CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: March 4, 2014

To: Honorable Mayor & City Council

From: Chad Lynn, Director of Parking Operations
Genevieve Row, Audit and Permit Administrator

Subject: REVIEW OF THE PROPOSED TAXICAB FRANCHISE REQUEST FOR PROPOSAL AND A DRAFT OF THE PRELIMINARY CHANGES RECOMMENDED TO THE BEVERLY HILLS MUNICIPAL CODE

Attachments:

1. Executive Summary of Staff Report of March 4, 2014
2. Consultant's Regulatory and Options Matrix
3. Consultant's Report on the Principles of Taxicab Regulations
4. Study Session Staff Report from February 18, 2014
5. Draft Request for Proposal
6. Proposed Changes to Beverly Hills Municipal Code (BHMC)
7. Taxicab Rules and Regulations
8. Taxicab Services Study dated October 2012

INTRODUCTION

The City of Beverly Hills currently regulates taxi companies, vehicles and drivers delivering services to residents and visitors for trips originating within the City limits pursuant to the Beverly Hills Municipal Code (BHMC) through the issuance of Certificates of Public Convenience and Necessity. Presently these services are provided by three (3) certificate holders with a total of 148 permitted vehicles in the City as listed below:

COMPANY	TAXICABS PERMITTED
Beverly Hills Cab	60
Independent Taxi Owners Association (Independent Cab Co.)	60
United Independent Taxi Drivers (United Independent Taxi)	28

A brief history of the taxicab service analysis is as follows:

- October 2012 – City's Consultant Completes the Taxicab Service Study
- February 5, 2013 – Study Session - Staff Transmits Study Recommendations
  - Receives direction to proceed with a Taxi Franchise RFP
  - Estimated time to conversion was 12-18 months
- April 11, 2013 – Formal Meeting –Scheduled Request to Approve an Agreement with the City's Consultant for the taxi RFP process – Postponed to May 7, 2013
- May 7, 2013 – Formal Meeting – Agreement with the City's Consultant for the taxi RFP process
- February 18, 2014 – Study Session – Review of Draft RFP – Requested Return at the Study Session of March 4, 2014

At the direction of the City Council the City's consultant, Nelson/Nygaard Consulting Associates Inc., in conjunction with City Staff and the City Attorney's office have prepared a draft Request for Proposal (RFP) for consideration by the City Council prior to release. (Attachment 4) A draft of the anticipated changes to the BHMC that may be necessary to complete the transition from the Certificate to the Franchise environment have also been included. (Attachment 5)

Once staff has been directed to release of the RFP the estimated timeline is as follows:

- 30-45 days for submission of proposals
- 15-30 days to review proposals for compliance
- 30 days to conduct field work, interviews and site visits
- 30-45 days to award and being the transition process as needed

At the Study Session of February 18, 2014, staff was directed to return to the next scheduled Study Session (March 4, 2014) prepared to address general and specific concerns related to the Franchise RFP process. An overview of concerns is as follows:

- Principles and Economics of Taxicab Regulations
  - Rightsizing taxicab service
    - Number of Taxicab Companies
    - Number of Taxicab Vehicles in Service
  - Limiting Companies/Vehicles vs. Open Market Competition
- Reasoning for Consultant's Recommendation of Rightsizing
  - 3 Taxicab Companies
  - 150 Taxicab Vehicles
- Consideration of Dual Permitting Taxi Vehicles
  - Allowing operation in other jurisdictions, specifically Los Angeles
- The Rating Process
  - The Panel Interview/Site Visit Approach and Panel Participants
- The Rating Criteria
  - Accounting for Community Impacts versus Total Neutrality
  - Providing an Opportunity for Interested Parties to Enter the Market
- Creating/Encouraging more Customer Feedback to the City

DISCUSSION

Staff understands the goals of the City's taxicab regulatory system to be as follows:

- Protect the Health, Welfare and Safety of Taxicab Users
- Maintain the Current Taxicab Rates Marginally Below the Region and Surrounding Jurisdictions
- Hold Taxicab Companies Accountable for Vehicle Owner/Operator Actions
- Improve Technology, Including Dispatch, Ordering and Payment Options
- Improve Customer Services Levels
    - Equipment Functionality
    - Proper Rate and Route Application
    - Customer Assistance – People and Cargo
- Maintain Availability and Response Time of Taxicab Service
- Maintain Customer Alternatives – More Than One Choice of Service Provider
- Minimize Disruptions to Residents, Businesses, Visitors and Taxicab Customers

In order to achieve the first two stated goals of the taxicab program, regulations become necessary; minimum insurance requirements, background checks of drivers and management, monitoring of driver's license actions, age/condition of vehicles, and the setting of taxicab rates.

The challenge of taxicab regulations is to enact a group of regulations and policies that promote the remaining goals of the system and mitigate the potential conflicts inherent in each regulatory choice. For instance, maintaining taxicab rates which are below surrounding jurisdictions is likely to encourage taxicab service providers to neglect the City's market in favor of locations that offer greater profitability. Policies, such as a restriction on dual permitting, become necessary to restore balance.

The Taxicab Services Study was a comprehensive analysis that was undertaken to provide this balanced set of recommendations. This study determined that response times and the availability of taxicabs in Beverly Hills were generally good, and in some cases superior to surrounding areas.

