

DRAFT

Taxicab Regulatory and Service Model Study

Submitted to:
City of San Jose
Department of Transportation

January 23, 2004

Schaller Consulting

Brooklyn, NY (718) 768-3487
schaller@schallerconsult.com
www.schallerconsult.com

In association with
Joseph A. Gagliano Consulting, Apex Strategies, RSI Insurance Brokers,
Gorman Gilbert and Fred Baer

Summary

This study was undertaken at the direction of the City Council to assist the City of San José and the taxicab industry in resolving a series of issues facing the industry. By resolution adopted on December 10, 2002, the City Council directed that the study address five key taxi issues:

- What is the best possible service model for customers, taxicab companies, taxicab drivers and the City?
- Should the City place a moratorium on the number of taxicabs, taxi companies or drivers?
- How should the taxicab rate of fare be determined?
- Are there alternatives that would enable drivers to obtain pooled auto insurance at reasonable rates, without creating additional risk or regulatory burden to the City?
- What should be the roles and responsibilities of City departments (Transportation, Police, Airport) in regulating, managing and facilitating efficient taxicab service?¹

Decisions on these issues will shape the quality of taxicab service in San José, the place of cabs in the city's transportation network, the relationship between cab companies and taxi drivers, and the financial health of cab companies and drivers for years to come. Accordingly, an in-depth process of consultation and analysis was developed to assess these issues and make recommendations.

Our recommendations are intended to balance the legitimate needs of taxi drivers, cab companies, the City and the airport in a regulatory structure that will meet the needs of taxicab users in San José, whether they are going home from the airport, attending a downtown event, or traveling to the doctor.

Overview of recommendations

The central change being proposed is to replace the two airport taxi concession contracts with a system of airport taxicab permits. All San José taxicab companies would be eligible to obtain airport permits provided they met certain specified requirements. Airport permits would be allocated to cab companies based on the volume of non-airport trips served by the company. The linkage of airport permits to non-airport trips will provide a powerful incentive for cab companies to serve pre-arranged dispatch trips and

¹ The issue of City roles and responsibilities is addressed in a report submitted under separate cover.

the downtown market, both of which appear to be underserved (in contrast to the airport which enjoys satisfactory service levels).

Other key recommendations are to replace the current uniform fare for all cabs with a maximum fare and to issue taxicab vehicle permits to drivers. Drivers would have the option of obtaining their own auto insurance in a pooling-type arrangement.

Core goals of the recommendations concern competition, choice and service quality. The recommendations are designed to stimulate competition in the taxi industry, create greater choice of cab companies for both drivers and customers, enhance the quality of taxi service and emphasize taxi industry responsibility for the service provided. The recommended service model will thus create a more competitive dynamic in the taxicab industry and strengthen incentives for the industry to better serve pre-arranged trips and the downtown market.

Recommendations

Recommendations pertaining to the *service model* and the issue of a *moratorium* are:

1. The City of San José should issue licenses to taxicab companies to provide taxicab services, similar to current ordinance provisions.
2. The City should issue taxicab vehicle permits to both taxicab companies and individual drivers. Drivers who hold vehicle permits should be required to affiliate with a cab company. Drivers should have the option of obtaining auto insurance through an entity such as an insurance broker who agrees to track and report driver insurance status to the City.
3. Mineta San José International Airport should replace the current concession system with a system of airport taxi permits. Airport permits should be issued to San José cab companies that meet appropriate vehicle and driver requirements. Each airport permit should provide access to the airport on an alternate-day rotation system. Cab companies should be given the option of putting either one or two permits on each cab operated from their company.
4. Airport permits should be allocated to cab companies based on each company's volume of non-airport trips picked up in San José. Permits should be reallocated annually based on updated trip volumes. The initial allocation of permits should include a minimum number per company to provide a base of airport business for each San José cab company in the first year. The minimum fleet size for taxicab companies receiving airport permits should be 15 taxicabs.
5. The total number of airport permits should be set to ensure sufficient supply of cabs while minimizing taxicab wait times in holding areas. The number should be adjusted as needed, based on experience and changes in trip volumes.

6. Mineta Airport should contract for management of the taxi operation through a competitive process.

Recommendations relating to the *rate of fare* are:

1. A maximum taxicab fare should replace the current uniform fare. Cab companies should also be given the option of charging flat rates for trips outside the county.
2. The maximum fare should initially be set at the current fare. Future increases in the maximum fare should be based on increases in the cost of living.
3. A uniform fare should be set for on-demand airport trips.

Auto insurance-related recommendations are:

1. Drivers who own their own vehicles should be afforded the opportunity to obtain auto liability insurance through a risk purchasing group. The risk purchasing group should be managed by an insurance broker who agrees to perform administrative and account services. The broker will track insurance status of each vehicle so as to avoid creating a burdensome task for the City, and report changes in status on a timely basis to the City and to the cab company with which the driver is affiliated.

* * *

These recommendations, which are designed to address in a fair and equitable manner the various stakeholder interests that were identified in the course of the project, will enhance the taxi industry's position in the San José transportation system and strengthen the ability of the industry to meet the internal needs of companies and drivers and external customer-driven needs.

Table of Contents

Summary	i
Table of Contents	iv
Purpose and Methodology	5
The Taxi Industry and Service Quality	8
Taxicab industry composition	8
Market for taxicab service in San José	9
Taxi service at Mineta Airport.....	11
Service quality.....	12
Taxi fares.....	16
Driver incomes	16
Alternative Service Models	18
Analysis of Key Issues	21
Service models and moratorium	22
Rate of fare	30
Auto insurance alternatives.....	32
Recommendations	38
Service model	38
Rate of fare	43
Auto insurance	45
Recap of recommendations, stakeholder interests and alternative service models	46
Appendix A. In-cab Survey of Taxi Passengers	48
Appendix B. Survey of Downtown Business Persons	50
Appendix C. Service Model Workshop Summary	54
Interests and issues:	55
Questions regarding service models:.....	58
Evaluation of service models.....	59
Final questions and comments	70
Service model workshop materials.....	71

Purpose and Methodology

The City of San José and the taxicab industry in the city are facing a series of inter-related issues that will shape the taxi industry and taxicab service in the city for years to come. The core issues concern the framework for taxicab regulation in San José, whether to continue the taxicab concession system at Mineta San José International Airport or adopt an alternative system, and the nature and extent of the City's regulatory responsibilities. Decisions in each of these areas will affect the quality of taxicab service in San José, the place of cabs in the city's transportation network, the relationship between cab companies and taxi drivers, and the financial health of cab companies and drivers.

In January 2001 the Mayor and City Council approved the creation of a Taxi Advisory Team to review the city's ordinance and develop recommendations for enhancing the viability of the taxicab industry in San José. The Taxi Team developed a set of recommendations in the areas of training, communications, customer service standards and industry recognition. The Council adopted recommendations relating to vehicle age and mileage restrictions and an increase in the rate of fare.

The Council also directed the Transportation City Service Area to conduct a consultant study to develop and assess alternative regulatory models and their applicability to San José. Specific issues to be addressed in the study are:

- What is the best possible service model for customers, taxicab companies, taxicab drivers and the City?
- Should the City place a moratorium on the number of taxicabs, taxi companies or drivers?
- How should the taxicab rate of fare be determined?
- Are there alternatives that would enable drivers to obtain pooled auto insurance at reasonable rates, without creating additional risk or regulatory burden to the City?
- What should be the roles and responsibilities of City departments (Transportation, Police, Airport) in regulating, managing and facilitating efficient taxicab service?

The Department of Transportation retained Schaller Consulting to assist the City with the analysis and resolution of these issues. The consultant team consisted of Bruce Schaller, Principal of Schaller Consulting and a nationally recognized expert in taxicab regulation and operations; Dr. Gorman Gilbert, head of the Civil and Environmental Engineering Department and Director of the Oklahoma Transportation Center at Oklahoma State University and a long-time expert on taxicab issues; Joseph A. Gagliano, a transportation consultant based in San José with extensive experience in

strategic planning and organizational restructuring; Eileen Goodwin of Apex Strategies, a specialist in facilitating community participation programs; Fred Baer, who recently retired from the Port Authority of New York and New Jersey where he managed the Aviation Office of Ground Transportation for the three Port Authority Airports (JFK International, Newark Liberty International and LaGuardia Airports); and Walter Diangson of RSI Insurance Brokers, who has developed auto insurance programs in the transportation sector.

Jim Ortbal, Assistant Director of the Department of Transportation, supervised the completion of the project.

The study proceeded in four phases.

1. Document review and interviews. The consultant team reviewed background documents, including the city ordinance; Mineta San José International Airport's taxi concession agreement; the airport request for proposals for taxicab concessions; the Taxi Advisory Team report, staff recommendations and the Mayor's Report; driver proposal for a medallion system; UFCW Local 428 recommendation for alternative service model; State of California, Employment Development Department, "Information Sheet – Taxicab Industry;" and related documents.

In preparation for the initial site visit, the consultant team also prepared a Market Analysis on the taxicab and local passenger transportation markets in San José.

The team then conducted a four-day site visit in October 2003 to meet with the various stakeholder groups. The visit included meetings with the Taxicab Advisory Team, city and airport staff; Convention and Visitors Bureau representatives; cab company owners; and union and driver representatives. The consultant team held two focus group sessions with taxi drivers and conducted brief interviews with front-line staff at hotels, major offices and hospitals. The consultant team also visited taxicab company facilities, the airport taxi stands and hold areas.

2. Data collection. Beginning with the initial site visit and continuing through the fall, the consultant team conducted a wide-ranging data collection and analysis program to document key areas of taxicab operations and service quality. The data collection included:

- Trip volumes through pre-arranged dispatch and airport dispatch.
- Customer complaint volumes for complaints received by the Police Department, the San José Convention and Visitors Bureau and Mineta Airport.
- An online survey of members of the San José Downtown Association concerning their experiences and satisfaction with taxicab service.
- An in-cab survey of taxi customers concerning customers' experiences and satisfaction with taxicab service.

- Taximeter and odometer readings of a sample of taxicabs, collected by two of the cab companies for a sample of the cabs operated from their companies.
- Computerized dispatch records from Yellow Cab, the largest taxi company in San José and the one cab company in the city with a computerized call-taking and dispatch system.

3. Development and evaluation of taxicab service models. Concurrent with the second phase, the consultant team developed an inventory of key issues and stakeholder interests for the project and three alternative taxicab service models. The inventory of interests and taxicab service models were summarized in a handout and used as the basis for the Taxicab Service Model Workshop, which was held with stakeholder groups on December 9, 2003.

Based on comments at the workshop and results of the data collection program, the consultant team conducted further analysis and development of service models.

4. Development and review of recommendations. Analysis of key issues and recommendations were developed based on information and analysis from the first three phases of the project. A draft final report was submitted to City staff for distribution to the Taxi Advisory Team for discussion and comment at a meeting on January 16, 2003. Recommendations will then be presented to the City Council for Council review and action.

The Taxi Industry and Service Quality

This section highlights key findings from interviews and surveys concerning the San José taxi industry, airport concessions, service quality, driver incomes and the regulatory roles of city agencies. This section traces the broad outlines of the industry and reports key findings that are relevant to the policy issues that are the focus of this report, and in particular, to the analysis of alternative service models.

Taxicab industry composition

San José currently licenses 12 taxicab companies, which together operate approximately 480 taxicabs that are licensed to operate in the city. Three of these 12 companies have 20 or more cabs licensed by the city:

- Yellow Cab/Checker Cab, with about 263 cabs licensed in the city. Yellow Cab operates a computerized dispatch system and services Terminal A at the airport.
- United Cab, with 80 taxicabs currently operated in the city. United Cab services Terminal C at the airport, which accounts for most of the trips served by United drivers.
- Rainbow Cab, with 35 cabs licensed in the city. Rainbow Cab serves a combination of downtown taxi stands and pre-arranged trips.

The remaining nine companies each have fewer than 20 cabs licensed by the city. These companies are Golden Star Cab, Alpha Cab, Net Cab, USA Express Cab, Milpitas Cab, West Valley Cab, Computer Cab, Santa Clara Cab and California Cab. Some of these companies are in fact quite small; Golden Star and Alpha currently have 5-8 cabs that primarily serve taxi stands. Other companies including USA Express, Santa Clara and Computer Cab, operate primarily outside San José; a majority of their cabs are not licensed in San José.

The size and composition of the industry has changed significantly over the past decade in ways that show some of the strengths as well as weaknesses in the industry. One of the most significant developments was Rainbow Cab's becoming one of the largest providers of pre-arranged (dispatch) trips in the city. Another significant change occurred when a group of five companies that included Golden Star and United lost the concession for Terminal A. The result was that three of the five companies went out of business and Golden Star became a much smaller company. A third set of changes was brought about by the late-1990s economic boom, which resulted in an increase in customer demand for dispatched trips that Yellow Cab was unable to service, producing unreliability in Yellow's dispatch service.

Virtually all taxi drivers work for cab companies as independent contractors (although Yellow has a few employee drivers). Drivers pay a daily or weekly gate fee to companies.

Gate fees vary by company and are based on whether the company or driver is responsible for supplying the vehicle. Approximately 85 percent of vehicles used as taxicabs are owned by drivers and 15 percent of vehicles are owned by a cab companies.

The most common lease arrangement is for the driver to provide the vehicle and pay between \$250 and \$330 a week to the cab company in gate fees, for which the companies provide auto liability insurance and dispatch services. Gate fees are higher at companies with airport concessions (\$300-\$330 a week) than non-airport companies (\$250-275 a week).

In a significant minority of cases, the cab company provides the vehicle. Gate fees are higher for these cabs: \$500-530 a week for airport cabs and \$300-470 a week for non-airport cabs.

Drivers also pay per-trip fees for on-demand trips from the airport that can total \$80-130 a week for drivers who primarily work from the airport.

Market for taxicab service in San José

In general, the market for taxicab service is related to population, employment, visitation and business activity, reflecting the fact that taxicab trips typically involve airports, hotels, places of employment and shopping and leisure activities.

Figures 1 and 2 on the next page summarize changes in population, employment, airport arrivals and other indicators since 1996. As one would expect, these indicators rose significantly in the late 1990s and then declined since 2000 or 2001 due to the recession and the 9/11 attacks. Even with the declines of the last three years, however, population, visitation, airport passenger volumes and airport taxi concession trips are all well above their 1996 levels.

All sectors of the taxi industry have experienced the effects of the recent downturn. Several cab companies have significantly reduced their fleet sizes and driver incomes have declined since 2000-01.

Overall, San José's taxi industry provides approximately 2,500 trips per day. Based on interviews with cab company owners and managers and airport, hotel, office and hospital staff, current trip levels are:

- Approximately 1,300 trips dispatched through two-way radios or computerized systems.
- 1,025 trips from the airport served by Yellow Cab and United Cab.
- Approximately 50 walk-up trips from hotel taxi stands (Hilton and Fairmont).
- An additional unknown number of "personals" arranged directly between customers and drivers, generally via cell phone. For purposes of estimation we

assume that personals total 100 per day but the actual number could be significantly higher.

The largest dispatch trip volumes, as reported by the cab companies, are experienced by Yellow Cab (about 700 trips per day in San José) and Rainbow Cab (300-350 trips per day). United Cab, Santa Clara Cab, Computer Cab and Alpha Cab each receive 40-60 telephone requests for service per day from San José callers. The other cab companies report providing between “almost none” and 30 dispatched trips per day.

