adjustment will only be a part of the total allowance on the meter, leaving companies behind and drivers ahead. These differences may average out in the long run, or they may not.

- **Accuracy.** The alternative is adjusting the gate fee according to changes in costs experienced by taxi companies providing gas and gate taxis. The taxi cost index recommended above provides the mechanism to do this, since it includes allowance for insurance, vehicle, maintenance, etc.

  The disadvantage of this approach is potential misunderstanding. For example if cost increases are primarily driven by insurance, then the percentage increase accorded to gate fees will be higher than the overall percentage increase of meter rates. This will be fair, in the sense that the

[15] The small impact accorded to changes in SFMTA fees occurs because license renewal fees are a very small proportion of total taxi costs—as illustrated in the pie chart figure.

increased meter revenue is intended to be passed on to companies to cover their increased insurance costs. However, it may require significant communications effort to explain when gate fees rise 3% and meter rates only rise by 2%.

Adopting either method as policy is a significant improvement over the present uncertainty facing companies and medallion holders. On balance, Hara Associates recommends the accurate approach over the simple approach. Experience shows that increases in operating costs do not rise uniformly. Some years it will be fuel costs, other years it will be in costs paid by companies. Varying gate fees and meter rates according to the relative costs experienced provides greater income stability for both drivers and taxi companies.

Recommendation 12: **Gate fees adjusted by share of Cost Index.** Hara Associates recommends that the Director of Transportation:

- advise the SFTMA board on adjustments to gate fees consistent with changes in costs borne by companies operating gas and gate taxis;
- estimate such changes using the share of costs indicated by the taxi cost index;
- submit annually to the SFMTA Board of Directors cumulative changes in the cost of gas and gate taxi operation, along with the recommended report on report on cumulative changes in the total cost of taxi operation.

Table 4.3 provides the basis for this recommendation. The computer spreadsheet tool provided to simplify administration includes a separate calculation of the gate fee adjustment. The tool separates the portion of the meter rate increase that is attributable to costs borne by drivers from the portion that is attributable to costs borne by companies and should be added to the gate fee.

4.9 SUMMARY OF RECOMMENDATIONS

Hara Associates' recommendations are based on a balance between conservatism in the face of current uncertainty by the industry; the need to ensure continued viability of a high quality taxi industry; and innovation to meet competitive challenges and strengthen taxis as a collective brand offering safe and reliable transportation to San Francisco.

Recommendations to strengthen service quality and offer passengers new options are:

- **Ensuring reliable credit card acceptance.** Elimination of the 3.5% charge to drivers for credit card processing is recommended. It is to be replaced by a fixed fee per shift collected via gate fees paid to taxi companies, financed by an increase in meter rates of 35 cents per trip. Drivers are also to receive their credit card fare payments at the end of each shift.
- **Improved dispatch service.** Three measures are proposed:
    - *Matching competitor cancellation fees.* To solve the problem of no-shows by both passengers and drivers on dispatch trips, it is proposed that color schemes be allowed to charge a cancellation fee. Competitors like Uber and Lyft do this now. Establishing mutual assurance of intentions is a service to both customer and driver. A fee not to exceed ten-dollars is recommended for consenting credit card customers. Traditional phone dispatch remains unchanged, ensuring access by non-credit card passengers.
    - *Incentives for dispatch service starting in 2015***.** A premium on gate fees of up to 4% is proposed for taxi companies, prorated according to the share of dispatch out of total calls (starting at a 20% minimum). This approach rewards quality dispatch service as measured by customer choice. It avoids having the SFMTA dictate operational requirements for what constitutes high-end service. In addition, establishing differential

gate fees also reflects value delivered to drivers in terms of referred calls. Good dispatch will increase in value to drivers once functionality is restored to dispatch markets with the expanded taxi supply expected in 2015. Drivers may still choose a company that provides only basic dispatch service, and pay just the base gate fee.

- *Accelerated fleet expansion.* To the extent possible, it is recommended that the fleet expansion now underway be accelerated. Having adequate supply will improve dispatch service, and is needed for the successful development of taxi apps.

- **Offering passengers a true shared ride option.** At the option of the driver and with the consent of passengers, a flat rate of $11.00 per passenger is proposed for two or more passengers sharing a taxi for part of a trip. This offers passengers a lower rate, while earning the driver more than the average trip, increasing capacity to handle late-night peak taxi demand, and providing a safer competitive alternative to shared ride services. Other potential uses are daytime trips from transportation nodes, relief for overcapacity bus routes, and innovation using smartphone dispatch for a shared ride taxi service.

  From an environmental perspective. The option is a true shared ride where two or more trips are combined in one vehicle. In comparison, a trip offered by an unregulated driver through a non-taxi shared-ride service is often just one passenger and the unregulated driver. The drivers only purpose is to provide the vehicle—so there is only one trip belong to the passenger—not two trips combined.

  The true shared ride option is experimental. It is not clear whether enough drivers will be interested. There has been limited success with this approach in New York.

- **Improved passenger safety by better regulator oversight.** Two measures are proposed:

  - *Elimination of third party brokers*. A problem today is taxis bearing the colors of taxi companies, but actually managed by 3rd party brokers who have leased the medallion rights from medallion holders, but are not themselves licensed or accountable to the regulator. The proposal requires that taxi vehicles only be provided and managed directly by a party licensed by the SFMTA, either a color scheme (taxi company) or the medallion holder themselves. This will assist in ensuring compliance with vehicle and driver requirements, and adherence to the gate fee cap. In addition to improving passenger safety, this recommendation places taxi companies on a more even playing field when bidding for medallions leases. At present, they are bidding against third parties who may not be bearing the full costs of complying with regulations.

  - *Stable funding for regulator technology***.** A funding base is recommended for **new** equipment and systems providing more effective regulatory oversight. The potential needs of a modern regulator include handheld units that give enforcement officers access to current records and history; systems that collect and report taxi trip information; real time up-to-the-minute access to information on trips; and data systems to analyze dispatch performance and compliance records of taxi companies and individual operators. In the short-run, it is recommended that funding come from medallion lease fee revenues generated by an accelerated expansion of the taxi fleet. In the long run, stable funding should come from a nominal charge on the meter.

Recommendations on meter rates and gate fees are:

- **No meter rate adjustment to cover cost increases in 2013.** With industry costs up 5.8% since 2011, it would be normal to raise meter rates an equivalent amount. This approach is not recommended for 2013 owing to San Francisco's high rates relative to other cities, and the current competitive threat from shared-ride services and smart-phone enhanced limousine

services. The only adjustment recommended for the meter is the addition of 35 cents per trip to relieve drivers of credit card processing fees to improve credit card acceptance and to finance the continued availability of the Passenger Information Monitor that lets passengers swipe their own cards.

- **Gate fee cap increase of ($9.75 + $6.25).** The recommended increase in the gate fee cap is $9.75, plus a further $6.25 to cover the assumption of credit card processing fees by taxi companies. The total increase is $16 for hybrid vehicles (from $104 to $120), and $15 for non-hybrid vehicles (from $96.50 to $111.50). This move is a long-delayed follow-up to the meter rate increase of 2011, where gate fees were left unchanged. It provides taxi companies with some relief for their rising costs, notably insurance. The $9.75 falls at the low end of suggested adjustments by companies, and at the high end of suggestions by drivers. Companies are not required to raise their gate fees to the full extent of the new cap and may not do so given the current shortage of drivers. However, the higher cap provides room to maneuver and plan for new investment in improved service.

- **Cost Index formula for regular annual adjustment.** To provide for industry stability in the future, it is recommended that meter rate adjustments and gate fees be reviewed at the same time annually, with both reviews based on changes in industry costs.

  A cost index approach is recommended. The formula simplifies regulator review by estimating cost increases based shares of gas, insurance, etc., and cost increases as measured by indexes of gas, insurance, wages, and vehicle costs as published by the US Department of Labor. This formula would be used as the basis for annual reports by the Director of Transportation to the SFMTA board on recommended rate changes.

Appendix A

Interview Participants

Appendix A
Interview Participants

Interviews included the following participants. Not shown are drivers who requested not to identified, and participants in driver group interviews. Hara Associates and Corey Canapary & Galanis thank all participants for their contributions.

Industry Stakeholders

- Abdelelah Alhimisi, Driver
- George Andersen, GJ Anderson Group, Inc.
- Paul Batmale, Principal, Gold Canyon Insurance Services
- Brian Browne, Economic Consultant
- Roger Cardenas, President, Bay Cab
- Tim Csontos, Vice President Business Development, Taxi Magic
- Jesse Davis, President, Creative Mobile Technologies
- Jason DeWilliers, Vice President Sales, (Cabulous), Upstart Mobile
- Nate Dwiri, Yellow Cab
- Noor Eissa, President, Max Cab
- Dmitry Erenkov, Insurance Broker
- Jim Gillespie, General Manager, Yellow Cab
- RuaGraffis, Driver, Taxi Driver Institute, Driver, TAC
- Mark Gruberg, Driver ,United Taxicab Workers
- John Han, Driver, TAC
- Ed Healy, Driver
- Dan Hinds, President, National Cab, TAC
- Tara Housman, Driver, TAC
- Steve Humphreys, CEO, (Cabulous), Upstart Mobile
- Richard Hybels, Proprietor, Metro Cab, TAC
- Jeff Karasyk, VP Sales & Marketing, VeriFone Systems, inc.
- Micky Kelly, San Francisco Taxi School
- Hansu Kim, President, DeSoto Cab
- Barry Korengold, Driver, San Francisco Cab Drivers Association, TAC
- Manny Kourkroulos, Dispatcher (Yellow, retired)
- Tim Lapp, Dispatcher (Yellow), TAC
- John Lazar, President and General Manager, Luxor Cab, TAC
- Tone Lee, Driver, TAC
- Erik Litzen, Director Dispatch and Driver Services, DeSoto Cab
- Carl Macmurdo, Driver, Medallion Holders Association, TAC
- Gratchia Makarian, Owner, Arrow Checker Cab
- Jacob Mayzel, General Manager, Town Taxi
- Tariq Mehmoud, Driver
- Richard Moles, Driver
- Brad Newsham, Driver
- Athan Rebelos, General Manager, DeSoto Cab
- Charles Rathbone, Operations Department, Luxor Cab
- Marc Soto, General Manager, Veolia Transportation
- Chris Sweis, CEO City Wide Taxi Dispatch; President, Royal Taxi, TAC