Figure 1. Change in Market Indicators, 1996-2003

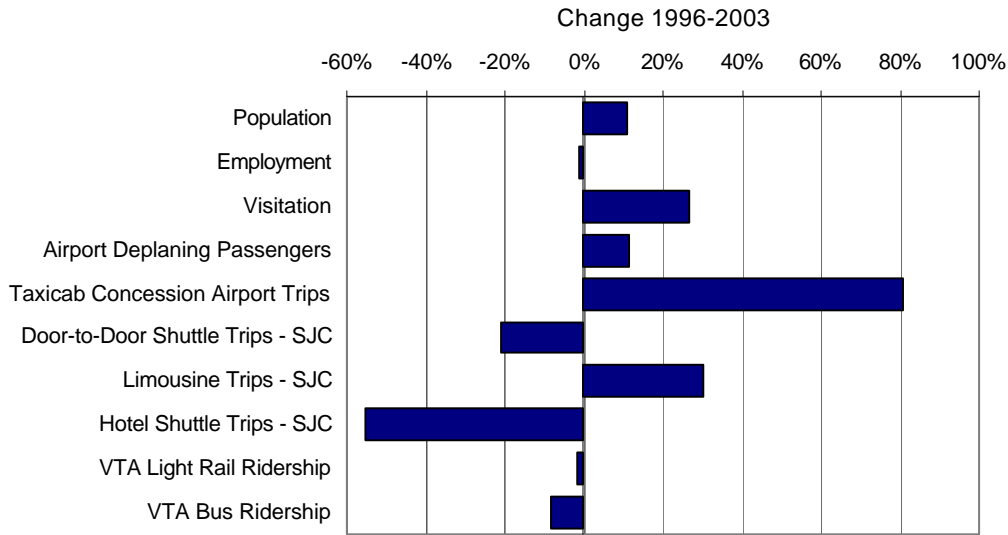
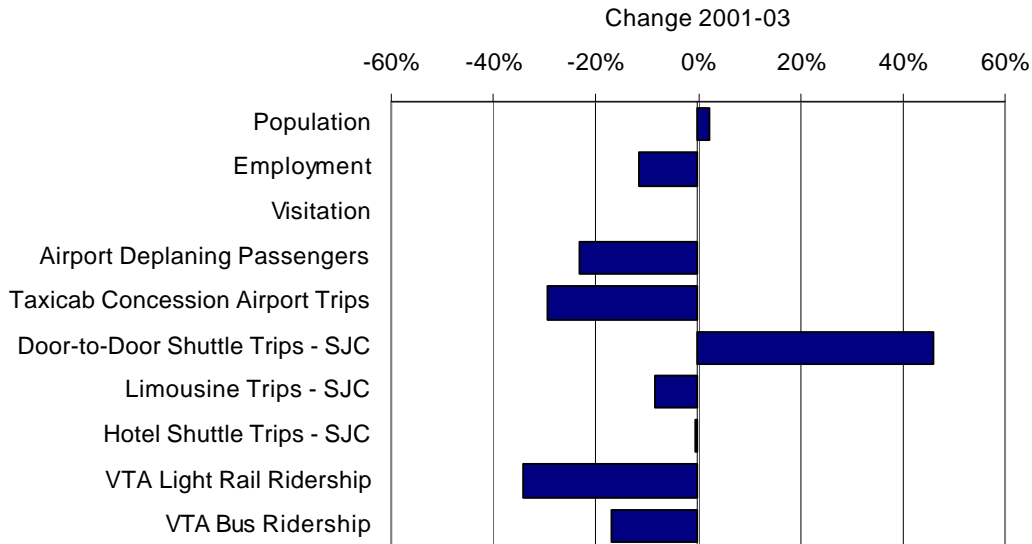


Figure 2. Change in Market Indicators, 2001-03



It should be noted that several cab companies licensed in San José provide a substantial number of trips outside the city using San José-licensed vehicles. Yellow Cab, for example, receives over 200 calls for service per day from Sunnyvale, Las Gatos, Campbell, Mountain View and other cities in the area. Several of the cab companies licensed in San José primarily work outside the city, primarily using cabs that are not licensed by the city.

Taxi service at Mineta Airport

Mineta San José International Airport currently has concession agreements with two cab companies to serve on-demand (walk-up) taxicab customers. The concession for Terminal A is with Yellow Cab and the concession for Terminal C is with United Cab. The current concession agreements took effect in early 2002 and are being extended to September 2004.

Under each concession agreement, the cab company is responsible for ensuring the availability of taxicabs and for managing taxicab operations at each of the terminals and taxicab holding lots. Yellow Cab and United Cab are also responsible for collecting trip fees from drivers, \$1.50 of which is passed to the airport. The balance of the trip fees, which are \$2.63 for Yellow and \$2.80 for United, are retained by the cab company and are applied toward the cost of managing the airport taxi operation.

In fiscal year 2002-03, 1,025 taxi trips were dispatched from the airport on an average day. This figure includes 625 trips dispatched from Terminal A and 400 trips from Terminal C. An additional 3.3 trips per day were made by drivers serving pre-arranged customers.

Current airport taxi volumes have declined by 30 percent since the peak year of fiscal 2001 but are still higher than trip volumes for 1999 and prior years. As a proportion of air passengers deplaning at the airport, taxi concession trips have increased from 4.3 percent in FY'96 to 7.6 percent in FY'01 and 7.0 percent in FY'03, largely due to elimination of hotel shuttle services in the mid-'90s. See Table 1.

Table 1. Passenger and taxi volumes and Mineta San José International Airport

	Deplaning passengers	Taxicab Concession Airport Trips (fiscal years)	Taxi trips as pct. of deplaning passengers
1996	4,794,394	207,882	4.3%
1997	5,163,462	245,739	4.8%
1998	5,142,765	295,506	5.7%
1999	5,592,697	359,150	6.4%
2000	6,160,011	445,868	7.2%
2001	6,971,422	532,813	7.6%
2002	5,836,787	401,445	6.9%
2003	5,350,904	375,350	7.0%

Service quality

Several methods were used to assess the current quality of taxicab service: customer complaints, surveys of taxi users and downtown business people, and computerized dispatch records from the largest cab company in the city.

These data sources paint a varied picture of service quality. On the positive side, the number of complaints received in San José is quite low both in absolute numbers and when compared with other cities. Also, the large majority of customers who returned the in-cab survey rated taxi service favorably.

Less positively, a substantial proportion of respondents to the survey of downtown business persons expressed unhappiness with key aspects of cab service. Also, the taxi company computerized dispatch data showed a substantial proportion of calls were not picked up within a satisfactory amount of time or were not picked up at all.

The information on service quality should be viewed in light of the limitations of each data source. Because complaints are most often made by passengers who have had one upsetting experience, complaint volumes are a poor indicator of overall service quality. Most of the respondents to the in-cab survey were picked up at the airport rather than by telephone pre-arrangement, limiting the usefulness of the results to assessing the satisfaction of non-airport passengers. The number of respondents to both in-cab and downtown business surveys was relatively small. Finally, it was not clear from the computerized dispatch data whether or not some passengers were eventually picked up.

Even with these caveats, it is fair to conclude that our evaluation of service quality shows a mixed picture. It appears that some taxi passengers are quite satisfied with the quality of service they experience. On the other hand, there is clear reason to believe that a significant proportion of taxi users or potential users, including much of the downtown business community, would like to see significant improvements to the quality of service.

Passenger complaints

A sticker in each taxicab advises passengers to call the cab company, the San José Police Department (SJPD) or the San José Convention and Visitors Bureau (CONVIS) with complaints or compliments about service. We tallied complaints from these two sources and the airport. We also charted changes in the number of complaints over time, and compared complaint levels in San José with those in other cities.

Table 2 shows that in 2003, the SJPD, CONVIS and the airport received a total of 9 complaints about taxi service. Over the last four years the number of complaints has fluctuated between 2 and 12, with no clear trend line.

Table 2. Public complaints about taxi service

	Complaint received by:			
	SJPD	Airport	CONVIS	Total
2000	2	0	*	2
2001	4	4	*	8
2002	2	10	*	12
2003**	4	0	5	9

*Convention and Visitors Bureau did not formally collect complaints until 2003.

**Year to date figures; November for SJPD, mid-December for Airport and CONVIS.

Table 3. Comparison of public complaints about taxi service, selected cities

	Year	# complaints filed with city/county	# taxicabs	Complaints per cab
San Diego	2002	222	1,170	0.19
Montgomery County, MD	FY03	97	580	0.17
Seattle	2002	105	643	0.16
Orange County, CA	2003	25	609	0.04
Fairfax County, VA	FY01	11	489	0.02
San José	2003	9	462	0.02

Note: Complaints received by airports in Seattle, San Diego and Orange County are not reflected in these data. However, the number of complaints received by airports in these jurisdictions is relatively small.

Complaint levels in San José are relatively low compared with selected other jurisdictions. Table 3 shows that the 9 complaints in 2003 in San José represents a rate of 0.02 complaints per cab. This rate compares favorably with Orange County, Seattle, San Diego and Montgomery County, Maryland and is about the same as in Fairfax County, Virginia.

In-cab passenger survey

City staff distributed several hundred copies of an in-cab survey to drivers and cab companies. Drivers were asked to distribute the survey to passengers, who had the option of returning the completed survey to the driver in a sealed envelop or mailing the survey back to the city. A total of 60 completed surveys were received.

Forty-three percent of respondents rated taxi service overall as “excellent,” 50 percent as “good” and only 3 percent as “poor.” Ratings were fairly similar across nine service attributes, with relatively more favorable ratings given for availability of cabs at taxi stands (this includes airport cab stands), driver knowledge of route and destination and driver helpfulness with packages and luggage, and safe driving. At least 50 percent of respondents rated each of these as “excellent.”

Other key indicators were also positive. Three-quarters said that taxis are “a good value for the money” compared with one-quarter saying they are not a good value for the money. A large majority rated San José cab service as better (32 percent) or about the same (48 percent) as cab service elsewhere, and only 7 percent rated service in San José as worse.

The complete survey results are in Appendix A.

Downtown business survey

The Downtown Business Association asked about 300 of its members to complete an online survey of cab service. A total of 56 responses were received for a return rate of 19 percent, which is considered a good response rate for a survey of this type.

In contrast to the in-cab survey, downtown business persons surveyed on-line gave middling to poor ratings to cab service. Respondents were asked about cab service both from their own experience (if they take cabs at least once a month) and from the viewpoint of their business. Based on their own experience, only 16 percent rated cab service as excellent, 50 percent as good and 34 percent as poor. From the viewpoint of their business, ratings were 2 percent excellent, 38 percent good and 35 percent poor.

Other key indicators also skewed toward the negative. A majority (54 percent) said cabs are not a good value for the money and 67 percent said that cab service in San José is worse than cab service in other places they have used cabs.

The major problems with cab service identified by downtown business persons are the availability of cabs at downtown taxi stands and the wait time after telephoning for a cab. Between one-third and one-half of respondents rated these service attributes as poor based on their own experiences and from the viewpoint of their business.

Notably, respondents said that both their own use of cabs and their clients’ or patrons’ use of cabs would increase if taxi service improved.

The complete survey results are in Appendix B.

Cab company computerized dispatch records

Another valuable source of data related to service quality comes from the computerized dispatch records of cab companies. One company in San José, Yellow Cab/Checker Cab, has a fully computerized system. Calls for service coming into the company’s phone center are entered into a computer and dispatched through a computer to a mobile data terminal in each taxicab.

Yellow Cab provided data for 16,383 trip requests for the period November 19-December 4, 2003. These data include all pre-arranged calls received by Yellow Cab during this period. Trips originating at the airport taxi stand at Terminal A, for which Yellow has the concession, and via drivers’ cell phones are not included in these data. For purposes of analysis, we excluded calls for pickups outside San José, leaving 12,782 requests from

San José locations. In addition, some calls are redispached in the process of the call being handled. An adjustment is made to avoid double-counting of duplicate records.

Table 4 summarizes the disposition of this sample of dispatch calls:

- 60.4 percent resulted in the passenger being picked up within 20 minutes of the request for service, or within 5 minutes of the requested pick-up time in the case of an advance reservation. These response times are generally considered satisfactory service for pre-arranged calls.
- 12.1 percent were picked up in 21 minutes or more.
- 4.4 percent of calls show no pick up of the passenger.
- 14.5 percent show a “fast meter,” in which the time between the meter being turned on and off is 5 minutes or less. Fast meters can indicate a variety of situations. Some cases are truly short passenger trips. In many cases, the driver went to the pick-up location, found no passenger, and cycled the meter. Another possibility is that the driver decided against going to the pick-up location and cycled the meter to be available for another call. Presumably, the passenger was not picked up in these cases.
- 8.2 percent of calls were cancelled. The reason for the cancellation is not known, but could range from the customer no longer needing a ride to the customer having called another cab company that responded to the call first.

Table 4. Yellow Checker Cab Call Disposition

Disposition	Percent	Percent for group where disposition is known
Passenger picked up within 20 minutes of request*	60.4%	78.5%
Passenger picked up 21+ minutes after request**	12.1%	15.8%
Passenger not picked up	4.4%	5.8%
Subtotal – pickup disposition known		100.0%
“Fast meter”	14.5%	
Canceled	8.2%	
All other	0.3%	
Total	100.0%	

*This category includes passengers picked up within 5 minutes of requested pick-up time for advance reservation calls.

** Includes pickups of 6 or more minutes of requested pick-up time for advance reservation calls.

Total number of calls: 12,360 non-duplicate call requests.

Since the call disposition is ambiguous in the last two situations, it is useful to focus on the first three categories, which account for 76.9 percent of all calls. Just over three-quarters (78 percent) of this group of calls resulted in a pick-up within 20 minutes, while 22 percent resulted in a pick-up that is “late” relative to the 20 minute standard or no pick-up at all. This is a substantial number of late pick-ups and no-shows and exceeds the rate in some comparable communities.¹

Taxi fares

The current taxi fare in San José is \$2.50 for the first one-tenth of a mile (\$3.50 at the airport), \$2.50 per mile and \$25 per hour waiting time. For a trip of 5 miles with 2 minutes of waiting time, the fare is \$15.75 (\$16.75 at the airport).

San José’s fare was increased in March 2003 and is now among the highest fares in the U.S. San José’s current fare ranks fourth when compared with 93 cities with 100 or more taxicabs, as listed in the Taxi, Paratransit and Limousine Association’s *Fact Book*. Travelers accustomed to taking taxicabs in other major cities will find San José’s fare to be relatively high; among the 13 cities with 1,300 or more metered taxicabs, none have a fare as high as the current fare in San José.

Driver incomes

Two methods were used to collect information on driver incomes. First, drivers attending the two focus groups were asked to complete a short questionnaire that included information on the number of trips they provide per day and incomes. Second, cab companies were asked to collect taximeter readings to show overall fare revenue for a sample of taxicabs.

The amount of information gained from these two data collection efforts was not sufficient to draw definitive conclusions on driver incomes due to relatively small sample sizes and the wide variation in fare revenues and driver-reported incomes. On the driver survey, net incomes were reported to range from a \$20 per day loss to \$45,000 annual income. On the taximeter readings, daily fare revenues ranged from about \$100 to \$348.

Drivers in the first focus group, which consisted almost entirely of airport-oriented drivers, reported that they could expect to make about \$80-\$110 a day. One driver interviewed separately said he nets about \$10 per hour for 13 hour shifts.