- Andrew Sun, Luxor
- David Trotman, Cab College
- Robert Vitcha, Dispatcher (Yellow)
- Phillip S. Ward, Attorney, Consultant

Tourism and Hospitality Industry

- Jon Ballesteros, Vice-President, Public Policy, San Francisco Travel
- Gary Bauer (CEO, Bauer's Intelligent Transportation), San Francisco Travel
- Rob Black, Executive Director, Golden Gate Restaurant Association
- Kathy Cady (Concierge, Marriott), Past-President, San Francisco Concierge Association
- Kevin Carroll, Executive Director, Hotel Council of San Francisco
- Mark Coulter (Hilton), Hotel Council of San Francisco
- Michael Dunne (General Manager, Hilton), President, Hotel Council of San Francisco
- Mariann Costello (Vice-President, Scoma's Restaurant), Golden Gate Restaurant Association
- Lee Gregory (Executive Vice President, McCalls Catering), San Francisco Travel
- Kathryn Horton, Convention Events and Services, San Francisco Travel
- Mary Maxwell, Hotel Council of San Francisco
- David Needleman (Genera Manager, Grand Hyatt), Incoming Chair, San Francisco Travel
- David Rice (Chief Concierge, Clift) San Francisco Concierge Association
- Oscar Rodriguez (General Manager, Marriott), Hotel Council of San Francisco
- Bob Sauter (Assistant General Manager, Moscone Center), San Francisco Travel
- Ferris Suér (Principal, National SalesManager, Allied PRA), San Francisco Travel
- Wes Tyler, (Chancellor Hotel), Hotel Council of San Francisco
- Michael Watson (Bauer's Intelligent Transportation), San Francisco Travel

San Francisco Airport, Landside Operations

- Antonia Carcellar, San Francisco Police Department -Airport Bureau, Ground Transportation Unit
- Sarah Hellman, Assistant Manager, Ground Transportation Unit
- Derek Phipps, Manager, Ground Transportation Unit

City of San Francisco

- Malia Cohen, Supervisor
- Joanna Fraguli, Deputy Director, Programmatic Access, Mayor's Office on Disabilities
- Scott Wiener, Supervisor

San Francisco Municipal Transportation Agency (SFMTA)

- Sonali Bose, CFO
- Leona Bridges, Director, SFMTA Board of Directors
- Cheryl Damico, Chair, Paratransit Coordinating Council
- Christiane Hayashi, Deputy Director of Taxis
- Malcolm Heinicke, Director, SFMTA Board of Directors
- Jarvis Murray, Enforcement and Legal Affairs Manager, Taxi Division
- Joel Ramos, Director, SFMTA Board of Directors
- Jane Redmond, Paratransit Coordinating Council
- Christina Rubke, Director, SFMTA Board of Directors
- Stu Smith, Paratransit Coordinating Council
- Kate Toren, Paratransit Manager, Division of Taxis and Accessible Services

Other

- Rebecca Reynolds Lytle, Senior Vice President, Lending, San Francisco Federal Credit Union
- Paul Wuerstle, Manager, Transportation Enforcement Branch, California Public Utilities Commission

Appendix B
Practice and Experience in Five Peer Cities

Appendix B
Practice and Experience in Five Peer Cities

Five cities were selected as to comparable to San Francisco owing to their geography, population, size of transit system, and/or level of tourism. They were:

- **Boston.** Boston's small land area and population is comparable to San Francisco's, and it is at the center of a larger urban conglomerate. It, too, is a leader in technology adoption and performance reporting, and it auctions medallions and regulates taxi leasing.
- **Seattle.** Seattle has a comparable land area, a long history of reform, and is currently a limited medallion regime where taxi numbers are managed, and leasing is regulated.
- **San Diego.** San Diego shares the California state regulatory regime and is a closer peer than Los Angeles—which operates a relatively unique taxi franchise system.
- **Miami.** Miami shares the small land area of San Francisco, although its taxi regulatory regime is at the county level. While the city is smaller, Miami-Dade is also the center of a larger urban conglomerate and a tourism and visitor magnet. Miami has a long history of regulatory reform and recently underwent a governance review.
- **New Orleans.** Like San Francisco, New Orleans is geographically restricted, and draws high numbers of tourists. In 2012, it overhauled its taxi regulatory regime and introduced tough vehicle standards.

This appendix reviews these cities' experience managing meter and leasing rates. It consolidates research from public sources, and information gathered with the cooperation of the regulators in each jurisdiction. Comparative analyses of other topics will appear in forthcoming reports of the *Best Practices Studies in Taxi Regulation* series.

For many jurisdictions, the taxi industry's economic viability, from the perspective both of license holders and of drivers, is a key policy concern. Meter and lease rate are the principal sources of income for drivers and owners. Aside from advertising revenue and incidentals, the meter rate determines the cost of a ride and is the source of income derived from operating a taxi. As many drivers do not own their own cabs, their share of income is determined largely by the cost of leasing the taxi license/medallion (often bundled with the vehicle) from the owner. The appendix begins with an overview comparing the peer cities, followed by fact sheets for each.

REGULATION OF METER RATES IN THE PEER CITIES

Meter rates have long been regulated. Seattle was among the first to introduce rate regulation back in 1914. Sixty years later, city council moved to deregulate, declaring that license code requirements "should not be used: ... (c) to suppress legitimate competition; or (d) to set prices or rates unless monopoly conditions exist that cannot be eliminated or otherwise controlled."[55]Council further decided in 1979 to remove all controls regulating rates or the issue of taxi licenses. They expected that freeing market forces would result in lower fares and improved service. Contrary to expectations, fares did not go down, and total demand fell, as did service quality.[56]Fares were fixed again in 1984.

[55] Quoted in Leisy, Craig, "Taxicab Deregulation and Reregulation in Seattle: Lessons Learned," presented at the International Association of Taxicab Regulators (IATR) Conference, Tuesday, September 11, 2001.
[56] Teal, Roger F., and Mary Berglund, "The Impacts of Taxicab Deregulation in the USA", *Journal of Transport Economics and Policy*, January 1987, pp. 37-56.

Today, Seattle's regulations require having "a just and reasonable rate" as a policy objective[57] that explicitly balances the public's need for adequate taxi service at the lowest rate consistent with the owners' and lease drivers' need for revenue. The regulations make clear that that optimum taxi response times (for different neighborhoods) is a key indicator of what constitutes adequate taxi service.

Similarly, San Diego replaced standard rates with a rate ceiling in 1978, but that too was removed in 1980. Here, the motivation was a little different, influenced in part by a rate-setting scandal involving the dominant company. As in Seattle, fares did not fall and demand, as measured by total trips, fell which caused a steep drop driver incomes.[58] A rate ceiling based on an average of taxi rates for the previous year was re-imposed in 1983. This system, with its continued reliance on market forces in the rate-setting process, is still in effect, making San Diego the only one of the five peer cities that does not set a fixed rate.

In Miami-Dade, meanwhile, a uniform rate structure has been in effect since the county assumed responsibility for taxi regulation in 1981. The regulation defines public interest as a policy goal to guide the Board of County Commissioners in its decision making.[59] To assist them, the department[60] periodically prepares a report which considers changes in the CPI and a variety of costs.

Boston has regulated rates since at least 1934, and New Orleans since at least 1984.[61]In neither city do the regulations spell out specific policy objectives in relation to rate setting nor detail the factors to be considered.

Other cities, including Indianapolis and Minneapolis, impose rate ceilings. Individual companies must have uniform rates, but these can be below the regulated rate.

In Arizona, companies are free to set their own rates which vary across the state. Taxis must still operate on a meter, but companies are free to select the pricing variables. As a result, in Phoenix, for example, taxi companies operate using a number of different fare structures.

The Rate-Setting Process

Each city has a different approach to rate-setting. Requirements for taxi companies to submit financial records closely reflect the requirements of each city's approach.

In 1934, the Massachusetts legislature authorized Boston's police commissioner to regulate the number of hackney carriage licenses, and to set maximum and minimum rates from time to time. This is still the case. While the rate-setting procedure is not spelled out, in order to fulfill this responsibility, the commissioner or his designate may examine radio association books, accounts, records, and minutes.[62]Medallion owners and drivers are consulted as a part of the rate-setting process.

[57]Seattle Municipal Code 6.310.530, "Rates."
[58]Teal and Berglund, *op cit.*See also True North Research, Taxicab *Permitting Process Study Final Report,* prepared for the Metropolitan Transit System, October 21, 2011, p.14.
[59] Miami-Dade County Code of Ordinances, s. 31-87.
[60] The County bylaw refers to the Consumer Services Department, but the functions are now carried out by the For-Hire Transportation Section under the Department of Regulatory and Economic Resources.
[61]Frankena, Mark W., and Paul A. Pouter, *An Economic Analysis of Taxicab Regulation,* Federal Trade Commission Bureau of Economics Staff Report, May 1984, available at http://www.ftc.gov/be/econrpt/233832.pdf.
[62] Rule 403-7-j.

Table B-1: Meter Rates

Jurisdiction	Total Taxis	Drop Rate	First Mile	Each Add'l Mile	Waiting Time	5 mi. Trip (No Waiting or Surcharges)	Notes on Approach
San Francisco	1,585	$3.50	$5.70	$2.75	$33.00/hour	$16.70	
Boston	1,825	$2.60	$5.00	$2.80	$28.00/hour	$16.20	Rates revised in 2009
Miami-Dade	2,113	$2.50	$4.50	$2.40	$24.00/hour	$14.10	Ordinance provides for rate review at request of Commission or county manager
New Orleans	1,450	$3.50	$5.25	$2.00	$18.00/hour	$13.25	Ordinance provides for rate review every two years
San Diego (MTS jurisdiction)	1,051	$3.10	$6.40	$3.30	$27.00/hour	$19.60	Rate maximum for 2012**
		$2.76	$5.65	$2.89	$21.40/hour	$17.21	Average of March 2012
Seattle	688	$2.50	$4.90	$2.70	$30.00/hour	$15.70	Rate revised in 2012

** The San Diego meter rate is a maximum, set 20% above the previous year's average.

In Miami, authority for setting rates has been with the Board of County Commissioners since the regulatory function was consolidated at the county level in 1981. Either the board itself or the county manager may request the department to prepare a report concerning existing rates.[63] Operators (which may be companies or individuals) are compelled to keep and make available various financial records for this purpose. The report is forwarded to the county manager, who makes a recommendation to the board, which holds a public hearing before determining the rates.

In New Orleans, the Department of Safety and Permits reviews fares every other year, and submits a report (without a recommendation) in a nationwide peer city comparative analysis format to the mayor and city council.[64] The latest report was completed and sent to the council in late 2012. Meter rates were last revised in 2009. Financial reporting by companies is, in consequence, comparatively light.

In Seattle, rates are periodically revised by city council, following an analysis by the director of the Consumer Affairs Department and public consultations. The 2012 revision replaced rates set in 2008. While Seattle requires significant reporting by associations, vehicle maintenance costs are not a particular focus. The Department also uses outside data in its analysis.

As noted, alone among the five comparator cities, San Diego's regulatory authority does not analyze costs or other factors. It bases its annual rate revision on the average rate charged by companies in the previous year. The financial records that owners are required to keep and file do not include operating costs.

[63] Section 31-87 (C).
[64] Section 162-741.

Factors Considered in Rate-Setting in Miami-Dade and Seattle

In Miami, the factors considered include relative changes in the CPI over the preceding two-year period, with an estimation of what rates would be if they were adjusted. The department also analyses vehicle operating costs, including maintenance, and repairs; salaries for drivers, dispatchers, and supervisors; insurance costs; taxes and license fees; and administrative and general expenses. Costs incurred in the acquisition of a license and political contributions are not considered. While fuel costs are not specifically listed, there is a fuel surcharge on the meter rate when the retail price of gasoline, as measured by the U.S. Energy Information Administration, is a dollar above the price in effect at the time of the latest meter rate adjustment for three consecutive weeks. Above the initial dollar surcharge, each additional increase of 50 cents may trigger a further increase of the surcharge by 50 cents.

Seattle's regulations concerning the rate-setting process are the most comprehensive among the peer cities. They require taking into consideration owners' operating expenses, license fees, and a reasonable profit. In considering drivers' requirements, the objective is to provide a living income after costs such as taxi leases—including taxes and contributions to workers' compensation—fuel costs, and cashier's fees. Also taken into account is the effect of meter rates on other modes of transportation, rates in similar jurisdictions, and the need to be in synch with rates in surrounding King County. Like Miami-Dade, Seattle has a fuel surcharge, though the rules are a little different. (see Seattle section, below.)

REGULATING LEASE RATES

The five peer cities all limit the total number of taxis, as discussed in an earlier report. Over time, this shared monopoly tends to generate returns that often end up in the hands of the taxi license (medallion) holder. The limits on the number of medallions tend to drive up medallion prices, and, consequently, lease rates charged to taxi drivers for the combined rental of a taxi medallion, with or without a meter.

Of the peer jurisdictions, only Boston and Seattle regulate vehicle lease rates[65] In Boston, this power has been specifically granted to the Police Commissioner by state law. The regulations cover leasing medallions—in which case the lessee is responsible for purchasing and equipping the vehicle—and vehicles with a medallion—which can be *any* vehicle that passes the state's inspection. In Seattle, where leasing was prohibited from 1954 to 1975, the city has regulated leasing since 2008. The rules prohibit subleasing licenses, which means that lease agreements are between the owner and a driver, and that the vehicle license (medallion) is bundled with the cab. This excludes the emergence of unlicensed brokers.

Although Florida prohibits municipalities and counties from regulating lease prices, Miami-Dade introduced rules in 2011 governing lease agreement requirements,[66] including itemizing all aspects of compensation to license holders who must pay for insurance, rules governing security deposits, and identifying potential causes for terminating agreements. The license holder (or agent) is responsible for obtaining the operating permit and paying inspection fees, and cannot require a driver to purchase, lease, or finance the purchase of a taxi. Lease records must be maintained in the offices of the passenger service company providing dispatch and other services.

What is covered by the regulations in Boston and Seattle

[65] For Boston, see Police Department Hackney Carriage Rules, Rule 403, Appendix III, Leasing and Shift Rates. For Seattle, SMC 6.310.315 Taxicab and for-hire vehicle—Vehicle lease requirements and director's rule R-6.310.315 Taxicab Vehicle Lease. Both regulations are in annexes to the city reports, below.

[66] Miami-Dade Code of Ordinances, Chapter 31, s.31-82 (j) (13).

Boston specifies a particular form for use in taxicab leases[67], which may be examined by the Police Commissioner. Seattle requires notarized copies of leases to be filed with the city. In both cases, lessors and radio associations must open their books and records for inspection to assist in the rate-setting process.

Approved lease rates are shown in Table B-2, below. Both jurisdictions require that receipts be issued and that drivers be refunded if the car is unavailable. As well, they specify weekly caps, which is useful for drivers who use different vehicles.

Additional charges

Seattle permits a premium for fuel efficient vehicles, termed green vehicles. Chicago does as well, varying rates by vehicle type.

Both jurisdictions allow applicable sales tax costs to be passed on to the lessee. In Seattle workers' compensation costs may be passed on to the driver, but not in Boston. Damage deposits to a maximum of $500 are permitted in Boston, but none are allowed in Seattle. Boston also specifies a fee for late return of the vehicle. Additional insurance is at the option of the driver.

Termination

In Boston, the Inspector of Carriages must approve lease terminations, which must be for cause, late payment being the one cause that is specifically identified. In Seattle, the lease agreements must specify on what grounds termination may occur.

Table B-2: Lease Rates

Jurisdiction	Total Taxis	Terms Regulated	Shift Lease (Period)	Weekly Lease Rate	Monthly Lease Rate	Notes
Boston	1,825	Periods up to a year	$77/12-hour shift	$700 (one driver) $800 (two drivers)		Revised from "time to time," most recently in 2009
Miami-Dade	2,042	Not regulated		$350 (2007)		Florida law prohibits local jurisdictions from regulating lease rates
New Orleans	1,450	Not regulated			$1600 (2012)	
San Diego	1,051	Not regulated		$865 (2012)	$2000 (2011)	Estimates from different sources
Seattle	688	Periods up to a year (maximum)	$85/12-hour shift	$475/week (1 week of 12 hour shifts)	$1900 (1 month of 12 hour shifts)	Reviewed every two years, revised in 2012

Updating mechanism

[67]Also annexed to the Boston city report, below.

In Boston, the police commissioner may adjust rates from time to time, while in Seattle they are reviewed in every even-numbered year. Seattle's regulations require a report go to council with data supporting the maximum lease amount, and a description of the public outreach process. Vehicle prices, fuel and insurance costs, and variations in the CPI over a two-year period are among the factors Included in calculating the maximum lease amount.

The schematic diagram (below) illustrates this process. The information is drawn from supporting analyses of such inputs as drivers' hourly earnings, fuel costs, and a driver survey on shifts per week and hours per shift.

TAXICAB INDUSTRY REVENUE

FLOW DIAGRAM

[Typical]

Taxicab Lease Driver

Expense
Lease Payment
($75/12-hour shift)

Taxicab Owner

Expense:
Dispatch Fee
($180/week)

Taxicab Association

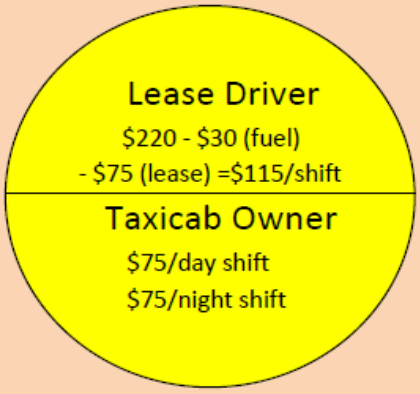
Taximeter
Fare + Tip (10%)
Revenue
($200 + $20)
5.7 shifts/week

Other
Expenses:
Fuel ($30)
Cashier Fee (3-5%)

Hourly Earnings:
$10.50-$11.00
10.2 hours/shift

Other
Expenses:
Vehicle Purchase ($5,000/3 years)
Vehicle Maintenance & Repair
Insurance ($6,000 premium/year)
Equipment (e.g., security camera, taximeter, computer, GPS, etc.)
License Fees

Lease Profits
$10,000-$15,000 annually/taxicab



Zero-Sum Lease Situation
(Win-Lose)

Example of zero-sum "lease" situation:

Any lease revenue increase to owner results in an equal earnings loss by driver.

The Seattle Taxi Owner Association (STOA) requested that the "lease cap" be increased from $75 to $95 (April 2009). This would increase owner lease profits by more than $10,000 annually for a double-shifted taxicab. However, lease driver earnings would have decreased $2 per hour to $8.50 which is the Washington State minimum wage and less than the Self-Sufficiency Standard for a single adult in King County.