These self-reported figures appear to be reasonable for full-time drivers who have access to airport on-demand trips. An average take-home income of \$100 a day would be realized based on the following assumptions, each of which appears to be reasonable:

¹ For example, the largest cab company in San Diego has been shown to pick up 87 percent of all calls within 20 minutes, compared with the 78 percent figure cited here.

- 37 percent cab utilization (paid miles as a percentage of total miles), based on taximeter readings supplied by Yellow Cab and United Cab.
- Average fare revenue per paid mile is about \$3.15.
- 150 miles driven per day.
- 15 percent tips.
- \$103/day expenses, including gate fees, airport per-trip fees, gasoline and vehicle expenses.

Alternative Service Models

Concurrent with data collection and analysis, three alternative taxicab service models were developed for the purpose of describing and evaluating regulatory and service options for San José.

A Service Options Workshop was held in December 2003 to evaluate and further develop the alternative service models. Participants at the workshop included cab company owners, taxi drivers, representatives from the hospitality industry and City and airport staff. Approximately 55 participants attended the workshop.

Prior to the workshop, participants were sent an eight-page document consisting of an inventory of stakeholder interests and the City's goals, and descriptions of three alternative service models. (See the end of Appendix C for this document.)

The document included evaluation criteria for each service model, using three broad categories for evaluation:

1. Service to Customer
 - Availability of cabs at airport
 - Availability of cabs by dispatch
 - Pre-arranged calls served promptly
 - Availability of cabs at stands
 - Driver courtesy, geographic knowledge
 - Safe driving/safe vehicles
 - Affordable fares
 - Positive public perception
2. Industry Financial Conditions and Equity
 - Driver incomes
 - Financial condition of companies
 - Opportunity to grow companies
 - Equity among industry groups
 - Positive relationship between cab companies and drivers
3. Regulation and Oversight
 - Compliance with regulatory requirements (licensing, insurance, etc.)
 - Smooth-flowing airport operation
 - Minimize airport's administrative and management responsibilities
 - Minimize city's regulatory responsibilities and enforcement needs

The three service models in the document illustrated three quite different approaches to regulating the taxicab industry and are summarized below:

Service Model A: Current system with greater city regulation. Maintains current regulatory framework except that the City's regulatory responsibilities are increased. Additional areas for regulation include setting of industry service standards, requiring management plans from each company to meet service standards and possibly regulating gate fees.

Service Model B: Medallion system with closed entry and airport open to all San José cabs. This service model is similar to the regulatory structure in San Francisco. Vehicle permits ("medallions") are issued to drivers as well as cab companies. Drivers who hold a medallion must drive a minimum number of days a year. Each driver must affiliate with a cab company for dispatch and complaint handling. The number of medallion licenses is set by the City. All San José cabs can serve on-demand trips at the airport; airport taxi operations are managed by a contractor selected through a competitive process. As in Model A, the City takes a stronger regulatory role.

Service Model C: Airport rotation system and open-entry airport. This model is intended to use the attractiveness of airport trips in a regulatory structure that creates the incentive for companies to develop an effective dispatch service. It continues the current system of issuing operating authority for taxicab service to cab companies (as opposed to medallion licenses to drivers as in Model B) while also providing greater flexibility for drivers to move between companies. Access to on-demand trips at the airport is opened to all cab companies provided they meet standards set by the airport and provided they provide dispatch service to the rest of the city. A rotation system is used to limit the number of cabs serving the airport on any given day to a number sufficient to meet demand for service while also ensuring adequate driver incomes on their "airport" days. A maximum fare replaces the uniform fare currently in place.

At the morning session of the workshop, participants reviewed the inventory of stakeholder interests and city goals and added to the list of interests. The consulting team then described each of the three service models. After lunch, participants broke into four discussion groups. Each break-out group evaluated and commented on each service model based on the three sets of criteria and reported back to the full workshop the results of their discussions.

Throughout the workshop, participants' comments were captured on flip charts visible to the entire group. Appendix C contains the documentation of the workshop discussions as captured on the flip charts.

The consultant team used the comments and discussion at the Service Model Workshop in developing recommendations. Several important themes from the workshop discussions are summarized below:

- Importance of choice, particularly for drivers. The issue of choice is most critical with respect to drivers moving between cab companies. Drivers express that they want to be able to move easily among a number of cab companies that have access to serving the airport. These drivers believe that the ability to move between companies will make the companies compete for their services, which drivers believe may result in reduced gate fees, better dispatch service and greater income potential.

The importance of choice and competition means that the service model adopted in San José should foster competition on two levels: competition among cab companies for drivers, and competition among companies for customers, particularly dispatch trips. The importance of this theme also means that a larger number of cab companies should have access to the airport since airport trips are such an important part of the San José taxi business. Companies without airport access are much less attractive to drivers for this reason.

- The relationship between driver “happiness” and the quality of service. One driver summarized this theme by saying, “Happy drivers make for happy customers.” The ability to move between cab companies and the opportunity to make a reasonable income are key ingredients to driver happiness. This means that the adopted service model should strike a reasonable balance between the supply and demand for taxi service, particularly at the airport but also throughout the city.
- The “devil is in the details” for quality taxi service. Discussion of customer service highlighted many of the seemingly “little” issues that affect the quality of customer service, ranging from the friendliness of cab company reservationists to drivers knowing about special events downtown. City staff commented that the industry is much closer to the customer and customer needs than are regulators. Thus, it is important that the adopted service model assign to the taxi industry the main responsibility for quality of service and assign to City regulators responsibilities that match the functional strengths of governmental agencies such as checking qualifications, issuing permits and enforcing minimum standards. A critical corollary to this point is that City responsibilities must recognize budget constraints that always exist but are particularly heavy at this time.
- Importance of transparency in driver costs and fees. Finally, also dealing with financial issues, drivers stressed the importance of value and transparency in the fees they pay, whether gate fees to companies or license fees to the City. Currently, gate fees are paid as one lump sum that covers dispatch, airport access (where applicable) and auto insurance. Drivers lack a basis for evaluating the component costs or whether the costs are reasonable.

These considerations are reflected in the analysis of key issues and recommendations below.

Analysis of Key Issues

This section discusses and draws conclusions on each of the five study issues outlined at the beginning of the report. The conclusions, which form the basis of our recommendations in each issue area, are summarized below and then discussed in detail in the balance of this section.

Summary of conclusions: Service models

- The service model should emphasize excellence in taxicab dispatch operations so that the taxi industry serves pre-arranged trips throughout San José promptly and reliably.
- The service model should allow the taxi industry to grow as the market for cab service grows, and should provide incentives for cab companies to market themselves and expand their customer base.
- The service model should provide increased choice of cab companies to both taxi customers and to drivers, with the objective of creating a more competitive and customer-oriented dynamic in the taxi industry.
- The number of cabs working the airport on any given day should be restricted for the purpose of increasing driver incomes without compromising the availability of cabs for airport patrons.
- The new service model for the airport should choose from among several possible methods to attain an appropriate balance between supply and demand at the airport.

Summary of conclusions: Rate of fare

- The service model should address the current high fare, which discourages the use of cabs in San José.
- Consideration should be given to establishing a maximum fare, thus allowing cab companies to differentiate themselves from other companies on the basis of price and attract new customers to use cabs.

Summary of conclusions: Auto insurance

- A risk purchasing group is a viable alternative avenue for owner-operators to obtain insurance for their vehicles, independently of cab companies.

Service models and moratorium

The issues connected with taxicab service models go the heart of the choices facing the taxi industry and the City of San José. These include: Should the current service model be retained or an alternative put in its place? Should the City take a more active regulatory role on taxicab issues? Should the number of vehicles or drivers be capped? Should vehicle permits be issued to drivers in the form of medallions? Should the airport continue with the concession system? Should the airport be opened to a broader portion of the taxi industry? How can the downtown business community and residential communities be better served by taxicabs? How should taxi fares be set, and how should fares relate to improving driver incomes?

Analysis of the situation in San José, combined with the experiences of other jurisdictions discussed below, lead to the following main conclusions with respect to characteristics or features of a taxicab service model suitable for San José.

1. Setting aside airport trips (discussed below), the primary taxi market is for pre-arranged trips dispatched through the cab companies. The service model should be designed so that the taxi industry excels in serving dispatch trips. This means promoting the existence of strong, competitive taxi companies serving dispatch trips.

San José is not currently a “flag” or “hail” city, and is not likely to become one in the foreseeable future. The volume of business is too low to make flags or taxi stands a primary way for taxi drivers and passengers to connect. This means that most customers will continue to telephone a cab company when they need a cab. Serving this market effectively requires cab companies with strong management, adequately sized fleets and drivers who are oriented to serving the dispatch market.

In terms of service models, the importance of the dispatch market means that cab companies should continue to be the entity that is issued authorization to provide taxicab service. San José would not be well served by a fragmented taxi industry that lacked the means to field well organized cab fleets. We recommend below that permits to operate taxicab service continue to be issued to cab companies, with minimum standards (such as fleet size) to qualify as a cab company.

This emphasis on dispatch can also serve the downtown business community and hospitality industry’s need for better visibility and reliability of cab service. This is necessarily the case because there does not appear to be sufficient demand to create active cab stands downtown aside from two hotel stands that currently attract drivers on a consistent basis. Downtown businesses should be able to obtain quick and reliable service through dispatch, however. In fact, some hotels report that they currently wait only a few minutes for cabs to arrive when they call.

The overall goal is to foster a taxi industry that has a number of cab companies with viable dispatch operations. San Diego and Orange County offer examples of communities with multiple cab companies with viable dispatch operations. San Diego has eight cab companies that each operate 45 or more taxicabs, including three with 90

or more cabs. The largest company has somewhat over 300 cabs. Orange County has four cab companies with 75 or more cabs each and three others with 14-22 cabs each.

2. The SJ market has significant potential for growth in the dispatch (pre-arranged trip) market. The selected service model should allow the taxi industry to grow as the market grows. Ideally, the service model should provide incentives for cab companies to market themselves and expand their markets.

A comparison of San José trip volumes with those in other cities provides context for evaluating the potential for growth in the San José taxi market.

Table 5 shows the volume of taxi trips in San José, San Diego, Seattle and two counties outside Washington DC: Fairfax County, Virginia (which includes Fairfax city, Reston, Vienna, Falls Church and Tysons Corner), and Montgomery County, Maryland (which includes Rockville, Bethesda, Silver Spring and Wheaton). The suburban DC counties and San Diego are probably the most similar to San José in size and character, while Seattle represents a more urban environment.

Trip volumes in San José are quite low compared with the other jurisdictions shown in Table 5. San José has 1.6 taxi trips per 100,000 residents, excluding on-demand trips originating at the airport, compared with a range of 5.3 to 7.9 for Montgomery County, Fairfax County and San Diego. Focusing on trips dispatched by cab companies (excluding walk-up trips at hotels, taxi stands, etc.), San José has 1.5 dispatch trips per 100,000 residents compared with a range of 5.3 to 13.9 in the other jurisdictions.

San José's relatively low taxi trip volumes are probably due in part to the higher rate of fare in San José compared with these jurisdictions, and to the perception that taxicab service is unreliable. The post-2000 downturn in trips may account for a portion of the difference as well.

Table 5. Taxi trip volumes in selected cities

Jurisdiction	Population (2000)	Average daily trips, excluding airport*		Average daily dispatch trips		Year of trip data
		Total	Per 100,000 population	Total	Per 100,000 population	
San José	895,000	1,450	1.6	1,300	1.5	2003
San Diego	1,223,000	9,700	7.9	6,500	5.3	1999
Seattle	563,000	n.a.	n.a.	7,800	13.9	2002
Fairfax County, VA	970,000	5,100	5.3	n.a.	n.a.	2000
Montgomery County, MD	873,000	5,300	6.1	4,600	5.3	2001

*On-demand trips from the airport are not included in data for San José, San Diego and Seattle. Note that cabs in Fairfax and Montgomery Counties do not pick up on-demand airport trips.

n.a. = not available

The implication of San José's relatively low taxi trip volumes is that the industry has significant growth potential. This conclusion is supported by the Downtown Business survey results showing that respondents would take cabs more if service improved. Marketing, improved reliability and a lower fare would likely attract additional customers to use taxicabs in the city. While it would not be expected that taxi trip levels in San José would quickly reach the far higher levels in the comparative jurisdictions, a significant level of growth does appear achievable.

The service model can provide incentives for companies to serve dispatch trips by linking access to the airport – a prized goal for most (though not all) cab companies and drivers – to success in building the dispatch market. We propose this linkage in the recommendations.

3. The service model should provide increased choice of cab companies to both taxi customers and to drivers to create a more competitive and customer-oriented dynamic in the taxi industry.

Currently, only two companies (Yellow and Rainbow) serve a significant volume of dispatch trips. Customers who need to call for a cab have only two companies that are likely to be able to meet their needs. Nevertheless, despite this minimal level of choice, it is clear that at least some customers exercise the power of choice to try to improve the quality of service they receive. Some hotels and businesses report having changed taxi companies as a result of being dissatisfied with their previous company of choice.

The choice available to drivers is in some respects even more limited than the choice available to customers. Only two companies (Yellow and United) have access to the airport taxi stands. Even more narrowly, drivers who want to work both the airport and the city have only one attractive choice. This lack of choice explains why many drivers stress the importance of opening the airport to more cab companies and easing drivers' ability to move between companies.

Creating more choice for both taxi customers and for drivers – who are also customers although in a different sense – would create a context for a more competitive taxi industry that is more responsive to customer and driver needs. Choice and competition create the incentives for the taxi industry to better serve customers since dissatisfied customers can call a different company.

Choice and competition should also help to improve the relationship between drivers and cab companies, for two reasons. First, drivers who are dissatisfied with one company will have viable options for moving to other companies. Second, drivers at a given company will have the incentive to work with the company closely to provide good service, for otherwise, customers may move elsewhere.

One of the healthy aspects of the taxi industries in San Diego and Orange County is that companies offer a range of gate fees that reflect the value of the business that can be derived from each lease. For example, in Orange County one of the larger companies charges \$755 per week for an airport cab, \$675 per week for a non-airport cab that can

pickup under the company's Anaheim franchise, and \$575 per week for non-Anaheim, non-airport cabs. (The gate fees include dispatch services, vehicle and insurance.) In San Diego, gate fees vary from \$400-450 for airport cabs to \$300-350 for non-airport cabs.

A critical aspect to creating a more diverse and competitive taxi industry is to change the concession system currently used for airport taxi service. Airport taxi trips currently account for nearly one-half of all trips in San José, making it difficult (although as Rainbow Cab has shown, not impossible) for cab companies without an airport concession to grow. Providing airport access to additional companies will provide a basis for increasing the number of cab companies with significant level of San José operations. Linking the size of cab companies' airport operations to the size of their dispatch operations would create a strong incentive for companies to focus on and build the dispatch market.

4. The City can evaluate alternatives to the current concession system at Mineta Airport without compromising the quality of taxi service at the airport, provided that limitations are maintained on the overall supply of cab service at the airport.

Whether to allow access to the airport to additional cab companies is a major issue facing the taxi industry, the City and the airport. It is also a key to addressing other needs including incentives for competition in the dispatch market. If there is to be a change from the current concession arrangement, the issue then becomes, would the airport be able to maintain or even improve the current quality of taxi service with a different system?