Source: Seattle Consumer Affairs Unit

Boston, Massachusetts

Jurisdiction served:	City of Boston
Name of regulator:	Hackney Carriage Unit, Boston Police Department
Population (2010 census):	617,594
Taxi fleet (by type):	1,825 taxicabs, of which 100 are WAT medallions (5.5%)
Number of limousines:	State regulated
Taxis per 10,000 population:	29.5
Drivers:	Approximately 6184 (as of fall 2012)
Vehicles per household (Metropolitan Boston—2010 American Community Survey):	1.4
Proportion of households with no vehicles (Metropolitan Boston—2010 American Community Survey):	32.4%
Plate transferability:	Yes, with approval of the police commissioner
Market value of plates/medallions:	Median May 2013 Transfer Price of $610,000[68]
Medallion/taxi license lease value:	(regulated) $77/12-hour shift, $700/week (one driver), $500/week for medallion only leases
Meter rate (5 miles—drop & distance only):	$16.20
Hackney Carriage Unit budget:	n/a
Hackney Carriage Unit full time equivalent staff:	15

In Boston, the Hackney Carriage Unit of the police department is responsible for taxi regulation. The rules are consolidated in the Hackney Carriage Rules.[69] The State legislature has granted the Police Commissioner has the power to set both taximeter rates and medallion lease rates "from time to time".

Meter Rates

In 1934, the Massachusetts legislature authorized Boston's police commissioner to regulate the number of hackney carriage licenses, and to set maximum and minimum rates from time to time. This is still the case. While the rate-setting procedure is not spelled out, in order to fulfill this responsibility, the commissioner or his designate may examine radio association books, accounts, records, and minutes.[70] Medallion owners and drivers are consulted as a part of the rate-setting process.

The most recent fares were adopted in 2009:[71]

Entry and first $^1/_7$ mile: $2.60
Each additional $^1/_7$mile: $0.40
Waiting time: $28.00/hour

While passengers pay no tolls from Boston proper to most of East Boston, tolls are charged for passengers travelling to Logan Airport and North Shore communities.

People who are65 and older, or disabled can buy up to two $10 taxi vouchers per month for $5 each, a program funded by the Boston Taxi Industry Elderly Program.

[68] Median Sale Price for April, From <www.carriage-news.com>
[69] http://www.cityofboston.gov/Images_Documents/Rules_tcm3-9921.pdf; recent amendments are at: http://www.cityofboston.gov/Images_Documents/Amendment_tcm3-9922.pdf
[70] Rule 403-7-j.
[71] http://www.cityofboston.gov/police/hackney/taxi_rates.asp

An extensive list of flat rates set in 2008 governs trips to suburbs, and neighboring cities and states—and even to Montreal ($1,008) and New York City ($700.80).[72]

Leasing Regulations

Medallions or vehicles may be leased, subject to regulated rates (see Annex 1). The most recent rates were adopted in 2009:

12-hour shift— $77
24- hour shift— $139
Weekly rental —$700
Two-driver weekly rental — $800
Maximum medallion-only lease— $500 week
Clean (i.e., green) taxi premium (4 model yrs. or less) — $18/12 hour, $33/24hour, $170/week

The police commissioner, in exercising his rate setting functions for both meter rates and lease rates, may examine any books, accounts, records, and minutes of any radio association. The process for developing new rates requires consultation with medallion owners and drivers, and analysis of the costs of owning and operating a vehicle. New rates are published as orders by the commissioner.

Boston Annex 1: Leasing and Shift Rates (Rule 403, Appendix III)

Extract from Boston Police Department Hackney Carriage Rules

Information retrieved February 21, 2013

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1. Effective August 29, 2008, the following maximum lease/shift rates are in effect on an industry wide basis:

a. The maximum rate for Medallion Only Leasing shall be $500 per week plus radio dues.
b. All existing contracts for medallion leasing shall be frozen at their current rates.
c. Shift/Lease rates shall be publicly posted in each garage in a manner for all to view.
d. The maximum Shift Rates are as follows:
e. 12-Hour Shift $77.00
f. 24-Hour Shift $139.00
g. Weekly Rental $700.00
h. Two-Driver Weekly Rental $800.00
i. Where a Medallion Owner or Lessee enters into a one-year agreement with a Shift Driver, he shall be entitled to a $10 per week premium. This premium shall apply only to the Weekly Rental or the Two-Driver Weekly Rental.
j. When a Hackney Carriage Driver works seven (7) consecutive twenty-four hour shifts he shall be charged the weekly rental rate.
k. When a Hackney Carriage Driver works fourteen (14) consecutive twelve hour shifts, he shall be charged the weekly rental rate.
l. Time lost in excess of one hour on 12 and 24 hour shifts, to maintenance, repair, cleaning, or administration shall be refunded to the Hackney Carriage Driver at the rate of $8.00 per hour.

[72] http://www.cityofboston.gov/Images_Documents/Flat_Rate_Handbook_tcm3-9918.pdf

m. Time lost in excess of one (1) hour on 12 and 24 hour shifts due to Owner, Manager or Lessee misconduct shall be refunded to the Hackney Carriage Driver at the rate of $28.00 per hour for a maximum of up to sixteen (16) hours per twenty-four (24) hour period.
n. Time lost in excess of four (4) hours on weekly shifts, to maintenance, repair, cleaning, or administration shall be refunded to the Hackney Carriage Driver at the rate of $8.00 per hour.
o. Time lost in excess of four (4) hours on weekly shifts due to Owner, Manager or Lessee misconduct shall be refunded to the Hackney Carriage Driver at the rate of$28.00 per hour for a maximum of up to sixteen (16) hours per twenty-four (24) hour period.
p. The Medallion Owner, Manager, or Lessee shall provide an immediate receipt to the Hackney Carriage Driver for all payments and/or transactions.

2. Additional Charges: No additional charges shall be authorized except for the following:

a. The Hackney Carriage Driver (or Lessee) shall have the responsibility for gasoline costs incurred during his/her shift. The Hackney Carriage Driver may not be required to purchase such gas from the owner/lessor.
b. The Hackney Carriage Driver may only be charged for additional insurance at the Hackney Carriage Driver's option. Such insurance shall constitute a Collision Damage Waiver and shall hold the Hackney Carriage Driver (Lessee) blameless for all but intentional damage to the vehicle. Collision Damage Waiver shall not exceed $5 per twelve (12) hour shift, $9 per twenty-four (24) hour shift, or $45per weekly shift.
c. The Shift Driver may be charged for a violation assessment ($0.30 per 12-hourshift).
d. The Shift Driver may be charged a "Clean Taxi Premium" at the following rates:
    12-Hour Shift $18.00
    24-Hour Shift $33.00
    Weekly Shift $170.00
    Yearly Shift $8840.00
e. The Hackney Carriage Driver may be charged $8.00 per hour for failure to return a shifted vehicle on time.
f. The Hackney Carriage Driver may be required to place a damage deposit of no more than $500.
g. The Hackney Carriage Driver may be charged all applicable sales taxes associated with the shift transaction.
h. The Shift and Lease rates listed in this Appendix are maximums only. A Medallion Owner may charge less than the listed Shift or Lease rate.

Boston Annex 2: City of Boston Hackney Carriage Medallion Lease Agreement (2009 Version)

Information retrieved March 21, 2013

Medallion Lease Agreement

Medallion #_____

Agreement made this _____day of _____, _____ between:
Lessee
Name: _____
Address: _____

_____
_____
Tel: _____
Lessee
Name: _____
Address: _____
_____
_____
Tel: _____
Lessor
Name: _____
Address: _____
_____
_____
Tel: _____

Now therefore, inconsideration of the mutual covenants herein, it is agreed as follows:

Duration
Lessor shall rent Medallion No._____ to the Lessee for the term of _____
commencing _____ and ending _____
OR
Lessor shall rent Medallion No._____ to the Lessee for the service life of the vehicle
bearing Vehicle Identification number_____
As determined by the Police Commissioner or his designee.

Termination
Termination for cause shall require 30 days written notice except for non-payment. Nonpayment shall be defined as more than 7 days late, 3 times within any 12 month period. Termination for non-payment shall require 14 days written notice. The 14 days shall commence upon receipt of certified mail or in-hand delivery. Termination for cause
whether for non-payment or otherwise shall require prior written notice and prior
approval from the Inspector of Carriages.

Weekly Payment
Mandatory
Lessee shall pay the Lessor the sum of $_____ (not more than $500) per week rental fee for the use of said Medallion No._____ in advance each week.
Optional Please consult with your tax advisor
Lessee shall pay the Lessor the sum of $_____ (5% of above) Sale Tax which the
Lessor shall forward to the Massachusetts Department of Revenue as required by law.

Mandatory The Medallion Owner Must Pay the Radio Dues
Lessee shall pay the Lessor $_____ in Radio Association dues which the Lessor will
forward to the Radio Association as required.

Payment on Signing
The Lessee shall pay the Lessor the sum of $_____ on the date of the signing of this agreement.
$_____ to be applied to the first weeks rental
$_____ Security Deposit (not to exceed two weeks rental)

Rental: _____
Sales Tax: _____
Radio Dues: _____
Total: _____

Receipts
The Lessor shall provide the Lessee with an receipt for all transactions. A cancelled check or bank deposit slip shall be an acceptable receipt.

Security Deposit Accounts
The Lessor shall return the full amount of the security deposit within 30 days of the completion of the lease provided all obligations under this Agreement have been met.

Radio Association
The Lessee has the sole right to choose which Radio Association he shall belong to and the lease cannot be conditional on membership in a particular Radio Association. The Lessee shall maintain the Medallion and vehicle membership in a Radio Association authorized by the Boston Police Commissioner that the Lessee has chosen freely and voluntarily. The Lessee shall not change to another radio associations without proper notification to the Lessor and the Inspector of Carriages.

Insurance
The lessor and the lessee agree that the lessee will pay the lessor an additional, $_____ per _____in return for additional automobile insurance coverage not required by law or by a automobile loan lender.

Advertising
Check One:
The Lessor and Lessee agree that there shall be NO advertising material attached to the vehicle.
The Lessee shall receive all fees from advertising attached to the vehicle.
The Lessor and Lessee/Manager shall divide all fees from advertising attached to the vehicle in the following manner:
_____
_____

Motor Vehicle Maintenance Costs
Lessee shall pay, and be responsible, for all operating costs of the vehicle, including but not limited to fuel, repairs and all periodic maintenance costs, as required, and shall indemnify and hold Lessor harmless from such operating costs.

Authorized Drivers
The Lessee agrees that only persons authorized by the Lessor in advance and in writing shall operate the vehicle used in connection with this lease. Any violation of this paragraph shall result in this lease being void for cause upon proper notice.

Authorized Drivers: _____ Hackney Lic#_____
_____ Hackney Lic#_____
_____ Hackney Lic#_____
_____ Hackney Lic#_____
The lessee must submit copies of the required shift rental agreement to the Hackney

Carriage Unit and to the lessor for each authorized driver prior to allowing operation

Non-Assignable Costs
The Lessor is responsible for all:

- Automobile Insurance costs
- Local, State, and Federal Taxes (excluding sales tax)
- State Registration and renewal Fees
- City of Boston Medallion Fees

Insurance
The Lessor shall pay the cost of liability and other mandatory insurance. Said insurance shall be in the minimum coverage of $20,000/$40,000/$5,000. All funds received by the Lessor from an insurance company or other person or corporation in settlement of claims related to the vehicle shall be paid to the Lessee, minus those funds expended by the Lessor for legal expenses or other collection activities connected to that particular settlement.

Notice of Transfer of Medallion
Both parties understand that the Medallion Lease Agreement shall remain in effect through its complete term irrespective of the transfer of the Medallion. The agreement shall bind the new owner to the conditions of the agreement upon transfer for the remainder of the terms. The Lessor shall notify the Lessee upon transfer of the Medallion. The Lessor is responsible for ensuring that the new owner is familiar with the terms of this Agreement prior to the transfer.

Involuntary Transfer
The Lessee understands that in the event of an Involuntary Transfer such as Foreclosure, Seizure, or Court Order this Agreement may be void depending upon the particular circumstances.

Reporting
The Lessee shall, within 24 hours, report any accidents or related occurrences to appropriate insurance representatives, and the Lessor and shall give full and complete cooperation to investigating and defending against an accident claimed. Any monies received as a result of insurance accident claims or damage for which Lessee has paid shall be paid over to the Lessee, less attorneys fees or other expenses incurred by the lessor in connection with the settlement of the claim

Hackney Carriage Rules
Lessee shall abide by, conform to, and comply with any and all rules and regulations of the Boston Police Commissioner or his designee applied to Licensed Hackney Carriages during the term of this agreement, whether previously or subsequently promulgated, and Lessee shall indemnify Lessor from any and all costs and expenses caused by Lessee's violation of said rules and regulations. In the event the Police Commissioner at any time adopts any rules or regulations which preclude the Lessor and Lessee from engaging in the taxicab business as contemplated, this Agreement shall automatically terminate without further obligation or liability to either party.

Prorated Payments
In the event any act of commission or omission by the Lessor results in the Medallion being seized by the Inspector of Carriages; or any act of commission or omission by the Lessor results in the Lessee being otherwise unable to conduct the business of operating the designated Hackney Carriage, the Lessee shall deduct from the next payment the amount of lost time on a prorated basis.

Fines and Violations
Lessee shall be responsible for all and shall promptly pay all fines, penalties or assessments arising out of the use and operation of the Hackney Carriage during the term of this Agreement, including but not limited to traffic and parking violations and Hackney Violations, and shall indemnify and hold harmless the Lessor from such fines, penalties or assessments. Provided however that the Lessee shall not be responsible for fines, penalties or assessments levied as a result of the Lessors failure to abide by rules and regulations of the Boston Police Commissioner or his designee as applied to Licensed Hackney Carriages.
.

Independent Contractor
Both parties must initial if they wish to agree to this clause:
Lessor Lessee
The Lessee specifically acknowledges that he is an independent contractor and the Lessor and Lessee are separate entities. This Agreement shall not be construed to form a partnership, limited partnership, general partnership, joint venture, principal agent or employee/employer relationship of any kind whatsoever. Neither the Lessor nor the Lessee shall have any power to obligate or bind the other. Lessee shall at all times be free from control or direction of the Lessor in the manner of operation of the Hackney Carriage. The Lessee shall not be required to accept any radio dispatch call other than those which it may be his volition to accept; and further, Lessee shall not be restricted in any manner as to the area in which he may operate said Hackney Carriage, nor shall he be required to remain in any specific place, as long as he adheres to the laws and ordinances of the municipality in which said vehicle may be operated and the rules and regulations governing Hackney Carriages. Lessee shall not be required to account to the Lessor in any manner for the fares or other amounts received by the Lessee in connection with the operation of said Hackney Carriage, except will turn over to the Lessor at the end of the rental period any records required to be kept by any laws, ordinances or regulations pertaining to the operation of the Hackney Carriage.

The Lessor and Lessee specifically acknowledge that the inclusion of this optional clause in the Agreement does not indicate or imply any endorsement, approval or judgment as to the legal standing of the clause by the City of Boston, the Police Commissioner or the Hackney Unit.

Freedom from Claims
The Lessor acknowledges that he is the owner of the corporation bearing the Medallion Number set forth above, and further acknowledges that there are no claims, suits or judgments against the corporation arising out of the Lessor's use and operation of said Medallion, prior to the date of this agreement.

Purchase of Vehicle
At the end of this lease, Lessee shall have the right to purchase the vehicle used in connection with this agreement for the total sum of twenty dollars.

Modification
This Agreement may be modified or changed only by written agreement.

Severability
The various provisions of this Agreement are severable from each other and from the rest of this Agreement, and in the event that any part of this Agreement shall be held to be invalid or unenforceable

by a court or an administrative agency of competent jurisdiction, the remainder of this Agreement shall be fully effective, operative and enforceable.

Entire Agreement
This Agreement constitutes the entire Agreement between the parties with regard to the lease of the above-mentioned Medallion.

IN WITNESS WHEREFORE, the parties hereto have executed this Agreement on the day and year written above.
Lessor: _____ Lessee: _____

Miami, Florida

Jurisdiction served:	Miami-Dade County
Name of regulator:	Passenger Transportation Regulatory Division (PTRD), Department of Regulatory and Economic Resources, Miami-Dade County (the county government is being restructured)
Population (2011 estimate):	2,554,766 (Miami-Dade County)[73]
Taxi fleet (by type):	Taxis: 2,042 WAT cabs 80 (2012)
Number of limousines (2011):	Luxury sedans: 491 Stretch limousines (6-8 persons): 50 Super stretch limousines (9 or more passengers): 202
Taxis per 10,000 population:	7.99
Drivers (Miami-Miami Beach-Kendall Area):[74]	Approximately 1230* Number of certified drivers in county 4,000?
Vehicles per household (2010 American Community Survey):	1.6 (Miami-Fort Lauderdale-Pompano Beach)
Proportion of households with no vehicles (2010 American Community Survey):	11.4% (Miami-Fort Lauderdale-Pompano Beach)
Plate transferability:	With approval of the department to a qualified chauffeur For newer licenses, only after 5 years of operation.
Market value of plates/medallions: February 2012, inaugural county auction:[75]	Regular medallions auctioned for $410,000 to $431,000 2 WAT cabs sold for $312,000and $325,000 Usual transfer prices (to qualified drivers)$170,000 to $180,000
Medallion/taxi license lease value:	$350 per week (2007)[76]
Meter rate:(5 miles—distance only):	$14.10
PTRD budget:	$4,695,000
PTRD full time equivalent staff:	45

In 1981, taxi regulation became the responsibility of Miami-Dade County, which consists of 35 municipalities and an unincorporated area. Administratively, responsibility falls to the For-Hire Transportation Section, now under Business Affairs in the Department of Regulatory and Economic Resources. The regulations are consolidated under chapter 31 of the County Code of Ordinances (For-Hire Vehicles).[77]

Miami-Dade integrated the various municipal taxi regulatory systems in 1981, imposing a uniform license structure, and uniform meter rates.

Meter Rates

In Miami, authority for setting rates has been with the Board of County Commissioners since the regulatory function was consolidated at the county level in 1981. To modify the rates, the department, upon request of the commission or county manager, prepares a report concerning the existing rates.[78] Relative changes in the CPI over the preceding two-year period are considered, with an estimation of

[73] US Census Bureau (http://quickfacts.census.gov/qfd/states/12/12086.html July 2012.

[74] (salaries-by-city.findthedata.org/q/31425/134/How-many-Taxi-Drivers-and-Chauffeurs-work-in-Miami-Miami-Beach-Kendall-Florida) August 2012.

[75] Unusually, sale of these medallions was not restricted to current drivers, resulting in higher prices.

[76] *Final Report, Taxicab Ridership Study Miami-Dade County*, January 14, 2007, available at: http://www.miamidade.gov/business/library/reports/taxi-ridership-study-final.pdf (accessed October 10, 2012)

[77] http://library.municode.com/HTML/10620/level2/PTIIICOOR_CH31VEHI.html

[78] Section 31-87c provides explicit guidance.

what rates would be if they were adjusted. The department also analyses vehicle operating costs, including maintenance, and repairs; salaries for drivers, dispatchers, and supervisors; insurance costs; taxes and license fees; and administrative and general expenses. Costs incurred in the acquisition of a license and political contributions are not considered. Operators (which may be companies or individuals) are compelled to keep and make available various financial records for this purpose.

The report is forwarded to the county manager, who makes a recommendation to the Board of County Commissioners, which holds a public hearing before determining the appropriate rates in the public interest. The same procedure applies for limousines, but the minimum rates may be no less than $3^1/_3$times the hourly rate of taxis.

The current rate is calculated as follows:

Entry and first $^1/_6$ mile:	$2.50
Each additional $^1/_6$ mile:	$0.40
Waiting time:	$0.40 per minute ($24 per hour)

Road tolls are in addition to the metered fare but the passenger pays the lower *Sunpass* rate (originally developed for the Florida Turnpike, but now widely used on toll roads in the state).