Our analysis of this issue concludes that a key consideration to achieving good-quality taxi service at the airport is to balance the supply of cabs with the demand for service. In San José and at other airports, problems between cab drivers and between drivers and customers arise most often when there are too many cabs at the airport. Drivers become frustrated with long waits in the taxi hold, spawning problems ranging from drivers fighting with each other to drivers refusing short trips and being rude to passengers. This is perhaps the best example of the point made at the Service Models Workshop, that "happy drivers make for happy passengers."

The airport began the current concession arrangement in 1994 with the goal of ensuring cab availability, improving the quality of service and avoiding conflicts between drivers from different companies. These were major problems for the airport in the late 1980s and early 1990s. In the airport staff's view, the concession arrangement has largely achieved these goals. The number of complaints about taxi service received by the airport declined from 150-700 a year in 1989-92 to 10 in 2002 and zero in 2003 (as of mid-December).

At first glance it may appear that switching to the concession system was the key to resolving taxi service problems. But the most fundamental change was to achieve a better balance between supply and demand for cabs at the airport; concessions were

simply the mechanism for doing so. Since the concession system was put in place, the number of cabs has declined or stayed the same as compared with pre-concession years, while the number of trips doubled or tripled. Thus, daily trips per cab increased from 0.8 in 1990-91 to 3.5 in 2002-03. See Table 6.

Table 6. Comparison of current and pre-concession airport number of trips, cabs and complaints

Fiscal year	Dispatched trips	# drivers/cabs	Trips/cab	Complaints
1989-90	130,607	300	1.4	Approx. 700
1990-91	142,570	576	0.8	280
1991-92	128,750	Not avail.	Not avail.	150 to date
2002-03	375,000	343	3.5	0

Sources: 1989-92 from "Taxicab Fact Sheet" supplied by the airport; undated document apparently from late 1991 or early 1992. The "150 complaints to date" apparently applies to part of the 1991-92 fiscal year but it is unclear what portion since the document has no date.

2003 data from airport staff. Complaints are for calendar year 2003 through Dec. 15.

Trips/cab figures assume that each cab is operated 6 days a week.

The importance of limiting the supply of cabs at airports is shown in the fact that virtually all major U.S. airports constrain the number of cabs serving on-demand trips. Interviews with airport ground transportation managers at the airports we surveyed, including the airports in San Diego, Orange County, Seattle, Sacramento and Oakland, emphasized the importance of having some type of constraint to avoid having too many taxicabs in the holding areas, extensive waiting times for drivers, dissatisfied drivers, refusals of short trips and other service problems.

We next discuss the current supply/demand balance at Mineta Airport and then various methods of controlling the supply of cabs.

5. The supply of cab service at the airport could be further restricted without compromising the availability of cabs, but with the effect of increasing driver incomes.

Currently, about 343 San José cabs have access to on-demand airport trips – 263 taxis operated by Yellow and 80 cabs operated by United. With just over 1,000 trips per day from the airport, this means that on average there are 3.5 airport trips per day per cab for the two companies.¹

The ratio for drivers working the airport is actually somewhat higher than 3.7 trips per day because some drivers do not make any airport pickups. Data supplied by airport staff for a typical day (Tuesday, January 6, 2004) indicated that 219 individual drivers

¹ The trips per day figure assumes that each driver works the airport 6 days a week.

picked up an average of 4.4 trips that day. The figure was higher for United Cab drivers (5.9 trips per day) than for Yellow Cab drivers (3.7 trips per day).¹ These figures are obviously higher for peak travel days and lower for days that have below-average airport trip volumes.

Table 7 compares the situation in San José with several similar West Coast airports. John Wayne Airport in Orange County and Sacramento airport have dedicated fleets or subfleets that primarily or exclusively serve on-demand airport trips. San Diego's Lindbergh Field and Oakland Airport employ rotation systems.

As shown in Table 7, Orange County, San Diego and Oakland airports have more than twice as many trips per cab, for the number of cabs working the airport on any given day, than Mineta Airport. Sacramento airport has about the same number of trips per cab as in San José, but trip lengths appear to be substantially longer (the distance downtown is greater and there are some very long trips, e.g., to Tahoe and Reno).

Ground transportation managers at John Wayne and Lindbergh report that cabs are nearly always available to airport patrons. In San Diego, on the unusual occasion when more cabs are needed, the airport can call in cabs not scheduled to work the airport that day.

The experience of these airports indicates that the number of cabs with access to the San José airport on any given day could be reduced while maintaining an adequate supply of cabs, with the result of increasing the number of trips for each driver.

Table 7. Taxi dispatching at selected airports

	# taxi trips dispatched, 2002/03	# cabs with access to airport on any given day	Dispatched taxi trips per cab per day*
San José (Mineta)	375,000	343	3.5
Orange County (John Wayne)	275,000	110	7.4
Oakland	59,000**	80	8.1
San Diego (Lindbergh)	602,000	180	9.2
Sacramento	53,440	48	3.6

* For San José, Orange County and Sacramento, assumes that drivers work six days a week. For San Diego and Oakland, assumes that all drivers work on their rotation days.

** Oakland trip data are for the months of August-October 2003; full-year data not available.

¹ Note that Yellow drivers can more easily supplement their airport trips with pre-arranged trips dispatched through the computer, whereas United has relatively few dispatched trips.

6. Several alternative mechanisms are available for constraining the supply of cabs at the airport. The service model should adopt one of these methods to provide for limiting the number of cabs at the airport on any given day, and ideally, should reduce the number from current levels to better balance taxi supply with demand.

Concession agreements are only one of several effective methods of controlling the supply of taxicabs at airports. The experience of other airports illustrates alternatives to the current arrangement at Mineta San José International Airport.

Controls on the supply of cab service at airports may involve direct airport-imposed controls or indirect controls through citywide regulation of the size of the industry. In either case, airport taxi operations are usually managed either by contractors (San Francisco, Oakland, San Diego) or less often, by airport staff (Boston, Las Vegas). A variation of contracting occurs at LAX, where an industry consortium composed of the nine city-franchised taxi companies manages the taxi operation.

The indirect approach to constraining supply tends to be found in major cities where the citywide cap on the number of taxicabs effectively constrains the supply of cabs at the airport. Because in these cities drivers have the alternative of working strong downtown hail markets, a reasonable balance is struck between supply and demand at the airport. When driver waiting times become excessive in the airport hold areas, drivers have the alternative of leaving the airport and seeking passengers in the downtown area. Examples are San Francisco, Las Vegas, New York, Boston and Chicago. The presence of strong downtown walk-up markets (flag or hail) make these cities fundamentally different from San José. As a result, the indirect control approach is not appropriate for Mineta Airport.

Constraining the number of cabs at the airport thus needs to follow an airport-specific approach. Two basic methods are seen at other airports: subfleet and rotation methods. These methods can be used singly or in combination.

The *subfleet method* involves limiting the cabs picking up on-demand customers to some portion of the cabs licensed in the city. The subfleet approach is similar to a concession in that the number of cabs allowed to work the airport is limited, but different from a concession in that generally most or all cab companies have at least some vehicles with airport access. One example of a subfleet approach is seen in Orlando, where 75 percent of each cab company's vehicles are given airport access. Similarly, in Las Vegas, restricted taxi permits are issued for cabs that are not allowed to pick up at the airport or the "Golden Triangle" area that includes the Las Vegas strip. A somewhat different approach is seen in San Diego and Oakland, where the airport in each city has issued airport permits to a portion of the cab industry. Only cabs with an airport permit can pick up on-demand customers at the airport.

The *rotation method* involves assigning each cab certain days that it can work the airport. Drivers on their non-airport days must work elsewhere in the city. LAX is an

example of an airport with a rotation system for all cabs. Each Los Angeles cab can pick up at LAX one day in five on an ABCDE rotation system.

San Diego illustrates the rotation method combined with the subfleet method. In the original implementation of the system, each of 450 permits entitled cab owners to work the airport one day in three. Oakland also combines a permit and rotation system; each of 150 cabs with an airport permit can pick up one day in two. In addition, 40 CNG-powered cabs can pick up every day, as an incentive to use CNG.

One of the advantages of rotation systems is that the airport can call in additional taxicabs if they need additional service during peak times. The airport taxi manager simply notifies cab companies when additional cabs are needed and drivers are notified by the companies via two-way radio. LAX opens the airport to the next letter in the rotation when additional cabs are needed. Thus, if more cabs are needed on a "B" day, the airport calls in "C" day cabs. San Diego occasionally calls in additional cabs when needed.

The rotation system also creates the opportunity to adjust the supply of cabs as demand changes. Several years ago, the San Diego airport changed the rotation from one day in three to one day in two to increase the number of cabs at the airport each day from 150 to 225. This proved to be too large a change; driver waiting times lengthened considerably, which translated into poor customer service and an increase in complaints. Because of these problems, airport staff then adopted the current two-day-in-five rotation, explicitly to increase driver incomes. Airport staff calculate that average driver wait times are 45 minutes; staff estimate that drivers gross \$200-250 per day on airport trips (not including any trips originating outside the airport) and take home \$100-150 per shift.

San Diego illustrates another feature that is created in a rotation system. Multiple airport permits may be used on a single taxicab so that a given cab can work the airport as often as every day. In the one day in three rotation system, a cab with two airport permits could work the airport two out of three days; a cab with three airport permits could work everyday at the airport. (The system is somewhat more complex under the current two days in five system, but with an analogous result.)

Rate of fare

Traditionally, cities' fare-setting processes focus on whether to increase the rate of fare and, if so, how to determine the amount of the increase. Accordingly, one of the issues raised for this study concerns the methodology for setting the rate of fare. In the course of our analysis, however, we broadened the issue to view the fare in the context of creating a more competitive taxi industry, a topic we address first.

1. San José's taxicab rate of fare is quite high. Addressing the high fare is an important element in marketing cab service and improving the viability of cabs as a transportation option.

As discussed earlier, San José's current taxi fare is among the top 5 percent of fares in the U.S., and higher than the fare in any major taxicab city. The high fare discourages taxi usage and projects a poor image for the taxi industry. Thus, before addressing the issue of a fare-setting methodology, we address the issue of the current high fare level.

Just as the City can increase the taxi rate of fare, the City could reduce the fare. We do not view this as an attractive option, however. While a fare reduction would make taxi service more attractive to potential customers, it would not foster a more competitive environment in the industry.

A more promising approach to the fare issue is for the City to establish a maximum rate of fare. Each cab company could then charge any rate it chooses up to the maximum. The overall advantage to a maximum fare is that it allows cab companies to compete on the basis of price as well as based on service quality. As a perusal of newspaper advertisements for airline tickets, cell phones or computers readily shows, price is a primary strategy used by many types of companies to attract customers. In contrast to more subtle aspects of service quality that may have to be experienced to be known, an attractive price can be highly effective in drawing new customers to a service provider.

In the current situation, a maximum fare would enable cab companies to target their marketing to particular customer segments that they identify as ripe for growth. Examples might be trips to San Francisco or elsewhere outside Santa Clara County, and markets such as seniors or others who are particularly price sensitive. Some companies might limit fare reductions to targeted markets. Some companies might reduce their overall rate in order to distinguish themselves from competitors and enlarge their market share.

Although not common, other cities have adopted maximum fares. Seattle had a maximum fare at one point and San Diego has used this approach since the taxi industry was re-regulated in 1984.

The details of San Diego's implementation of a maximum fare are worth noting. San Diego regulators require that each cab company¹ establish a uniform rate of fare that is used for all cabs operated under its color scheme. The rate must be filed with the regulatory body, the Metropolitan Transit Development Board. The maximum fare is adjusted annually and is computed at 20 percent above the weighted average fare of the cab companies.

It should be noted that fares charged for trips from the airport are handled differently. All cabs dispatched at the airport use the same rate, which is adjusted periodically and is currently the same as the maximum city fare.

2. Future increases in the maximum fare would reasonably be based on increases in the cost of living.

Even with a maximum fare approach, a methodology must be determined for changing the maximum fare level.

Most U.S. cities that have a defined methodology for determining the taxi fare follow essentially one of two approaches. The first approach is to periodically adjust the rate of fare based on a defined benchmark intended to reflect operating costs. The benchmark may be as simple as the consumer price index. Alternatively, the benchmark may be an index of expenses related to operating taxicabs (e.g., vehicles, gasoline and insurance).

The advantage of this approach is its relative simplicity and objectivity. The benchmarking approach tends to ensure that the fare is increased on a fairly regular basis as costs of operation increase. This helps to keep the taxi industry on a sound financial footing and, with periodic adjustments, avoids a situation where a large fare increase comes as a shock to taxi users.

The second approach is to base fare changes on a detailed analysis of taxi industry operating costs and revenues. This approach allows policymakers to target a desirable level of income per cab for vehicle expenses, dispatch services and driver incomes. The advantage to this approach is that policymakers can target certain policy outcomes such as higher driver incomes or funding for upgrades to vehicles or other aspects of service.

One disadvantage to this approach is that it is more labor-intensive, as regulatory staff need to make detailed estimates of revenues and operating costs. More fundamentally, this approach may have unintended consequences where the number of cabs is not regulated. In this situation, cab companies may expand the number of taxicabs in their fleets, or new companies may enter the market, after a fare increase. With the increased revenues spread over more vehicles, the amount of money for each cab and each driver may increase at a lesser rate than the fare increase, or not at all.

¹ In the San Diego regulatory structure, the regulation applies to radio service organizations, which include driver cooperatives as well as traditional cab companies.

Auto insurance alternatives

1. A risk purchasing group is a viable alternative avenue for owner-operators to obtain insurance for their vehicles, independently of cab companies.

At the onset of the study, conditions were identified that would define the ability of drivers to obtain insurance coverage through an insurance pool or alternative mechanism. These were:

- A hard insurance market for taxicab coverage;
- The limited resources of independent taxicab operators to fund a self-insurance pool, insurance captive or risk retention group;
- The ability of local independent drivers to establish an organization or association that could achieve the desired economic scale in order to form a risk purchasing group; and
- The level of authority and responsibility that the City of San José wanted to maintain in managing the independent drivers.

The initial review of the project identified four major alternatives to the direct purchase of conventional insurance by independent drivers. These alternative risk financing methods are generally (1) insurance pools; (2) captives; (3) risk purchasing groups; and (4) risk retention groups. They are defined and distinguished as follows:

Insurance Pools – A risk financing method in which each member of an insurance pool shares in each and every risk written by other members of the pool. As a self-insurance method, private pools are used by a wide variety of industries. The risks tend to be centralized in more labor-intensive and hazardous industries, in which risks are usually greater and more difficult to place with traditional insurance carriers.

Captive insurance company – A risk financing method or form of self-insurance involving the establishment of a subsidiary corporation or association organized to write insurance. It is a special type of insurance company set up by a parent company, trade association or group of companies to insure the risks of its owner or owners, in which entities in a common industry join together to provide members with liability insurance. Captives are domiciled either in a country outside the United States or in one of the few U.S. states that authorize them, e.g. Arizona, New York, Montana, Nevada).

Risk Retention Groups (RRG) – A group self-insurance program or group captive insurance company formed under provisions of the Liability Risk Retention Act of 1986, by or on behalf of businesses joined to insure their liability exposures. Members of an RPG generally are from the same industry and have banded together to capitalize and literally own their own insurance company. An RRG can issue policies and assume risk.

Risk Purchasing Groups (RPG) – An insurance buyers group formed to obtain coverage from homogeneous liability risks from an insurance company. Members have banded

together to purchase a master policy from a carrier that assumes the risk. An RPG cannot issue policies nor assume risk.

Self-insured retentions and large deductible programs can be elements of the above alternative approaches.