For trips originating at Miami International Airport or the Port of Miami a $2 surcharge is added to the meter fare. Some flat rates apply to trips to and from Miami International Airport and the seaport (Port of Miami), the Beaches, the Village of Key Biscayne, and two zones close to the airport. There is no per passenger or baggage charge.

The department can approve a one dollar surcharge on the meter rate when the average retail price of regular unleaded gasoline, as measured by the U.S. Energy Information Administration, is a dollar above the price in effect at the time of the latest meter rate adjustment for three consecutive weeks. Above the initial dollar surcharge, each additional increase of 50 cents of regular unleaded gasoline may trigger a further increase of the surcharge by 50 cents. The fuel surcharge expires with the next taximeter rate adjustment. The fuel surcharge may also be decreased or removed, if the average weekly price of regular unleaded gasoline goes down for three consecutive weeksThe driver adds the surcharge using an “extra” button on the taximeter. Notice of the surcharge must be posted in each taxi. On flat fare trips where the taximeter is not used, and on a small number of meters that do not have an "extra" button, the driver manually adds the surcharge to the fare.

Leasing Regulations

While the content of leasing agreements is regulated, lease rates, which are governed by Florida law, need only be identified in the driver’s agreement. These contracts may be reviewed by the county at the time of license renewal, although the regulator does not make a survey of lease rates. Available information for 2007 states drivers were paying $350 per week.[79]

Limousine for hire licensees are prohibited from leasing their license to another person or entity.

[79] *Final Report, op.cit*, p. 13.

New Orleans, Louisiana

Jurisdiction served:	City of New Orleans, coextensive with Orleans Parish
Name of regulator:	Taxicab and For Hire Bureau, Department of Safety and Permits, City of New Orleans
Population (census estimate 2011):	360,740
Taxi fleet (by type):	About 1450 (before release of new permits) 5 WAT cabs CPNCs (not yet issued) All City CNCP holders may serve the airport on for $200 fee
Number of limousines:	373
Taxis per 10,000 population:	40.19
Drivers:	Approximately 3,000 people hold licenses, of whom some 2,100 drive taxis
Vehicles per household (2010 American Community Survey):	1.32
Proportion of households with no vehicles (2010 American Community Survey):	18.8%
Plate transferability	Not since April 2012
Market value of plates/medallions:	CPNCs sold in 2011 for a high of $67,000 in 2011. The median value was $39,000.[80]
Medallion/taxi license lease value:	$ 1600 monthly approx.
Meter rate (5miles—distance only):	$13.25
Taxicab Bureau budget:	Department of Safety and Permits (2012) $5,027,675 Taxicab Bureau (2012) 862,121
Taxicab Bureau full time equivalent staff:	18

Taxi regulation is the responsibility of the Taxicab and For Hire Bureau in the Department of Safety and Permits. The regulations are consolidated in Ordinance 162, Vehicles for Hire, [81]first adopted in 1956. While Louis Armstrong Airport is outside the city limits, it is owned by the city, and ground transportation there is regulated through City Ordinance 22.

Meter Rates

Every other year, the Department of Safety and Permits reviews ground transportation fares in peer cities nationwide and submits a report (without a recommendation) to the mayor and the city council.[82] Financial reporting by companies is, in consequence, comparatively light. The latest report was sent to council in late 2012. Meter rates were last revised in 2009.

Current rates for taxis and ATs are:

Entry and first $^1/_8$ mile:	$3.50
Each additional $^1/_8$ mile:	$0.25
Waiting time:	$0.20 per 40 seconds ($18.00/hour).

An added charge of $1.00 for each passenger is permitted. Passengers are charged for bridge tolls, but there is no extra fuel charge.

[80] *The Lens*, Sept 21, 2011.
[81] http://library.municode.com/index.aspx?clientId=10040
[82] Section 162-741.

There are some special rates for specified trips and areas, including the airport, for which the fare is a flat $33 for the first two passengers. Rates for special events or to or from specified places are $5 per person or the metered fare, whichever is greater.

For limousines, the rate per hour is $32, compared to $18 for taxis, with a two-hour minimum.

Leasing Regulations

Leasing is not explicitly dealt with in the regulations, but it is well known that leasing is widespread, and that rates are around $1600 per month for a taxi with a CPNC.[83]While the CPNC is not necessarily bundled with the vehicle, in practice the car is inspected and approved for operation under a specified certificate.

[83] Deputy Mayor Thomas, quoted in http://www.nola.com/politics/index.ssf/2012/12/new_orleans_issues_105_new_tax.html

San Diego, California

Jurisdiction served:	San Diego proper plus six cities in the county: El Cajon, Imperial Beach, La Mesa, Lemon Grove, Poway, and Santee, as well as unincorporated areas within the county
Name of regulator:	The Taxicab Administration, a unit of the San Diego Metropolitan Transit System (SDMTS)within the San Diego Association of Governments
Population: 2011 estimate (US Census Bureau):	1,326,179 (city) 1,779,000 (taxi admin jurisdiction, including unincorporated area) 3,140,069 (county)
Taxi fleet (by type)—official count:	1,051 taxicabs among 454 permit holders (2012), 992 of which serve San Diego City (closed entry) 59 suburban permits (open entry) 225 taxicabs may serve the airport on any given day
Number of limousines:	886 (operating at the airport 2012)
Taxis per 10,000 population:	7.4 (for city population) 5.9 (for population within SDMTS jurisdiction)
Drivers:	4,000
Vehicles per household in San Diego County(2010 American Community Survey):	1.8
Proportion of households with no vehicles (2010 American Community Survey):	7.30%
Plate Transferability:	Yes, with the approval of the CEO of SDMTS (for newer medallions, only after 5 years from issue date, but all current medallions are at least 5 years old).
Market value of plates/medallions:	$100,000 (2009)[84]
Medallion/taxi license lease value:	$865/ week (non official)[85]
Meter Rate (5 miles—drop and distance only):	(2012) Maximum: $19.60 (2011) Maximum: $19.00, Average $16.00
Taxicab Administration budget:	*(2012):* $835,047 *(2013)*: $840,185
Taxicab Administration full time staff:	*(2012):* 10 *(2013)*: 10

Taxis, along with jitneys, charters, low speed, and nonemergency medical vehicles are regulated by the Taxicab Administration of the San Diego Metropolitan Transit System (SDMTS). The administration has jurisdiction over the seven cities in the county with which it has contractual agreements, namely San Diego itself and six mainly eastern suburbs: El Cajon, Imperial Beach, La Mesa, Lemon Grove, Poway, and through June 30, 2013,Santee, as well as the county's unincorporated area. The transit authority's Ordinance 11 specifies the regulatory requirements.[86] Although the San Diego's airport (Lindbergh Field) is within city limits, airport taxi permits are regulated by the Regional Airport Authority.

Prior to 1978, San Diego regulated taxis on the basis of public convenience and necessity, but a number of issues, partly attributable to the dominance of a single firm, led to a process of deregulation.[87]City

[84]Nelson/Nygard Consulting Associates, *Taxicab Refranchising Plan Peer Review,* for the Los Angeles Department of Transportation, December 2009, p.30, available at: http://ladot.lacity.org/pdf/PDF190.pdf

[85]http://www.voiceofsandiego.org/opinion/article_caf085f8-d1de-11e1-9b61-0019bb2963f4.html

[86]http://www.sdmts.com/MTS/documents/OrdinanceNo.11.pdf

[87] Gelb, Pat M., *Effects of taxi regulatory revision in San Diego, California*, Urban Mass Transportation Administration, Office of Technical Assistance, Washington, DC, 1983 available at http://catalog.hathitrust.org/Record/010630322

council allowed six new permits to be issued each month and, after initially setting a ceiling on rates, removed it in 1980.

San Diego's experiment with deregulation of its taxi market led to unanticipated problems. As expected, the number of cabs rapidly increased—from 409 to 915—while the number of companies jumped from 68 to 310, and the largest company's share of business fell from 68% to 31%.[88]However, demand also fell (as measured by total trips), even though fares did not, causing a steep drop in drivers' incomes.[89] In 1982, council reversed course, imposing a moratorium on new licenses which lasted until 2001, and placing a ceiling on rates in 1983 that was 20% above the prevailing average. Companies were required to file their rates, but drivers were free to bargain with customers.[90]

In 1989, responsibility for regulating taxis for the City of San Diego was transferred to the Metropolitan Transit Development Board (MTDB), which became the San Diego Metropolitan Transit System (SDMTS) in 2005.

Meter Rates

One aspect of the deregulatory program that remains in effect is that only fare maximums are fixed by the SDMTS. These are set each year at 20% above the previous year's average. The financial records that owners are required to keep and file do not include operating costs. Taxi permit holders must file their rate plans, which must be common to the radio service organization providing service. When new rates are filed, the taximeter must be inspected and resealed. The revised rates are posted on each side of the cab. SDMTS also sets uniform rates for all taxi trips from the San Diego International Airport.

The 2012 San Diego meter rates were:

	2011 Average	2011 Maximum	2012 Maximum	2012 Airport
Flag Drop:	$2.50	$3.00	$3.10	$2.80
Per Mile:	$2.70	$3.20	$3.30	$3.00
Per Hour:	$21.40	$26.00	$27.00	$24.00

An additional fee of $1.50 per trip may be charged through the taximeter on trips from the airport, to recover an airport imposed trip fee.

Leasing Regulations

There are no lease fee regulations as such, but the rights, requirements, and responsibilities that attach to the permit are unaffected by any agreement or leasing arrangement with a driver.

A recent news article reported lease fees of as much as $865per week,[91] while the 2011*Taxicab Permitting Process Study* assigned a lease value of $2,000 per month in its calculations.

[88]Frankena, Mark W., and Paul A. Pautler, *An Economic Analysis of Taxicab Regulation,* Federal Trade Commission Bureau of Economics Staff Report, May 1984, available at http://www.ftc.gov/be/econrpt/233832.pdf
[89] Teal, Roger F., and Mary Berglund, "The Impacts of Taxicab Deregulation in the USA", *Journal of Transport Economics and Policy*, January, 1987, pp. 37-56. See also True North Research, *Taxicab Permitting Process Study Final Report,* prepared for the Metropolitan Transit System, October 21, 2011, p.14.
[90]Frankena and Pautler, *op.cit.*
[91]http://www.voiceofsandiego.org/opinion/article_caf085f8-d1de-11e1-9b61-0019bb2963f4.html

Seattle, Washington.

Jurisdiction served:	City of Seattle
Name of regulator:	Consumer Affairs Unit, Department of Finance and Administrative Services
Population (2011 census estimate):	616,627
Taxi fleet (by type):	688, of which 351 are jointly licensed with King County. There are 241 additional licenses in King County only, of which 199 are WAT cabs, 535 are green (432 hybrids, 103 CNG). 199 for hire vehicle licenses, of which 194 are jointly licensed with King County.
Number of limousines (state regulated):	725 limousines—by agreement with the State of Washington, the City of Seattle is responsible for safety inspections, street enforcement, and monitoring insurance.
Taxis per 10,000 population:	11.2
Drivers:	2745,including part-time and seasonal drivers, plus 337 King County-only drivers
Vehicles per household (2010 American Community Survey):	1.4
Proportion of households with no vehicles (2010 American Community Survey):	15.7%
Plate transferability:	New taxicab licenses cannot be transferred in first 5 years after issue
Market value of plates/medallions:	Average of $146,000 (2011)
Medallion/taxi license lease value:	$85/shift or 475/week (eff. 11/15/2012)
Meter Rate (5miles—distance only):	$15.70
Consumer Affairs taxi regulation budget:	Labor cost approx. $750,000 per annum; overhead costs (facilities, vehicles, supplies, equipment, etc.) approx. $250,000
Consumer Affairs taxi regulation full time equivalent staff:	8.2

Responsibility for taxi regulation in Seattle is vested in the Consumer Affairs Unit of the Department of Finance and Administrative Services. The regulatory program is governed by chapter 6.310 of the Seattle Municipal Code. Detailed and administrative rules and requirements are implemented according to "Director Rules" following public requisite hearings.

Seattle was among the jurisdictions that deregulated in the 1970s, but reversed and reregulated a few years later. Surplus supply remained for years, with a high concentration of large companies, older vehicles, and a general decline in the quality of service. There was a comprehensive rewrite of the code in 1996, and further significant reforms affecting leasing rules, alternative fuel vehicles, and security cameras in 2008.

Meter Rates

Maximum meter rates were first established in 1914. In 1979, the cap on the number of taxi permits was removed and firms were allowed to set their own fares. While the supply of taxis increased slightly, fares did not go down relative to regulated jurisdictions, and a hoped-for wave of rate-scheme innovation failed to materialize. Overall, demand for taxi services fell. Large companies still dominated the dispatch market, and new services and business models did not emerge. Nor was there any price competition at the airport, because a first-in first-out rotation remained in effect, and differential rates caused confusion. In 1984, the city placed a moratorium on new licenses and reestablished fixed fares.

As an artifact of Seattle's experiment with deregulation, companies can still offer discounts, which are an advertised proportion off of the metered rate, but these must be the same for all cars.

In Seattle, rates are periodically revised by city council, following an analysis by the director of the Consumer Affairs Department and public consultations. The analysis takes into account rates elsewhere (especially in King County), the effect on traffic on other modes of transportation of taxi numbers and usage, and owners' operating expenses, as well as the information used by the director in determining the need for more taxis. While Seattle requires significant reporting by associations, vehicle maintenance costs are not a particular focus. The Department also uses outside data in its analysis.

The rates set in September2012 replaced rates form 2008:

Entry and first $^1/_9$ mile:	$2.50
Each additional $^1/_9$ mile:	$0.30
Waiting time:	$0.30/ 36seconds

Each additional passenger beyond two, for persons over 12: $.50.

Seattle's fare system has built in a surcharge scale that reflects changes in gas prices. The gas surcharges are:

$/Gallon-$/Surcharge
$4.00 - None
5.00 - 1.00
5.50 - 1.50
6.00 - 2.00
6.50 - 2.50
7.00 - 3.00
7.50 - 3.50

There is a $40 flat rate from the hotel district *to* the airport set by the City of Seattle, but no flat rates going the other way. The for-hire vehicle flat rate for the same trip is $25.

Meter rates for King County are identical, but setting the Seattle rate as a maximum is being considered.

Vehicles for hire must charge based on a per zone, per trip, or hourly rate (with minimum increments of 30 minutes) using a written contract.

Leasing Regulations

Leasing was prohibited from 1954 to 1975, but permitted as part of the general regulatory reform. In 2008maximum lease rates were established (see Annex 1 for the Director's Rule on Vehicle Leasing), following driver complaints that it was difficult to make a fair wage. The result was that no more than $75 can be charged to lease a vehicle for a 12-hour shift (for a cab with its license), $420 per week, or $1,680 per month. Lease charges cannot include any other expenses such as repairs or maintenance, registration and insurance, taxi association dispatch fees, or damage deposits. For fuel efficient vehicles there can be an additional $15 charge for a 12-hour shift, $105 per week, or $420per month. Subleasing of taxis is prohibited (a Class B offence[92] with a 14-day suspension of the for-hire driver license).

[92] See Enforcement in Section 6, for an explanation of the classes of offences.

Lease rates are periodically reviewed, and following public hearings in September, were revised as of November 15, 2012. This resulted in their being raised to $85 per 12 hour shift, $475 per week, and $1,900 per month.

Seattle Annex 1: Taxicab Vehicle Lease (Rule R-6.310.315)

Extract from City of Seattle Taxicab and For-Hire Vehicle Rules

Information retrieved December 21, 2012 5:17 PM (Revised effective Nov. 15, 2012)

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1. Written Lease Agreement. All taxicab lessors must file a notarized "Taxicab Lease Summary Sheet" with the Director for each lessee. The lessor must provide a signed copy of this form to the lessee when it has been filed and accepted by the Director. All taxicab vehicle lease agreements must be in writing and include, at a minimum, the following information:

(1) Lessor and lessee names and signatures. Lessor and lessee full names must be shown. Lessor and lessee signatures must be properly notarized. The lessor must be the taxicab licensee(s). The lessee must hold a valid for-hire driver license and the lessee's for-hire driver license number and license expiration date must be indicated. The lessor must give a signed copy of this written lease agreement to the lessee at the time that it is been signed and notarized.

(2) Lease period. The lease period shall not exceed one (1) year , provided, however, that the lease period shall not exceed two (2) years for any written lease agreement under which a lease driver drives multiple taxicabs on an irregular basis for the same lessor or for a single taxicab co-operative. The lease period start and end dates/times shall be specified.

(3) Lease Payment Period. The lease payment period shall be specified as per shift, weekly, or monthly. An exception is allowed for lease drivers who drive multiple taxicabs on an irregular basis for the same licensee or a single taxicab co- operative. When the exception is applicable, the lease shall specify a per shift lease payment period. The sum of the lease payments for one week, charged to a driver on a per shift lease payment period, shall not exceed the weekly lease cap. Improper use of the per shift lease payment period or the exception for drivers of multiple taxicabs with irregular shifts shall be considered lease cap violations pursuant to SMC 6.310.315D (Class C monetary penalty and taxicab license suspension or revocation).

(4) Shift and Shift Start/End Times. The shift and shift start/end times must be specified, e.g., day shift, 4:00 a.m.-4:00 p.m. An exception is allowed for lease drivers who drive multiple taxicabs on an irregular basis for the same licensee or a single taxicab co- operative. For these drivers, a single written lease agreement may be used. This lease shall omit the shift and shift start/end times and, instead, shall indicate "various." This lease shall specify a per shift lease payment period. The Director may require the lessor to submit evidence to support this exception and may determine that the exception isn't appropriate. Single shift leases shall indicate "single shift" instead of "day" or "night" shift.

(5) Lease amount. The lease amount cannot exceed the lease caps (maximums) established by this rule. Lease rates must be specified for standard lease payment periods, i.e., per shift, weekly or monthly. Lease drivers who drive multiple taxicabs on an irregular basis for the same licensee or a single taxicab co-operative shall have a per shift lease payment period. The sum of the lease payments for one week, charged to a driver on a per shift lease payment period, shall not exceed the weekly lease cap. No other charges of any kind may be assessed against the lessee except that a "green vehicle" surcharge may be authorized by the Director in this rule.

(6) Written Receipts. Original written receipts shall be provided to the lessee by the lessor for all lease payments paid in cash or by money order. The receipt shall indicate, at a minimum, the date, lessor, lessee, taxicab name and number, lease payment period, and amount paid. Written receipts shall also include the signature of the lessor.

(7) Other Terms and Conditions. The lease shall not provide that the lessee drive in excess of the maximum hours per day specified at SMC 6.310.455.G. A lessee shall not be required to pay a vehicle damage deposit or pay for vehicle collision repairs. The conditions under which a lease is terminated shall be clearly listed. The taxicab name and number, vehicle model year, make and model, and fuel (e.g., gasoline, hybrid, compressed natural gas (CNG), and biodiesel) shall be specified. The lease amount shall be reduced proportionately for any amount s of time that the taxicab is unavailable for use by the lease driver.

(8) Filing "Taxicab Lease Summary Sheet". The lessor is required to file, with the city, the original "Taxicab Lease Summary Sheet," on a multi-part form approved by the Director, within five (5) days of its effective date. The lessor and lessee shall each keep one copy of the form. The "Taxicab Lease Summary Sheet" form shall include the information described in (1)-(7) above. The lessor shall certify that the information on the "Taxicab Lease Summary Sheet" form accurately reflects the terms and conditions of the full lease agreement and that the lease is in full compliance with this rule and SMC 6.310.315. The signatures of both the lessor and lessee are required and must be notarized.