The applicability of any of these alternative risk-financing methods to the San José taxi program depends on the state's regulations of such approaches and the inclination of certain insurance carriers to participate in such programs. In addition, certain other factors could apply to a possible alternative program for San José's taxicab drivers. They include:

- Qualifications of individual members to be a part of any risk financing group, including financial capability, past performance in terms of losses, quality of management and operations, size of fleet and condition of fleet;
- The funding capacity of the members to fully capitalize their own insurance program, as well as generate sufficient cash flow for the group program;
- The tax implications for individual members;
- The willingness of an insurance carrier or group of carriers (policy issuers) to provide the master policy for the taxi class of business and the taxicab driver group;
- The availability of reinsurance to the program and carrier;
- Available state regulatory authority that allows the creation of any of these alternative risk financing methods for the San José's taxicab drivers;
- The compatibility and feasibility of the group's underwriting criteria with the individual situations of members, in terms of such criteria as driver standards, eligible equipment, eligible activities or services, required levels of coverage, required permits and licensing, financial standards (including the willingness to open financial records to other members).

The first three alternatives mentioned above do not appear to be feasible for this group of drivers because of the substantial financial requirements involved in each alternative. Contributions towards the self-insurance or self-funded level of an insurance pool, a captive and a risk retention group would be in a range of \$ 3,000,000 to \$5,000,000 for the group of individual participating driver-owners. A broker or managing general agent could fund the initial start-up self-funded cost of \$3M-\$5M for one of the methods and then collect contributions from individual members of the group. However, it is not likely that a broker or managing general agent would provide this initial investment in this case.

Another factor that makes the first three risk financing alternatives not feasible for the owner-operators is the reluctance of re-insurers to deal with a group with fragmented ownership of the pool, captive or RRG.

As to the fourth option, it appears that a risk purchasing group could be formed and managed for the independent drivers (drivers who own their own vehicle).

The general parameters of the San José Independent Taxicab Drivers Risk Purchasing Group (RPG) would include the following:

- Coverage limits of \$300,000 single limit in auto liability.
- Coverage limits greater than the \$300,000 level would be purchased for drivers on an individual basis outside the program.
- Individual review and qualification of owner-operator, independent drivers, including:
 - Motor Vehicle Record (MVR)
 - Vehicle Identification and Proof of Ownership
 - Years in Business
 - Age of the Driver
- Administration of the program would include such services as all individual billings, certificates of insurance, cancellations, re-instatements, claims and group and individual status reports to the City of San José. The program's insurance broker would provide administration and account services and free the city of any additional administrative burden.

Each vehicle would be rated separately based on motor vehicle records, with premiums set based on accident histories and other relevant factors. This individual rating of vehicles creates an incentive for safe driving, since drivers with poor records would pay higher premiums.

Potential carrier interest

In today's "hard market" for the taxicab service sector, there are about four admitted major companies doing business in California. Initial contact has indicated interest by some of these companies to develop a program for the *San José Independent Taxicab Drivers Risk Purchasing Group (RPG)*.

Premiums

Current premiums for individual owner-operators in the San Francisco Bay Area territory are estimated \$5,500 to \$6,000 per vehicle. While fleet operators are currently paying equivalent rates in the Bay Area, one must consider that the fleet operators may be participating in a large deductible program and including insurance charges in gate fees, while leasing the vehicle over a number of shifts. It must also be understood that

actual individual premiums are subject to actual motor vehicle records/loss histories, driver age, operating territory, specified coverage limits, and taxicab driver experience. In concept, an RPG should produce some degree of lower rates for drivers from what they are currently within their gate fees to the taxicab fleet operators. The actual premiums will be subject to negotiations with interested carriers and the incorporation of such items as a financing package, a rating system of drivers and the overall condition of the taxicab insurance market.

Since each owner-operator is rated on an individual basis, premiums among various drivers could vary. Again, this will depend on their individual motor vehicle records/loss histories, age and experience. However, good drivers would not be penalized by the performance of those with less than perfect performance. Individuals would also know their exact cost of the insurance for their vehicle.

Payment of premiums would be based on an annual schedule. It is likely that owner-operators will elect to finance their premiums. In such a case, finance companies will only finance on an annual basis, with drivers making monthly payments.

Formation of an RPG

Given that an association of San José's independent owner-operators has been formed and that from 175-250 independent drivers are interested in their own insurance program, the next steps will generally consist of the following actions:

- Develop a history of premiums and losses for the group for interested carriers' review or utilize an interested carrier's own premium-loss information for the San José territory;
- Develop and negotiate the initial program parameters for the select group, e.g. rating system, financing program, rates and terms with the interested carrier;
- Have the selected carrier file the negotiated rates with the State Department of Insurance on behalf of the association;
- Allow for a time period of 60-120 days to set-up the San José driver's RPG;
- Commence the program, including offering the program to all active and potential members of the association; and
- Have the interested drivers submit individual applications for coverage under the RPG program, including their MVRs and other personal application information.

Individual requirements

Again, Individual rating of drivers and setting of premiums based upon:

- Motor Vehicle Record (MVR)

- Vehicle identification and proof of ownership
- Years in business or driver experience as a taxicab driver
- Age of the driver

Program administration

An RPG creates a great deal of transactional activity among the broker presenting the program, the insurer providing the individually rated coverage, and the insureds.

Activities include, but are not limited to the following:

- Completion and submission of applications for coverage by the insured and broker:
 - Loss runs
 - MVRs
 - Other applicant information
- Acceptance, review and rating by the insurer;
- Payment and/or financing for the stipulated coverage by the insured;
- Binding of coverage with the insured;
- Transmission of payments to the insurer; and
- Servicing of the account, including payments, cancellations and follow-ups with insureds, re-instatements, change requests, claims report in-take and follow-up, and issuance of certificates of insurance.

The City of San José's concern is in-place insurance coverage of taxicabs operating within the city and the naming of the city as an additional-insured on certificates of insurance. Since the broker for an RPG program would normally handle the above account activity, a broker could also provide support services to the city by performing certain administrative functions as a part of the RPG. These services for the city would include the following:

- Regular reports (i.e. monthly written and on-line current reports) on the current list of insureds in the group, including insured name, address, policy number, policy period, coverage limits and type.
- Periodic meetings (i.e. quarterly) to report to the group and to the city on the status of the program.
- Immediate notification of cancellations to the city and taxi company that are reported to the broker by the insurer. (An insurer generally notifies both the insured and the broker of a notice to cancel.)
- Provision of individual certificates of insurance

Cab companies would also be named as an additional insured on certificates of insurance. As both the City and cab company would be notified by the broker in the case of cancellation, both the City and cab company would be able to take appropriate action to protect public safety.

Recommendations

Our recommendations are designed to address each of the issues discussed in the previous section and form an effective, fair and flexible taxicab regulatory structure that will serve the city for years to come. These recommendations:

- Create and strengthen market-based mechanisms and incentives aimed at improving customer service, balancing supply and demand for cabs, increasing driver incomes and setting competitive fares.
- Increase the number of companies and drivers with access to Mineta Airport without compromising standards for airport service.
- Provide drivers with the opportunity to obtain permits to operate their vehicles as taxicabs and obtain insurance independently of cab companies, without creating an undue administrative burden for the City.
- Provide drivers with a real and meaningful choice of cab companies and the opportunity to move between cab companies.
- Provide cab companies with the ability to adjust their service levels to meet customer needs.
- Overall, create a more competitive market dynamic in the taxi industry.

We believe that these recommendations will enhance the taxi industry's position in the San José transportation system and strengthen the ability of the industry to meet the internal needs of companies and drivers and external customer-driven needs.

These recommendations will foster the development of a taxi industry with a number of cab companies that have viable dispatch services while also serving airport walk-up trips. The industry will thus offer both customers and drivers greater choice of cab companies. Drivers will also have the choice of working primarily at the airport or primarily dispatch trips, for a range of companies, with gate fees priced to reflect the income potential.

Service model

1. **The City of San José should issue licenses to taxicab companies to provide taxicab services, similar to current ordinance provisions.**

This recommendation represents a continuation of the current practice of issuing “operating authority” to cab companies. For clarity, we recommend calling this a license to provide taxi service. This recommendation supports the goal of creating strong, competitive taxicab companies.

- 2. The City should issue taxicab vehicle permits to both taxicab companies and individual drivers. Drivers who hold vehicle permits should be required to affiliate with a cab company and to obtain auto insurance through an entity such as an insurance broker who agrees to track and report driver insurance status to the City, as described in the insurance recommendations below.**

Currently, vehicles are required to be registered to a cab company, although a driver may be the titled owner (lien holder). This requirement means that drivers who own their vehicle are required to sign over the vehicle registration to the company they work for, which also provides the insurance. Some drivers want to be able to register the car directly in their own name. They would also like to form an insurance pool or similar arrangement and believe that they may reduce insurance premiums by doing so.

This recommendation responds to these driver concerns by allowing drivers to directly obtain the vehicle permit from the City.¹ Drivers would also register the vehicle in their own name, thus being the registered owner, the titled owner (lien holder) and taxicab permit holder.

Drivers would be required to affiliate with a cab company and register their affiliation with the City. The City would continue to work through the cab companies when issues arise with drivers, e.g., customer complaints.

Drivers would be able to obtain auto insurance through a risk purchasing group as described in the insurance recommendations below.

This recommendation supports the goal of using drivers' ability to move between companies to create a competitive market for drivers, and thus hold gate fees to reasonable levels. Drivers would be able to "shop" different cab companies to obtain the best combination of airport access, volume of dispatch trips and gate fees. The competitive dynamic introduced by drivers being able to "shop" the companies is expected to result in a range of gate fees offered by the cab companies. Gate fees would reflect whether the cab had airport access, the volume of dispatch trips a driver could expect to obtain, among other factors.

- 3. Mineta Airport should replace the current concession system with a system of airport taxi permits. Airport permits should be issued to San José cab companies that meet appropriate vehicle and driver requirements. Each airport permit should provide access to the airport on an alternate-day rotation system. Cab companies should be given the option of putting either one or two permits on each cab operated from their company.**

This recommendation furthers the goal of broadening access to the airport to potentially all San José taxi companies. Combined with the next recommendation, the airport

¹ Note that under the recommendations the City would issue three categories of licenses or permits: licenses to taxicab companies to provide taxicab service (see Recommendation 1), taxicab vehicle permits to operate a vehicle as a taxicab (issued to both companies and drivers), and a taxicab drivers permit (no change in current practice). The airport would also issue taxicab airport permits as described in a later recommendation.

permit system uses access to the airport as an incentive for companies to develop effective dispatch operations that serve the rest of the city. Thus, the recommendation supports the goal of creating multiple strong, competitive taxicab companies.

Airport permits would carry obligations similar to those in the current concession agreement covering vehicle and driver standards, alternative fuel and accessible vehicles and provision of minivan-size vehicles. The airport would enforce these requirements through a contractor that will manage the taxi dispatch operation.

Companies could put two permits on a single cab, thus creating cabs that could work the airport all of the time. A company could thus choose to create a subfleet of airport cabs and have a separate subfleet of "City" cabs. Alternatively, a company could have some airport cabs, some City cabs and some cabs that alternate. In this way, cab companies can choose the arrangement that works best for them operationally and in attracting drivers.

An alternate-day rotation reflects the current ratio of airport trips to total trips in San José. The system creates a strong incentive for cab companies to develop a viable dispatch business because drivers will not want to work for a company that provides them with few dispatch trips on drivers' non-airport days. Drivers will be much more attracted to companies that provide a consistent flow of dispatch as well as airport business.

- 4. Airport permits should be allocated to cab companies based on each company's volume of non-airport trips picked up in San José. Permits should be reallocated annually based on updated trip volumes. The initial allocation of permits should include a minimum number per company to provide a base of airport business for each San José cab company in the first year. The minimum fleet size for taxicab companies receiving airport permits should be 15 taxicabs.**

This recommendation is a key part of providing incentives for cab companies to build their dispatch business since the number of airport permits issued to each company would be dependent on each company's volume of non-airport business. Companies that increase their dispatch operations can thus increase their share of airport permits. Companies with little non-airport business would receive a proportionately small number of airport permits in subsequent reallocations of permits.

The minimum fleet size of 15 cabs is recommended because the City's current minimum of five taxicabs is not sufficient for companies to provide a satisfactory level of dispatch service in San José. The higher minimum fleet size thus supports the goal of creating a taxi industry with effective dispatch operations. The requirement should be phased in during the first year to allow companies time to increase the size of their operations and should be applied only to companies serving the airport. It is not important for other companies, particularly cab companies that primarily serve other cities and may want to be able to pick up the occasional customer in San José, to meet the 15-vehicle minimum.

An important issue involves setting the initial allocation of airport permits. There are several alternatives. One option is to use a formula based on the estimated current

number of non-airport trips for each company. Another option is that the formula could use the number of taxicabs operated by each company. A third option is a formula based partly on the number of non-airport trips and partly on the number of taxicabs operated by each company. A fourth option is to use a competitive process in which each cab company would submit their plans for serving the airport and the rest of the city. These plans might also address other transition issues such as allocation of airport permits to drivers and gate fees. These options deserve further discussion before a recommendation can be made.

It is not anticipated that in the long run all 12 of the companies currently licensed in San José would have viable dispatch operations and thus access to airport permits. The current market would not support 12 separate companies. However, the initial allocation should be fair to current companies and let the market sort out which companies can successfully build a City taxi business. For this reason, the initial allocation should include a minimum number of airport permits for each of the 12 current cab companies. There might also be a maximum number of permits that would be issued to any one cab company.

As an example of how airport permits might be distributed if a formula is used, let us assume for the moment that 320 airport permits are issued (see next recommendation) and that each cab company is issued a minimum of 6 permits. The minimum allocation thus distributes a total of 72 permits (6 each for 12 companies). This leaves 248 permits to be distributed based on a formula.

After the initial year, airport permits should be allocated on the basis of volume of dispatch trips picked up in San José. If we assume that 320 airport permits are issued, the ratio would be one airport permit for each approximately 1,500 non-airport trips annually. The ratio should be adjusted annually as part of the permit allocation process.

Cab companies should be required to submit records satisfactory to the City that demonstrate the number of non-airport trips in the previous year. Non-airport trips refers to dispatch trips and, where possible to measure, taxi stand and flag trips. Records may include computerized dispatch records, dispatch log sheets filled out by cab company dispatchers, and appropriate records of pickups from flags, hotel stands and other cab stands. The City should have the authority to require adequate third-party verification of these records paid for at the expense of each company. These data would then be used as the basis for the airport permit allocation process. The data will also be useful for tracking the overall volume of taxi activity in the city.

New cab companies, which could enter the San José taxi market at any time, could obtain airport permits in the annual allocation process based on their volume of San José dispatch trips.

- 5. The total number of airport permits should be set to ensure sufficient supply of cabs while minimizing taxicab wait times in holding areas. The number should be adjusted as needed based on experience and changes in trip volumes.**

This recommendation furthers the goal of striking a better balance between supply and demand for cabs and improving driver incomes for the days that they work the airport.

The number of permits issued needs to balance the need for a sufficient supply of cabs at the airport with the need to assure drivers of a reasonable number of trips on their airport days. At current airport trip volumes, it appears that 320 alternate-day airport permits would be a reasonable number. Given the current average of 1,025 airport trips per day, each cab would pick up an average of 6.4 trips at the airport per day, assuming that all cabs work on their airport days. This is greater than the current 3.5 trips per day per cab and somewhat less than the trips per day served by cabs at John Wayne Airport and Lindbergh Field.

- 6. Mineta San José International Airport should contract for management of the taxi operation through a competitive process.**

To make possible replacement of the current taxi concession system with an airport permit system, management of taxi operations at the airport should be contracted to a third party. The airport should issue a request for proposals for management of taxicabs and select an entity based on a competitive process. The contractor could be an independent management company (as in Oakland, San Diego and San Francisco), an industry consortium composed of cab companies (as at LAX), a driver association (similar to Sacramento and somewhat similar to Stita in Seattle) or other entity.

The contractor should be responsible for providing dispatchers (“starters”) at airport taxi stands and for ensuring availability of taxicabs at the airport. The contractor should be empowered to control the number of cabs at the airport by calling in cabs on their non-rotation days and by use of other incentives such as reduced fees for drivers serving the early morning time period.

The contractor should also be responsible for providing and maintaining clean and appropriate facilities at each taxi holding lot. Facilities should include appropriate food and relief facilities for drivers.

Costs for the contractor would be funded through the per-trip fees. The contractor would collect these fees from drivers directly, most likely through a voucher slip system (as in Oakland) or possibly through an AVI system. The amount of the trip fee would be determined after the contractor is selected in a competitive process in which price would be one important selection criterion.

Although we have not made a formal cost estimate of contracting out management of taxi dispatching, it appears that a per-trip fee of up to \$2 is a reasonable estimate. This figure is based on taking the billable rate paid to the contractor at SFO and assuming that there are two dispatchers and one supervisor at Mineta Airport for 18½ hours per day, and a part-time manager who works 1,000 hours a year. The \$2 per trip fee also

appears reasonable when compared with the \$2.50 fee at Oakland Airport, which covers the contractual fees and a portion of the airport's in-house costs, and the \$2 per trip that is used to cover the costs of the consortium of cab companies that runs the taxi dispatching at LAX.¹

The \$2 per trip is possibly a high estimate given that the billable rate at another airport we checked – JFK in New York – is 30% less than the SFO billable rate.

Regardless of the exact trip fee that would be charged to cover the cost of a contractor, it appears likely that the fee would be higher than the amount drivers currently pay to Yellow Cab and United Cab (\$1.10-\$1.30 per trip).

Rate of fare

- 1. A maximum taxicab fare should replace the current uniform fare. Cab companies should also be given the option of charging flat rates for trips outside the county.**

The City should establish a maximum rate of fare. Each cab company should be allowed to charge the maximum rate of fare or a rate below the maximum rate of fare. Each cab company should be required to file a rate of fare with the City that applies to all cabs operating from the company. Cab companies should also be permitted to offer discounts to their filed rate; e.g., 10 percent off coupons and discounts for return trips to the airport.

Cab companies should be permitted to charge flat fares for trips that are destined to locations outside Santa Clara County. Each company should be required to file a schedule of flat fares with the City. Flat fares should be at or below the metered fare for a trip from San José to the destination.

This recommendation addresses the current high fare that discourages taxicab usage and thus offers the taxi industry the opportunity to attract new customers. Under our recommendation, taxi companies have several means with which to offer lower fares, including reducing their standard rate of fare, offering flat fares for longer trips and discounting the fare as part of promotions that may be aimed at particular customer segments.

A maximum fare will also enhance competition among cab companies by allowing companies to compete with each other and with other transportation providers, such as sedans and shuttles, based on price. Price is a prime way that providers of transportation and other services build market share – witness the prominence of prices in advertisements for airlines and cell phone providers. The option of offering customers a lower price is particularly important for smaller companies that want to expand their

¹ The \$2 at LAX is a portion of the total trip fee, the balance of which is used to partially cover LAX in-house costs.

operations. We expect that pricing incentives would expand the market for taxicab services in San José.

Based on the experience with maximum fares in San Diego, we expect that cab companies would select a range of fares, with newer vehicles and more sophisticated dispatch services commanding a higher fare. Companies would thus differentiate themselves based on a combination of price and quality.

A major issue with the idea of a maximum fare is the possibility that driver incomes would decline as cab companies reduce fares or offer discounts. In the context of the recommended service model, however, we do not expect this to occur. The service model is designed to create a more competitive market among cab companies for cab drivers, thus providing companies with the incentive to grow their dispatch businesses and better match trip volumes with the number of cabs in their fleets. We expect this market mechanism will be effective preventing driver incomes from falling as a result of the transition to a maximum fare.

It is also notable that cab companies in San Diego have not engaged in cutthroat pricing competition.

2. The maximum fare should initially be set at the current fare. Future increases in the maximum fare should be based on increases in the cost of living.

For the sake of simplicity, the maximum fare should be set at the current regulated fare.

The maximum rate should be reviewed annually and should be increased to match changes in the cost of living, using an index such as the consumer price index. The maximum fare should be adjusted when the cost of living has increased by a threshold amount, e.g., once the cost of living increases 8 percent or more since the previous fare change.

This recommendation ensures that the maximum fare keeps up with rising operating and living costs, with periodic but not too-frequent adjustments.

3. A uniform fare should be set for on-demand airport trips.

Airport passengers expect to take the next cab in line and expect to pay the same fare each time they use the airport taxi line. A uniform fare for on-demand trips from the airport ensures a uniform customer experience in terms of the fare and simplifies management of the taxi line. The fare charged at the airport should be set in consultation with airport management and may be the same as the maximum fare, or somewhat below the maximum fare.

Auto insurance

- 1. Drivers who own their own vehicles should be afforded the opportunity to obtain auto liability insurance through a risk purchasing group. The risk purchasing group should be managed by an insurance broker who agrees to perform administrative and account services and report insurance status to the City on a timely basis.**

A key objective of many taxi drivers is to obtain insurance separately from the cab company that they work for. Under current regulations, taxicabs must be registered by the cab company and insured by them. Under this recommendation, drivers who own their own vehicle and obtain a taxicab permit from the City would have the option of obtaining auto insurance through a risk purchasing group, as described in the previous section.

An insurance broker would set up and administrate the risk purchasing group, processing applications, obtaining coverage from an insurance carrier and collecting premiums. The broker would also be responsible for notifying the City of any canceled policies so that the City could take appropriate action on the taxicab permit. Information could be conveyed electronically and thus would not generate mounds of paperwork for the City.

Recap of recommendations, stakeholder interests and alternative service models

The recommendations are designed to address in a balanced and fair manner the various stakeholder interests that were identified earlier in the report.

- The recommendations address *service to the customer* by ensuring availability of cabs at the airport, providing strong incentives for cab companies to provide effective dispatch service to the rest of the city, providing customers with greater choice of cab companies so that customers can choose which company to call based on the quality of dispatch, drivers and vehicles, and providing incentives for companies to compete with lower fares.
- The recommendations address *industry financial conditions and equity* by creating a competitive dynamic among cab companies that will provide greater choice for drivers and promote higher driver incomes; providing cab companies with the opportunity to build their market in San José; and providing all San José cab companies (and their drivers) with access to airport trips. Providing greater choice for drivers of cab companies and greater transparency in the costs they pay (e.g., paying insurance costs directly) is expected to foster a positive relationship between cab companies and drivers.
- With respect to *regulation and oversight*, the recommendations provide mechanisms such as the insurance broker for a risk purchasing group to ensure industry compliance with regulatory requirements; set up an airport taxicab management structure that has proven satisfactory in Oakland, San Francisco, San Diego and other cities; and minimizes the City's regulatory role.

Among the three alternative service models discussed at the Service Model Workshop, the recommendations resemble most closely Option C, although modifications have been made based on feedback at the workshop and further analysis. The primary reasons for selecting Option C over the other two options are as follows.

Option B - Medallion System

Medallion systems are most commonly used in cities that have dense volumes of flag down and taxi stand activity in the downtown area. The prototypical medallion systems such as New York, Chicago, Boston and San Francisco share this core attribute. In all of these cities, walk-up (non-prearranged), non-airport trips account for the large majority of all taxi trips. Medallion systems have evolved in these cities for a variety of historical reasons, but they are retained because they provide a way to (1) set supply of service relative to demand, and (2) provide a mechanism for the City to effectively regulate independent owner-operators, since the City can rely on the option of revoking valuable medallion licenses in the event of serious rule violations.

These conditions do not apply in San José, and thus there is no compelling need to adopt a medallion system in San José. Without a compelling need for a medallion system, there are clear reasons to avoid taking this path. The most important reason is that

medallion systems give the taxi industry strong incentive to resist increases in the number of taxicabs. Medallion owners have for years resisted increasing the number of medallions in New York, San Francisco, Boston, Chicago and other cities in order to protect the value of the medallions. Only in the last decade have Depression-era caps been breached.

The other side of this same coin is that there is a lack of incentive for cab companies to market their service and attract new customers, since their growth is restricted. If their markets increase too much, in fact, companies' ability to dispatch cabs in a timely manner would decline. Thus, a medallion system is not a good fit with an urbanizing, growth-oriented city such as San José.

Finally, medallion systems create substantially greater regulatory costs for city governments. Since market incentives are weak, the primary responsibility for setting and enforcing service standards falls to the city government under a medallion system. This creates administrative, regulatory and enforcement costs that are typically passed to the industry through fees.

Option A - Current system with greater city regulation

The recommendations are designed to create a competitive dynamic in the cab industry that give the industry incentives to maximize the quality of service. Option A, like Option B, leaves the city government with the primary responsibility for setting and enforcing service standards to address service quality goals. Option A thus foregoes use of market incentives to improve service. A combination of market incentives and appropriate regulatory oversight is more effective than regulation by itself in achieving service quality goals. Option C, as recommended in this section, is thus preferred over Option A for this reason.

In terms of the interests of various stakeholders, Option A is not expected to significantly increase choice of cab companies for drivers or customers. This is part of fostering a competitive dynamic, but these interests also have other values. Due to the lack of choice for drivers, Option A does not adequately address the goal of creating a more positive relationship between cab companies and drivers.

Appendix A. In-cab Survey of Taxi Passengers

1. How did you obtain the taxicab for this trip?

Taxi or airport stand	58%
Telephone request for service	32%
Called driver's cellphone	10%
Street flagdown	2%
Regularly scheduled pick-up	0%
Total	100%

2. How do you rate the quality of taxi service in San José?

	Excellent	Good	Poor	Don't know/not applicable	Total
Taxi service overall	43%	50%	3%	3%	100%
Availability of cabs at taxi stands	52%	25%	5%	18%	100%
Wait time after telephoning taxi company	27%	28%	12%	33%	100%
Vehicle comfort	33%	62%	5%	0%	100%
Vehicle cleanliness	27%	68%	5%	0%	100%
Driver courtesy	48%	48%	3%	0%	100%
Driver knowledge of route and destination	52%	42%	3%	3%	100%
Driver helpfulness with packages/luggage	52%	38%	3%	7%	100%
Safe driving	50%	47%	3%	0%	100%
Being charged the correct fare	48%	45%	3%	3%	100%

3. Considering the fares and service taxis provide, would you say that San José taxicabs are:

A good value for the money	73%
Not a good value for the money	27%
Total	100%

4. Would you say taxi service is currently better, worse or about the same in San José compared with other places you have used cabs?

Better	32%
Worse	7%
About the same	48%
Don't take cabs elsewhere	13%
Total	100%

5. Please indicate the origin and destination of this trip:

Started at:	
Home	37%
Hotel	3%
Airport	58%
Place of work	2%
Recreational/social/shopping	0%
Other	0%
Total	100%

Going to:	
Home	33%
Hotel	8%
Airport	25%
Place of work	25%
Recreational/social/shopping	3%
Other	5%
Total	100%

6. How often do you take taxicabs in San José?

At least once a week	18%
Between once a week and once a month	25%
Less than once a month	57%
Total	100%

7. What is your home ZIP code?

San José ZIP codes	47%
Non-SJ ZIP codes	53%
Total	100%

8. Are you:

Male	72%
Female	28%
Total	100%

9. Are you:

Under age 30	13%
30-39	30%
40-49	23%
50-65	33%
Over 65	0%
Total	100%

10. Did you have a car available to you for this trip?

Yes	52%
No	48%
Total	100%

Total of 60 responses.

Appendix B. Survey of Downtown Business Persons

The San José Downtown Association sent an email to approximately 300 members requesting that they complete an on-line survey about taxicab service. A total of 56 responses were received, for a response rate of 19 percent.

1. How often do you take taxicabs in San José?

At least once a week	0%
Between once a week and once a month	18%
Less than once a month	39%
Rarely or never take cabs in San José	43%
Total	100%
Total Respondents	56

Questions 2-6 were asked only of respondents who use cabs at least once a month.

2. How do you personally obtain cab service? (check all that apply)

Downtown taxi stand	15%
Airport taxi stand	48%
Telephone request for service	88%
Call driver's cellphone	0%
Street flagdown	6%
Regularly scheduled pick-up	0%
Total Respondents	33

3. If you call for cabs on the phone how long do you expect to wait for the cab to arrive?

10 minutes or less	44%
15, 10-15 or 15-20 min.	33%
20 min.	11%
Over 20 minutes	11%
Total	100%
Total Respondents	27

4. Based on your own experiences how do you rate the quality of taxi service in San José?

	Excellent	Good	Poor	Don't know/not applicable	Total
Taxi service overall	16%	50%	34%	0%	100%
Availability of cabs at the airport	38%	41%	13%	9%	100%
Availability of cabs at downtown taxi stands	3%	25%	47%	25%	100%
Wait time after telephoning taxi company	6%	45%	35%	13%	100%
Vehicle comfort	9%	67%	24%	0%	100%
Vehicle cleanliness	9%	66%	25%	0%	100%
Driver courtesy	13%	69%	19%	0%	100%
Driver knowledge of route and destination	19%	63%	19%	0%	100%
Driver helpfulness with packages/luggage	6%	66%	22%	6%	100%
Safe driving	9%	78%	13%	0%	100%
Being charged the correct fare	13%	75%	9%	3%	100%
Total Respondents	33				

5. What would be the most important improvement to taxi service for you personally?

Taxi availability downtown, light rail, Santana Row	28%
Reliability of service	14%
Lower fares	10%
Driver knowledge of SJ, ambassador for city	10%
Driver courtesy, helpfulness	10%
Driver geographic knowledge	3%
Fast response to request for service	0%
Total Respondents	29

6. If this improvement were made would your use of taxicabs ...

Increase a lot	23%
Increase a little	47%
No change	27%
Don't know	3%
Total	100%
Total Respondents	30

7. Check your type(s) of business(es):

Retail merchant	5%
Restaurant	11%
Nightclub	2%
Office/professional	60%
Other	24%
I'm not a business person	7%
Total Respondents	55

8. How often do your customers, clients, patrons or visitors use taxicabs?

Frequently	31%
Occasionally	27%
Rarely/never	42%
Total	100%
Total Respondents	52

9. From the viewpoint of your business how do you rate the quality of taxi service in San José?

	Excellent	Good	Poor	Don't know/not applicable	Total
Taxi service overall	2%	38%	35%	25%	100%
Availability of cabs at the airport	25%	46%	8%	21%	100%
Availability of cabs at downtown taxi stands	0%	25%	46%	29%	100%
Wait time after telephoning taxi company	0%	36%	34%	30%	100%
Vehicle comfort	2%	58%	23%	17%	100%
Vehicle cleanliness	4%	54%	25%	17%	100%
Driver courtesy	10%	54%	19%	17%	100%
Driver knowledge of route and destination	4%	60%	19%	17%	100%
Driver helpfulness with packages/luggage	4%	50%	23%	23%	100%
Safe driving	6%	65%	13%	17%	100%
Being charged the correct fare	6%	67%	6%	21%	100%
Total Respondents	49				

10. What would be the most important improvement to taxi service for your customers or clients?

Taxi availability downtown, light rail, Santana Row	24%
Reliability of service	6%
Lower fares	9%
Driver knowledge of SJ, ambassador for city	6%
Driver courtesy, helpfulness	3%
Driver geographic knowledge	6%
Fast response to request for service	9%
Total Respondents	34

11. If this improvement were made do you think your customers' or clients' use of taxicabs would

Increase a lot	26%
Increase a little	44%
Not change	15%
Don't know	15%
Total	100%
Total Respondents	39

12. Overall considering the fares and service taxis provide would you say that San José taxicabs are:

A good value for the money	46%
Not a good value for the money	54%
Total	100%
Total Respondents	46

13. Would you say taxi service is currently better worse or about the same in San José compared with other places you have used cabs?