2. Lease Caps. The maximum lease (i.e., lease cap) that may be charged to lease a taxicab shall not exceed the amount specified below. A lease cap surcharge may be authorized by the Director for "green vehicles" as defined in rule pursuant to SMC 6.310.320P.

(1) Shift. The maximum taxicab lease that may be charged to a lease driver is $85 per shift if the taxicab is leased on a per shift lease payment period. This lease cap shall be for one 12- hour shift. Lease drivers who drive multiple taxicabs on an irregular basis for the same licensee or a single taxicab co-operative shall have a per shift lease payment period. The sum of the lease payments for one week, charged to a driver on a per shift lease payment period, shall not exceed the weekly lease cap.

(2) Week. The maximum taxicab lease that may be charged to a lease driver is $475per week if the taxicab is leased on a per week lease payment period. This lease cap shall be for one 12-hour shift per day for a calendar week of seven days.

(3) Month. The maximum taxicab lease that may be charged to a lease driver is $1,900per month if the taxicab is leased on a per month lease payment period. A month shall be a calendar month of 28-31 days.

(4) Single shift. The maximum lease that may be charged for a taxicab that is single shifted, i.e., leased by one driver, shall not exceed twice the maximum taxicab lease per shift, per week, or per month specified above. A lease driver who enters into a single shift taxicab lease shall not sublease the taxicab as provided by SMC 6.310.315E.

(5) "Green Vehicle" Surcharge. A licensee may demand a surcharge, not to exceed $15 per shift, $105 per week, or $420 per month more than the lease cap specified in this rule, if the taxicab licensee voluntarily places a green vehicle into service that is not more than 4 model years old. The green vehicle may be retained in service until it is 8 model years old providing that it passes annual safety inspections by approved ASE-certified technicians and by city taxicab inspectors. A "green vehicle," for the purpose of this lease cap surcharge, is any motor vehicle that meets the provisions of Rule R-6.310.320.P that has the following propulsion: electric, gasoline- electric hybrid, compressed natural gas (CNG), propane (liquefied petroleum gas), fuel cell, or clean diesel (ultra-low sulfur) as defined by the Environmental Protection Agency.

(6) Workers' Compensation and Retail Sales Tax. The lessor shall not add to the lease amount or otherwise charge the lessee for any amounts that the lessor is responsible for with respect to Workers' Compensation industrial insurance premiums to the Washington Department of Labor and Industries and retail sales tax on taxicab lease amounts due to the Washington Department of Revenue.

(7) Lease Cap Adjustments. The Director may increase the lease cap if average taxicab licensee costs increase significantly. Any taxicab licensee may request a special review of lease caps if a significant increase in industry-wide costs can be documented. Lease caps shall be reviewed every even year (e.g., 2010) by September 1, and lease caps shall be adjusted as necessary. Lease caps shall be reviewed whenever the taximeter rate is changed.

(8) Multiple Leases. The applicable lease cap specified under this rule applies to the total lease amount that may be charged for leasing a taxicab regardless of whether the taxicab is licensed by more than one local government. A Seattle taxicab licensee shall not demand any lease amount that exceeds the applicable lease cap specified in this rule by requiring a lessee to enter into multiple leases when the Seattle taxicab has other taxicab licenses issued by other local governments. The taxicab leases permitted by this rule apply to the lease of taxicab vehicles only. Taxicab licenses issued under SMC Chapter 6.310 may not be subleased by a lessee.

(9) Termination of Leases. A lessor may only terminate a lease for the reasons specified in the written lease agreement. A lease shall not be terminated for any other reason without written concurrence of both the lessor and the lessee. A lessor shall not terminate a lease before the end date specified in the written lease agreement, even with advance notice to the lessee, without written concurrence of both the lessor and the lessee. Any such termination of a lease agreement shall be in writing and signed, and all signatures shall be notarized

Appendix C
Systemic Risks from Unregulated Taxis

Appendix C
Long-term Risks from Unregulated Taxis – Moscow Story

As discussed in Chapter 2 of this report, the higher risks to the passenger of unregulated taxi service are apparent. Less easy to see in advance are the *systemic risks* that occur once the cheaper unregulated taxis proliferate. The City of Mosow provides a documented example of these risks.

In the free enterprise enthusiasm following economic liberalization in the 1990s, unlicensed taxis were allowed to proliferate to the point where the *bombili* (bombers—illegal taxis) outnumbered the licensed taxis by four to one. The result was poor service, crime against individuals, and the growth of gangs. While statistics for this kind of crime are difficult to compile, consider this briefing from the US Department of State:

> *Robbery continues to be a frequently reported crime and can sometimes be violent. Assailants have been known to* ***pose as taxi drivers*** *or police officers. After a victim is taken inside a car, the victim is threatened with death until a sufficient amount of money is paid. A less violent tactic is to merely lock the victim in the back of the cab until an exorbitant fee is paid to the driver.*
>
> *Factors increasing the likelihood of being robbed include: traveling alone, being out late at night,* ***using unmarked taxis****, and being under the influence of alcohol or other intoxicants.*
>
> —US Department of State, Russia 2009 Crime and Safety Report

In one reported case:

> *As* Rossiyskaya Gazeta *reported, five men were recently arrested in the southeast of the capital, suspected of a series of robberies. According to investigative authorities, one of them was the driver* [sic] *of the illegal unmarked taxi...*
>
> *Offering women a "lift", together with his accomplices he would rob passengers and possibly murder* [them]*. According to Viktor Viryukov, representative of the Moscow Main Directorate of Internal Affairs, the arrestees are natives of Uzbekistan aged from 20 to 30 years. They are suspected of involvement in three murders, one of which was committed quite recently.*
>
> —"Unlucky Carriers" Russian news site: www.rg.ru/2011/02/07/taxi.html. (translated)

The experience of poor service was also common:

> *. . . Nevertheless, there are people who say that even though riding in an official taxi can cost more than hiring a gypsy cab, getting on the spot safely is priceless. "I once hailed a gypsy cab. Oh, that was fun! I had to show him the way and he tried to rip me off going round in circles—never again!" said taxi user Olesya Negrieva.*
>
> —"Gypsy cabs vs. licensed taxis: what to choose?" *RT News,* April 19, 2010

> *If, God forbid, something happens, who are you going to run to to complain? The police? Who are they going to look for? After all, bombily buy the cheapest junk heaps available, for 20, 30, maximum 50,000 rubles. If anything happens, they ditch the car. They don't care. They've long since earned back the purchase price.*
>
> —"Unlucky Carriers", Russian news site: www.rg.ru/2011/02/07/taxi.html. (translated)

As the volume of illegal operators expanded, a parallel problem of touts intercepting airport and train station passengers occurred:

> *The working arrangements for bombily at lucrative spots are as follows: on the platform, in the arrivals hall, or at the exit from the shopping mall clients are snagged by touts. The purpose of these guys is to talk potential clients into a fare. "These boys are often real psychologists, with a genuine talent for persuading people," says Vladimir Ampleev. "As soon as the client is ready, the tout calls a bombila by phone. The client pays the fare to the tout, who then gives the driver his share, usually 30-50%."*
>
> —"The Bombily Take Moscow" *Ogonyok,* No. 14 (512), 12/04/2010. (translated)

The struggle for control over these spots leads to disputes between legal drivers and illegal drivers, potentially ranging from physical intimidation all the way to gang related turf war. In these conflicts, the legal drivers are at a disadvantage since their identities are registered.

> *"Remember the war between taxi drivers and bombily for Kursk Railway Station in the mid-2000s," says Vladimir Ampleev, a taxi driver and blogger. "At first the legal drivers were even ahead, took their spots by the station, but then some strong-arm guys appeared, who quickly drove everyone away. These guys were well-prepared—one could easily handle 8 or 9 taxi drivers.*
>
> *" . . . After the well-known battle between taxi drivers and bombily for places at the Kursk Station, three criminal cases were initiated," concludes Yuri Sveshnikov. "And all of them were against legal drivers, who to make matters worse had been beaten."*
>
> —"The Bombily Take Moscow" *Ogonyok*, No. 14 (512), 12/04/2010. (translated)

Moscow is not known for its shortage of police. However, their inability to respond to the problem effectively was limited by the lack of regulatory authority.

> *To prove that a specific driver is a tax-evading criminal, three impossible tasks must be accomplished, just like in fairy tales. Firstly, you have to show that the bombila repeatedly violated the law (three times or more), secondly, that he deliberately violated the law (in other words, he wasn't just giving a ride to his mother-in-law, who paid him 500 rubles for his trouble), and thirdly, that as a result he received income on a large scale (i.e., more than 200,000 rubles). "**It's difficult to imagine that an inspector of the State Auto Inspectorate or a policeman could catch one and the same bombila three times in a row with 200,000 rubles in his pocket**.*
>
> —"The Bombily Take Moscow" *Ogonyok*, No. 14 (512), 12/04/2010. (translated)

By 2011, official estimates placed the number of illegal taxis in Moscow at 40,000, compared to only 9,000 legal taxis. In that year Moscow responded with a new set of regulations and a program intended to control the illegal trade. However, having let the illegal taxi trade proliferate through an absence of regulation, Moscow is finding it challenging to transition back to a regulated and safer trade. According to a 2012 report:

> *The Main Directorate for Moscow of the Ministry of Internal Affairs reports that in the past eight months 800 administrative cases have been instigated against illegal taxi drivers and 480 vehicles have been towed off to penal lots. At the same time, the fight against this illegal sector is progressing with difficulty: according to the lowest estimates, the city still has about 20,000 illegal taxi drivers.*

— "More than 800 Bombily Caught in Eight months" www.zr.ru/content/news/491878-za_8_mesacev_v_moskve_pojmali_800_bombil/, November 16, 2012. (translated)