Better	6%
Worse	67%
About the same	25%
Don't take cabs elsewhere	2%
Total	100%
Total Respondents	48

Note: totals do not add to 100% for questions that allow multiple responses (#2, 5, 7, 10)

Appendix C. Service Model Workshop Summary

A meeting of interested parties concerning changes to taxi regulation in San José was held on December 9, 2003 at Emma Prusch Park – Meeting Hall. The meeting started at 9:30 a.m. and concluded at approximately 3:30 p.m. There were approximately 55 invitees in attendance. Invitees were taxi drivers, taxi company representatives, the San José Convention and Visitors Bureau representatives, taxi customers, Airport staff, representatives from the San José Police Department and the City of San José Department of Transportation staff. The agenda for the meeting is attached. Eileen Goodwin, Apex Strategies, facilitated the Workshop and the stakeholder input is summarized below. The other members of the consultant team at the workshop were Bruce Schaller, Gorman Gilbert and Joseph Gagliano.

This report is in three main sections. The first section of this report sets out the comments of the group on the “Stakeholder Interests and the City’s Goals” document as well as general questions and clarifications regarding the proposed Service Models. The Goals and the Service Model outlines were sent out to invitees prior to the Workshop. Most of the attendees indicated they had in fact reviewed these documents prior to the Workshop. Comments and statements were elicited in a joint meeting of the stakeholder participants during the morning session of the Workshop.

Following the joint discussion, the stakeholders were divided into four separate groups. Representatives from all of the areas were split evenly among the groups with the intent that a well rounded discussion could be had in each group. The groups evaluated the suggested three Service Models by interest area (i.e. service to the customer, financial viability and equity, and ease of City oversight) and then reported those evaluations to the entire group. The second main section of this report summarizes the evaluations provided by the different stakeholder groups.

The final portion of this report is a set of final questions and comments provided by participants at the end of the meeting.

GROUP DISCUSSION

Interests and issues:

Taxi passengers, taxi drivers, cab companies, the City, the Airport and those responsible for marketing San José as a destination have a wide range of interests and goals. Some of these interests are more critical to the choice of service models than are others, however. Based on interviews during the consultant team's October visit, the consultant documented certain interests and goals as being most critical in the discussion of the service model. These interests and goals were provided to the attendees and the following comments (all additions) were proposed. It should be noted that the headings in this section reflect the basic interested groups to which the comments or questions relate, not necessarily the affiliation of the persons making the comments or asking the questions.

Service to Customers

- ⇒ To assist all customers, particularly the disabled, dispatchers should prompt customers concerning any special accommodations they may require.
- ⇒ The industry should have knowledge of the special needs of the elderly and disabled.
- ⇒ Drivers, companies and dispatchers should have knowledge of events.
- ⇒ Drivers and dispatchers should be required to be able to communicate clearly and in English.
- ⇒ Taxi stands should be established and available near the San José Arena, the Caltrain Station and near downtown hotels and restaurants.
- ⇒ Dispatch should be professional, courteous, and reliable.
- ⇒ Pick-up and taxi stand areas at the Airport should be conveniently located.
- ⇒ Dispatchers should be required to give out calls fairly and non-discriminatorily to drivers.

Drivers

- ⇒ There should be a fair and independent dispute resolution process.
- ⇒ An independent commission should be established, reporting to the City Council.
- ⇒ On-demand street signals should be installed (i.e. no taxi should need to idle and waste time at street lights).

- ⇒ Dispatchers should be required to give out calls to all drivers; there should be a uniform service model established for dispatchers.
- ⇒ Taxi zones should be tow-away zones, as they are in San Francisco.
- ⇒ The police need to be more responsive, particularly in addressing gypsy cab violations.
- ⇒ Drivers need the ability to follow up directly with dispatched customers.
- ⇒ There needs to a clear delineation of the city versus airport zones/turf.
- ⇒ The locations of airport pick-up and loading areas needs to be better clarified. Length of trip between staging area and pick-up needs to be considered.
- ⇒ The Airport website needs to list all the cab companies with permits in San José.
- ⇒ The relationship between the airport shuttle service(s) and cabs needs to be clarified.
- ⇒ The Taxi Commission concept makes sense.
- ⇒ Taxi company fairness issues are not regulated. Clarification is needed on when a driver is an employee versus a contractor. Insurance availability needs to be addressed.
- ⇒ Homeowners, apartment owners and the City need to take responsibility for ensuring that building numbers are visibly displayed or, at the least, capable of being figured out by drivers.
- ⇒ The current transportation improvements at the Airport have created airport access issues and overly long trip times from the staging area to pick up areas at the Airport, causing delays for customers and problems for drivers.
- ⇒ Taxis need the ability to proceed through some blockaded or special access areas in order to pick up customers at festivals and events around San José.
- ⇒ The city needs to support the licensed cab driver system, with Convention and Visitors Bureau and other City marketing efforts specifically stating that licensed cabs are preferred over non-licensed gypsy cabs.

Companies

- ⇒ Companies need to be able to serve all the demand, including the Airport.
- ⇒ There needs to be clarification of the distinction between employee drivers and contractor drivers.

- ⇒ A better-defined taxi ordinance is required. Also, responsibility for enforcement of any ordinance needs to be clearly established.

Convention and Visitors Bureau

- ⇒ Dispatchers need to be knowledgeable about events, entertainment and services in the Downtown area.
- ⇒ Need definition of what the rights of taxi customers and other citizens are.
- ⇒ Drivers should promote the City, particularly the downtown hotel zone.

Airport

- ⇒ The Airport needs flexibility in its facility and the volume of cabs serving Airport customers.
- ⇒ There needs to a good match of supply to demand at the Airport – minimize driver and customer wait time.
- ⇒ There needs to be sufficient supply of cabs to cover peak demands, such as holidays and also convention or other peak periods.
- ⇒ The Airport is interested in containing the cost to it of accommodating the requests of the other interested groups (drivers, companies and Con-Vis).

City of San José

- ⇒ The enforcement roles and the City and/or the County need to be clearly defined.
- ⇒ More cabs need to be on the street.
- ⇒ Costs need to be minimized or proposals should be self-sufficient. City does not have additional resources for enforcement.

Questions regarding service models:

The memo regarding the three proposed service models was reviewed with the attendees. The following are general questions/clarifications that were sought.

Service Model A

- ⇒ Could a stronger ordinance serve this role?
- ⇒ How would an over-supply of cabs be dealt with?
- ⇒ Would a taxi driver need to be an employee of a company under this model?

Service Model B

- ⇒ Why would a medallion system be required to be connected to the Airport?
- ⇒ Are there medallion models where the companies don't hold them?
- ⇒ What are the issues related to transferability of medallions?
- ⇒ Does this medallion model contemplate one medallion per driver?
- ⇒ How are complaints dealt with under this proposed system?
- ⇒ Have there been customer service studies concerning any of the proposed models?
- ⇒ How will the eligibility for and number of medallions per company be determined?

Service Model C

- ⇒ How would issues related to the maximum fare to be paid by customers be addressed?
- ⇒ How would this model address the total number of taxis?

Evaluation of service models

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry and Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
1. Service to Customer			
A+ Group	<p>There is no problem today with supply; service is good from both an availability and productivity perspective.</p> <p>Early morning availability is still a problem from the customer perspective (an incentive such as limited fees was suggested)</p> <p>Airline information is not getting out.</p> <p>Dispatch is not informed today. The system needs to be fixed to require ETA and/or standard arrival time.</p> <p>There is a need to increase the availability of stands and to make existing stands more visible.</p> <p>A question was asked about the potential for future fare increases.</p>	<p>What are the incentives for early morning services to the Airport?</p> <p>There is the potential for imbalances of supply and demand at the Airport; demand management will need to occur to avoid potential oversupply.</p> <p>There is need for happy drivers.</p> <p>Parking limitations at the Airport may affect this plan.</p> <p>Better labor peace in the industry is needed to make this work.</p>	<p>Fine-tuning will be needed to ensure early morning and late evening supply of cabs (incentives may be required).</p> <p>Better labor peace will be needed to make this work.</p> <p>Open entry is problematic.</p> <p>Potential future fare increases are hard to plan because of potential price wars and the driver issues.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry and Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
1. Service to Customer			
Vikings Group	<p>Companies are said to be committed to customer service and to addressing complaints.</p> <p>Too much is being spent to address airport issues at the expense of the neighborhoods.</p> <p>New standards are needed for drivers and vehicles.</p>	<p>This proposal could cause traffic jams at the Airport.</p> <p>Establishing a taxi commission to handle complaints would be good. Such a commission needs to be knowledgeable and neutral. Flexibility to deal with problems would be important.</p> <p>Satisfied drivers make for satisfied customers.</p> <p>New standards for drivers and vehicles could be confusing to customers.</p>	<p>This proposal makes it easier to fill cab shortages, there is more flexibility.</p> <p>Limits on cars makes for happy drivers.</p> <p>However, this could be confusing for customers.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry and Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
1. Service to Customer			
Bob's Group	<p>PROS of the Model: Consistent service</p> <p>CONS of the Model: More regulation will result in a negative impact on customer service; The proposed regulations will be set by the companies' control, not drivers; There is a monopoly by two existing cab companies – this results in unhappy drivers which impacts customer service; Certain areas are underserved under the existing model, there is unequal service;</p>	<p>PROS of the Model: Drivers would be happy. Fees would be reduced. This was the favorite option for this group.</p> <p>CONS of the Model Some concern over Airport service; supply demand problems could exist. However, it was felt those could be managed. Some concern also over who would take over driver training; would it be the City's responsibility?</p>	<p>PROS of the Model: Flexible rates. May be good at Airport to have a fixed rate.</p> <p>CONS of the Model None identified.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry and Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
1. Service to Customer			
No Name Group	<p>Customer service at the Airport is affected by the potential conflict between service at the Airport and service in the City.</p> <p>The context of service needs to be broadened to encompass service in the cab – drivers need to be happy to provide the best service.</p> <p>This model does not rebate as much to the customer as other models.</p>	<p>Access to Airport is good.</p> <p>Companies and drivers would have the focus on customers.</p> <p>Happy drivers equal happy customers.</p> <p>However, more regulation by the City is more intrusion.</p>	<p>Access to Airport is good.</p> <p>Having the airport available to all is good; small companies would stand to gain.</p> <p>Competition for drivers is good for drivers.</p> <p>Happy drivers equal happy customers.</p> <p>However, more regulation by the City is more intrusion.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
2. Industry Financial Conditions and Equity			
A+ Group	<p>There is a need to consider the minimum fee. Consideration of a more regulatory fee structure is appropriate.</p> <p>This model is unfair to small taxi companies.</p>	<p>Overall this Model is preferred.</p> <p>Driver income could go up.</p> <p>Need to consider setting a minimum fee.</p> <p>All cabs are able to get to the Airport; however this would need to be managed.</p> <p>On the negative side, similar to the current limited system, market forces would not determine the number of cabs servicing the Airport. This needs to be explored.</p>	<p>An open Airport probably impacts the supply, and therefore drivers' incomes.</p> <p>Varying fares could be confusing and create negative impacts on competition.</p> <p>There are potential negative impacts on maintenance under this Model.</p> <p>All companies can compete, however there is a potential risk that drivers/companies may not work on non-airport days.</p> <p>This Model is better for all companies, except those now at the Airport.</p> <p>Need to consider setting minimum fees.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
2. Industry Financial Conditions and Equity			
Vikings Group	<p>Companies can charge high fees, and some do.</p> <p>There is an incentive for companies to increase the number of cabs.</p> <p>Companies charge more at the Airport.</p> <p>An increase in fees would reduce driver incomes.</p> <p>Losing the Airport concession can kill a company.</p>	<p>Increased regulatory costs reduce driver income and limit cabs. Companies lower fees to get drivers.</p> <p>Good drivers participate in regulation.</p> <p>Fees paid directly to Airport, not cab companies. Would the fees then be lower?</p> <p>There is an incentive to provide long-term professional services.</p> <p>There is also an incentive for companies to advertise and also to get more drivers.</p>	<p>Companies would drop fees to get drivers.</p> <p>There are potentially lower fees paid by drivers.</p> <p>This Model provides flexibility.</p> <p>There is an incentive for companies to advertise and also to get more drivers.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
2. Industry Financial Conditions and Equity			
Bob's Group	<p>Two companies benefit from the current system, others are not making a profit.</p> <p>Drivers are not making money – they pay high fees and have no business.</p> <p>Relationships between drivers and companies are not good under the current system.</p>	<p>Getting rid of a monopoly at the Airport would be a good thing. More competition and a real business environment are good.</p> <p>This would lower the gate fee for drivers and they may avoid having to pay additional fees.</p> <p>Service Model B can be good for companies too (insurance, related positive benefit).</p> <p>Having an open airport means more freedom for drivers, more ability to move between companies and a better work environment.</p> <p>The status of drivers would need to be clarified.</p>	<p>Companies can grow under this Model.</p> <p>Model C would increase driver freedom.</p> <p>Clarification of the status of drivers would be necessary.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
2. Industry Financial Conditions and Equity			
No Name Group	This model offers no changes in the opportunities to lower fees and costs.	<p>Financial reward for drivers could be increased.</p> <p>Drivers fees could go down</p> <p>Expenses (such as insurance) could also be reduced.</p> <p>This could create the potential for fleet increases.</p> <p>An increase in regulation would make fees go up for drivers and companies.</p> <p>The group noted that a company should be based in San José to work here.</p>	<p>Financial rewards for drivers could go up under this Model.</p> <p>Drivers' fees could go down, this is a potential negotiation point.</p> <p>Expenses for drivers could be reduced.</p> <p>There could be the potential for a taxi fleet increase.</p> <p>There would be a more competitive footing for companies to compete for drivers and against each other.</p> <p>A company should be based in San José to work.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
3. Regulation and Oversight			
A+ Group	<p>Need to determine the scope and extent of the regulation by the City.</p> <p>This proposal has the most involvement by the City.</p>	<p>This group prefers Model B, with rotation at the Airport.</p> <p>Need to determine number of medallions (an issue for the Commission) and issues related to transferability.</p> <p>This may provide an opportunity for drivers to do more.</p> <p>Standardization of commission system.</p> <p>Overhead may cost more to driver, but that is o.k. if it is fair.</p> <p>There is a need to clarify the responsibility of the drivers association. It is also necessary to work out responsibility for enforcement.</p> <p>Competition would be good.</p>	<p>The rotation system may cost more to the driver, but that is acceptable if it is fair to the driver.</p> <p>A management company could handle the rotation issues (a hybrid of Model B).</p> <p>There would be a need to standardize communication systems.</p> <p>This proposal has the least City management involvement.</p> <p>Competition could be good.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
3. Regulation and Oversight			
Vikings Group	<p>It is easier to deal with only two companies at the Airport.</p> <p>More City regulation would be required under this Model.</p>	<p>Move investment and management at the Airport would be required.</p> <p>More City regulation would be needed.</p> <p>Difficult to keep track of 500 insurance issues. Minimum regulatory work related to insurance needs to be worked out.</p> <p>Insurance needs to be tracked on longer cycles.</p> <p>Fees and fines should reflect costs of non-compliance.</p> <p>Drivers join to be service providers (less than company requirements). Need to define what a “company” is under this Model.</p>	<p>More investment and management at the Airport would be required.</p> <p>Monitoring rates would be a burden.</p> <p>Minimum regulatory work related to insurance needs to be worked out.</p> <p>Fines should reflect the costs of non-compliance. Should companies (versus drivers) be sanctioned?</p> <p>Insurance needs to be tracked on longer cycles.</p>

CRITERIA	<i>Service Model A Current System with Greater City Regulation</i>	<i>Service Model B Medallion System (Closed Entry Airport Open to all San José Cabs)</i>	<i>Service Model C Airport Rotation System and Open-Entry City</i>
3. Regulation and Oversight			
Bob's Group	The Airport staff burden under this proposal would be substantially what it is today under this proposal.	<p>Under the current system, drivers pay about \$1 million. That could be transferred to cover the costs under Model B. The Airport Commission could be funded through the existing fees.</p> <p>The flow of cabs could be done with signage and communications systems.</p> <p>Airport staff burden may go up under this Model, but it could be worked to minimize that.</p>	<p>The flow of cabs could be done with signage and communications systems.</p> <p>Any system is workable with modification.</p>
No Name Group	<p>Regulatory control is not that much; but costs will still go up.</p> <p>Companies at Airport have the control now.</p> <p>If a third party is added, then costs will go up.</p>	<p>Highest regulation. This would result in the largest fee increases to cab companies and drivers.</p> <p>Having 500 different companies would result in an administrative burden.</p> <p>Third party management at the Airport could result in higher costs.</p> <p>How to distribute those costs would have to be worked out. This could be done through a Commission imposing fees on drivers and/or companies.</p>	<p>Less regulation by the City would put the burden of regulation on the industry.</p> <p>There is more flexibility under this Model to control costs and make cutbacks.</p> <p>Third party management at the Airport could result in higher costs.</p>

Final questions and comments

At the end of the Workshop the following comments/questions were noted:

- ⇒ **When will the costs of the various alternatives be known?**
- ⇒ **What will be provided for the costs?**
- ⇒ **Whatever is finally chosen will only be as good as the participants make it.**
- ⇒ **Everyone has to take responsibility and play a role together.**

Workshop Materials

Taxicab Service Models

Submitted to:
City of San Jose
Department of Transportation

Schaller Consulting

94 Windsor Place, Brooklyn, NY
(718) 768-3487
schaller@schallerconsult.com
www.schallerconsult.com

Stakeholder interests and the City's goals

Taxi passengers, taxi drivers, cab companies, the City and the airport have a wide range of interests and goals that are important to the taxicab regulatory structure. Some of these interests and goals are more critical to the choice of service models than are others, however. Based on interviews during the consultant team's October visit, we understand the following interests and goals as being most critical in the discussion of service models:

Taxi users

- Cabs reliably and quickly available by dispatch, at the airport and at taxi stands
- Drivers courteous and knowledgeable of the city's geography
- Safe driving and safe vehicles
- Vehicles clean and in good condition
- Fare affordable and charged correctly

Taxi drivers

- Increased driver incomes
- Cab companies competing for services of drivers through lower gate fees and greater volume of pre-arranged business
- Better relationship between cab companies and drivers

Taxi owners

- Ability to serve pre-arranged calls for service effectively
- Flexibility to expand and contract as dictated by demand for service
- Maximize gate fee income
- Better relationship between cab companies and drivers

Convention/Visitors/Downtown Businesses

- Make cabs into asset that can help sell San Jose
- Create visible taxi presence downtown
- Ensure that cabs are reliably and quickly available in response to telephone requests for service

Airport

- Ensure that cabs available at airport at all times.
- Ensure reliable quality and appearance of drivers, vehicles and starters and smooth-flowing taxi operation.
- Minimize airport's management responsibilities for taxi operations
- Labor peace in the taxi industry

City

- Ensure quality of taxicab service
- Visible presence downtown
- Compliance with licensing, insurance and other regulatory requirements
- Labor peace in the taxi industry
- Minimize City regulatory costs by maximizing self-enforcement

Taxicab Service Models

As in any city, San Jose taxicab regulation directly impacts the characteristics of the service provided by its taxicab industry. Regulation affects a number of characteristics, including the number of cabs, how operating authorities are issued, how drivers are licensed, the relationship between drivers and cab companies, and the fares charged. Each combination of these features may be called a *service model*. The regulatory challenge that cities face, therefore, is to choose the best service model for the city. This process requires matching the service needs of the city with a combination of regulatory characteristics to shape an appropriate service model.

The key features of San Jose's current taxi industry structure, constituting the *current service model*, are:

- Operating authority is issued to taxi companies, not to individual drivers.
- Taxi companies must meet certain requirements to obtain operating authority and to increase the number of cabs they operate, but companies can increase the size of their fleets without limit provided they meet the requirements. (We refer to this as “open entry” with the understanding that entry is open for taxi companies with five licensed cabs and meeting other City requirements. Individual drivers cannot obtain operating authority under this definition of open entry.)
- Taxi access to the airport taxi line is controlled through concession agreements with two cab companies. Each cab company is responsible for the facilities and conditions of their taxi hold lot, for providing starters, and for ensuring availability of cabs.
- The City of San Jose through the Police Department focuses its regulatory effort on the testing of applicants for new taxi driver licenses. Aside from the driver licensing process, regulatory requirements and enforcement are relatively minimal.
- The City sets a uniform fare.

Three alternative service models are presented on the following pages, followed by an evaluation sheet for use in the December 9 workshop.

Service Model A. Current system with greater city regulation

Overview:

Increases regulation in order to address perceived deficiencies in service and insure adequate driver incomes.

Key features:

- Operating authority is issued to taxi companies, not individual drivers. *(No change from current system.)*
- Taxi companies must meet certain requirements to obtain operating authority and to increase the number of cabs they operate, but companies can increase the size of their fleets without limit provided they meet the requirements. *(No change from current system.)*
- Taxi access to the airport taxi line is controlled through concession agreements with two cab companies, one for Terminal A and one for Terminal C. Each cab company is responsible for the facilities and conditions of their own taxi hold lot, for providing starters, and for ensuring availability of cabs. *(No change from current system.)*
- Uniform fare for all cabs. *(No change from current system.)*
- City expands regulatory role to include setting service standards (e.g., age limit that is lower than 10 years, response time standards), mandates that companies produce management plans for marketing and service improvements, set up grievance procedures for drivers, regulates gate fees with goal of increasing driver incomes.

Comments:

- Greater regulatory role can produce improvements to service quality, but requires substantial regulatory resources that City may not be able to fund except through fee increases on cab companies and drivers.
- Maintains open entry to cab companies for non-airport service.
- Does not address drivers' desire for increased competition among cab companies for their services.
- Does not match supply and demand conditions at the airport.
- Does not address high fare that discourages taxicab usage.

Experience of other cities with features of this service model:

- Similar to current San Jose situation except for greater regulatory role for City.
- Los Angeles requires management plans through which response time goals are set. King County (which includes Seattle) monitors response times.
- San Francisco, Chicago, New York and Boston regulate gate fees, although driver incomes continue to be an issue in some of these cities.

Service Model B. Medallion system (closed entry; airport open to all San Jose cabs)

Overview:

This model illustrates a San Francisco-style medallion system applied to San Jose.

Key features:

- Operating authority is issued in the form of medallion licenses to both individual drivers and companies.
- Drivers who own a medallion must drive the cab. Drivers may or may not be permitted to lease to a second driver, for example, for days they are not working or during illnesses or vacation. Company-owned medallions are leased to drivers.
- All medallion owners must affiliate with a cab company to provide dispatch services and handle complaints.
- Cab companies become radio service providers to medallion-holding drivers, and may also provide vehicle maintenance and other services to drivers. Cab companies continue to be accountable for service quality, e.g., complaint response.
- Number of medallion licenses is capped by the City, and adjusted periodically based on evaluation of need for additional service.
- Medallions may or may not be transferable.
- Airport is open to all licensed San Jose taxicabs.
- Airport contracts for management of the taxi operation through bid process. Contractor could be an independent management company (as in Oakland), industry consortium, driver association or any other entity. Contractor costs are funded through the per-trip fees. Contractor is held responsible for airport-mandated level of service.
- Uniform fare for all cabs.
- City expands regulatory role to include setting service standards (e.g., age limit that is lower than 10 years, response time standards), mandates that companies produce management plans for marketing and service improvements, sets up grievance procedures for drivers, regulates gate fees with goal of increasing driver incomes, and enforces driving requirement for drivers who own medallions.

Comments:

- Provides independence to drivers to move between companies.
- To expand, companies must attract drivers who hold medallions.
- City must set number of cabs to balance demand for service and industry financial health.
- Regulation is used to achieve service quality goals.

- Possibility that airport will have oversupply of cabs while dispatch trips are underserved. Companies may use low gate fees to attract drivers and then lack resources for marketing dispatch service and to buy dispatch technology.
- Does not address high fare that discourages taxicab usage.
- Greater City regulatory role requires professional staff to assess the number of cabs needed, determine gate fees and for street enforcement. This will require substantial regulatory resources that the City may not be able to fund except through fee increases on cab companies and drivers.

Experience of other cities with features of this service model:

- Overall, this service model is similar to San Francisco and San Diego, which issue medallions or permits to both cab companies and drivers (medallions/ permits are *nontransferable* in San Francisco and transferable in San Diego). Both cities require that each cab be affiliated with a cab company for dispatch and handling complaints.
- Affiliation requirements have proved satisfactory for complaint handling in Seattle.
- Industry consortium to manage airport has worked well at LAX. The consortium (ATS) provides 2 car washes, a “dyno” machine to check the accuracy of taximeters, bathrooms, a TV-equipped rest area for the drivers, and contracts with a food service vendor. ATS costs are covered by portion of trip fee (\$2.00 per trip covers all ATS costs). Current management company contractor is working well at the Oakland airport.
- Medallion ownership encourages experienced drivers to stay in the industry.
- If drivers who own a medallion drive are allowed to lease their cabs to a second driver, requirement that they drive a minimum number of shifts each year would need to be enforced. Enforcement of driver requirements has been labor-intensive in San Francisco and lax in enforcement in New York. San Francisco has experienced that as drivers grow older, they want to retire without giving up their medallions as required by Prop K.
- If medallion licenses are both transferable and limited in number, they may gain in value on the open market, as in New York City, San Diego, Seattle and other cities. This is beneficial to drivers who hold medallions but may result in a barrier for future drivers to become medallion owners.
- Issuance of additional medallions/permits has been a hotly contested issue in San Francisco, San Diego, New York and other cities. However, Las Vegas, San Antonio, Fairfax and Arlington Counties in Virginia and other jurisdictions have procedures that result in regular issuance of additional permits as indicated by need.

Service Model C. Airport rotation system and open-entry city

Overview:

This model uses attractiveness of airport trips in a regulatory structure that creates incentives for developing dispatch service.

Key features:

- Operating authority issued to taxi companies, not individual drivers.
- Taxi companies must meet certain requirements to obtain operating authority and to increase the number of cabs they operate, but companies can increase the size of their fleets without limit provided they meet the requirements.
- Increased flexibility/ease for drivers to move between companies through increase in number of cab companies working the airport (see next bullet) and changes to enable drivers to register vehicles in own name and obtain vehicle liability insurance.
- Any taxi company can work the airport from the taxi holds, provided they also commit to providing dispatch to the rest of the city.
- Airport contracts for management of the taxi operation through bid process. Contractor could be an independent management company (as in Oakland), industry consortium, driver association or any other entity. Contractor costs are funded through the per-trip fees. Contractor is held responsible for airport-mandated level of service.
- Rotation system established at airport to limit the number of cabs serving the airport on any given day to a number sufficient to meet demand but also enabling drivers to make a good income on their “airport” days.
- Maximum fare for intra-San Jose trips. Each cab company can charge maximum fare or less. Must be same fare for all cabs in color scheme. Fare must be filed with the City. Companies can give discounts to their filed rate. Companies also file rates for out-of-city trips; these may be metered rates or flat rates.
- City regulatory resources are focused on testing of applicants for new driver licenses. Aside from the driver licensing process, regulatory requirements and enforcement are relatively minimal.

Comments:

- This model is the same as Service Model B in that every cab must be affiliated with a cab company for dispatch service and for handling complaints; all cabs have the opportunity to work the airport; and a management company, industry consortium, driver association or other entity manages the airport taxi operation.
- The differences between this service model and Service Model B are that the overall number of cabs is *not* set by the City; the number of cabs working the airport is limited on any given day in order to balance supply and demand; cab companies that work the airport must provide dispatch to the rest of the city;

- operating authority is issued to companies only; and a maximum fare rather than uniform fare is set by the City.
- Drivers can move readily between companies and can set up driver association.
 - Allows new companies to enter the city market and allows smaller companies to grow if they can attract drivers.
 - Companies must develop dispatch business in order to attract drivers since rotation system limits the days that each cab can work the airport.
 - Uses market forces to set number of cabs in the city and gate fees.
 - Minimizes City and airport regulatory/management roles.
 - Addresses issue of high fare through a maximum fare.

Experience of other cities with features of this service model:

- Industry consortium and management companies to manage airport have worked well at LAX and in Oakland. (See information in Service Model B.)
- Drivers can move readily between companies in San Diego and other cities.
- San Diego airport has modified the rotation system several times to adjust the balance of supply of cabs and demand for trips.
- Maximum fare has worked satisfactorily in San Diego.
- Driver associations are found in San Diego, Seattle, Los Angeles and other cities.

Service Model Evaluation Worksheet

In this grid, stakeholder interests and City goals are grouped into three broad categories for the purpose of evaluating each of the three service models.

	Service Model A. Current system with greater city regulation	Service Model B. Medallion system (closed entry; airport open to all San Jose cabs)	Service Model C. Airport rotation system and open- entry city
<p>1. Service to Customer</p> <p>Availability of cabs at airport</p> <p>Availability of cabs by dispatch</p> <p>Pre-arranged calls served promptly</p> <p>Availability of cabs at stands</p> <p>Driver courtesy, geographic knowledge</p> <p>Safe driving/safe vehicles</p> <p>Affordable fares</p> <p>Positive public perception</p>			
<p>2. Industry Financial Conditions and Equity</p> <p>Driver incomes</p> <p>Financial condition of companies</p> <p>Opportunity to grow companies</p> <p>Equity among industry groups</p> <p>Positive relationship between cab companies and drivers</p>			
<p>3. Regulation and Oversight</p> <p>Compliance with regulatory requirements (licensing, insurance, etc.)</p> <p>Smooth-flowing airport operation</p> <p>Minimize airport's administrative and management responsibilities</p> <p>Minimize city's regulatory responsibilities and enforcement needs</p>			