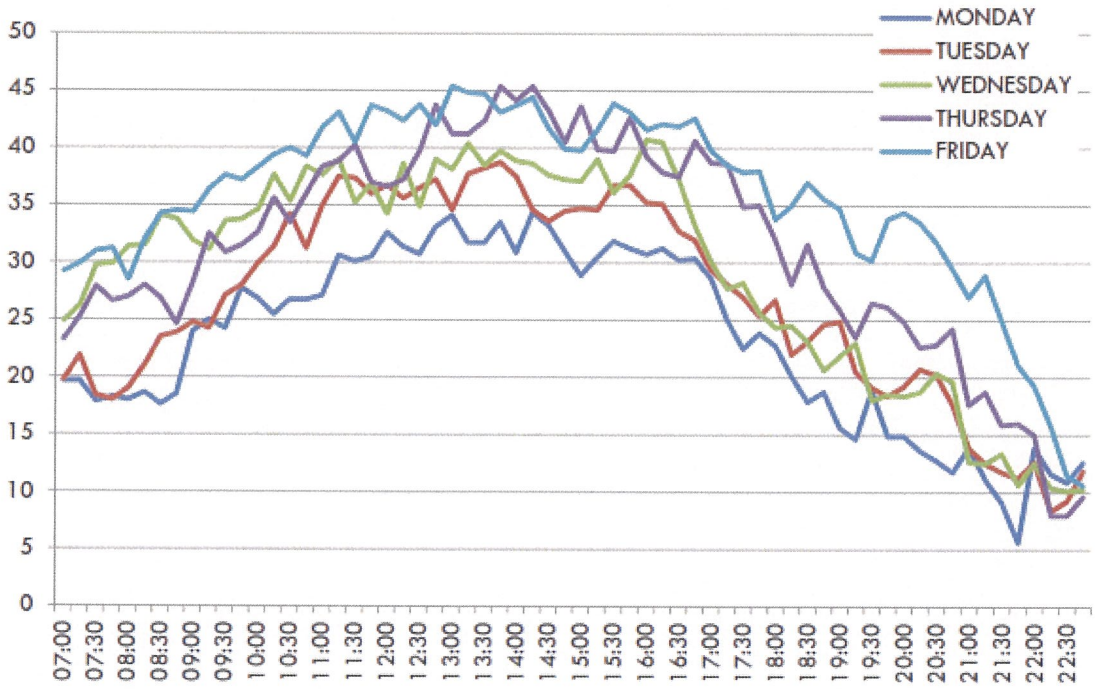
- Response Time
    - 93% of taxicabs arrived within 20 minutes of a call for service
- Availability
    - At all times of day, there was an adequate supply of unengaged taxicabs available to service demand
- Satisfaction
    - Businesses – Generally Satisfied
    - Senior Coupon Users Surveyed – Rated Service 'fair' to 'good'

These metrics suggests that the current regulatory policies related to the number of taxicab companies and vehicles, in combination with the restriction on dual permitting in Los Angeles are appropriate for the City's market and generally achieving the desired results related to response and availability of service.

The graph below is Figure 12 from the Taxicab Service Study documents. The graph illustrates taxicabs that are in-service and available for engagement by day of the week and time of day. The graph indicates there are generally plenty of available taxicabs to serve the City's market during peak hours. The graph shows declining availability during

early and late evening hours when there is a lack of demand in the City's market and an increase in demand in the neighboring jurisdiction of West Hollywood, where the city allows for dual permitting. These outcomes suggest the current policy of three (3) taxicab companies and approximately 150 permitted taxicabs is producing positive results related to the availability of service. The policy related to dual permitting in West Hollywood only allows for service providers to leverage periods of low demand for Beverly Hills and higher demand for West Hollywood, which are generally during different periods of the day, without adding additional vehicles, congestion and impacts to the community. This is an example of balanced policies which promote service goals and mitigate impacts.

Figure 12. Number of In-Service Taxis Not Engaged by Time of Day



The comprehensive study went on to outline the areas of complaints, desired improvements, and methods to improve the taxicab system.

Complaints

- Refusals of Drivers to:
  - Accept 'Senior' Taxi Payment Cards/Coupons
  - Engage in 'Short' Trips
  - Provide Assistance
- Community Disruptions
  - Illegal or Improper Parking
  - Waiting at Meters and in Residential Zones
  - Stopping in Traffic or Red Zones
- Overcharging
  - Charging Los Angeles or West Hollywood Rates
    - West Hollywood Rates are Currently Linked to Los Angeles

- Rates for all Permitted Jurisdictions are Programmed and Present on the Vehicle's Meter

Desired Changes (based on Coupon User Survey)

- Uniform/Dress Code for Drivers
- Credit Card Terminals in the Back Seat of each Taxicab
- More 'Green" Taxicabs (Compressed Natural Gas, Electric and/or Hybrid)
- More Wheelchair Accessible Taxicabs

Complaints such as overcharging, long-hauling, customer assistance in/out of the vehicle and driver behavior reflect specific customer service concerns at the point of service. Improvements related to technology, 'green' vehicles, and accessible vehicles represent broader organizational policies related to the taxicab company. These concerns raised issues of taxi management and the responsibilities of the taxicab companies to the overall performance of vehicle owner/operators and how improvements can be achieved.

A conversion from the current Certificate program to a Franchise environment was recommended to achieve the following:

- Improve accountability of Taxicab Companies for the actions and services provided by the individual vehicle owner/operators and to improve system-wide services such as technology, sustainability and accessibility
- Introduce competition into the selection process of service providers to maintain/improve service levels

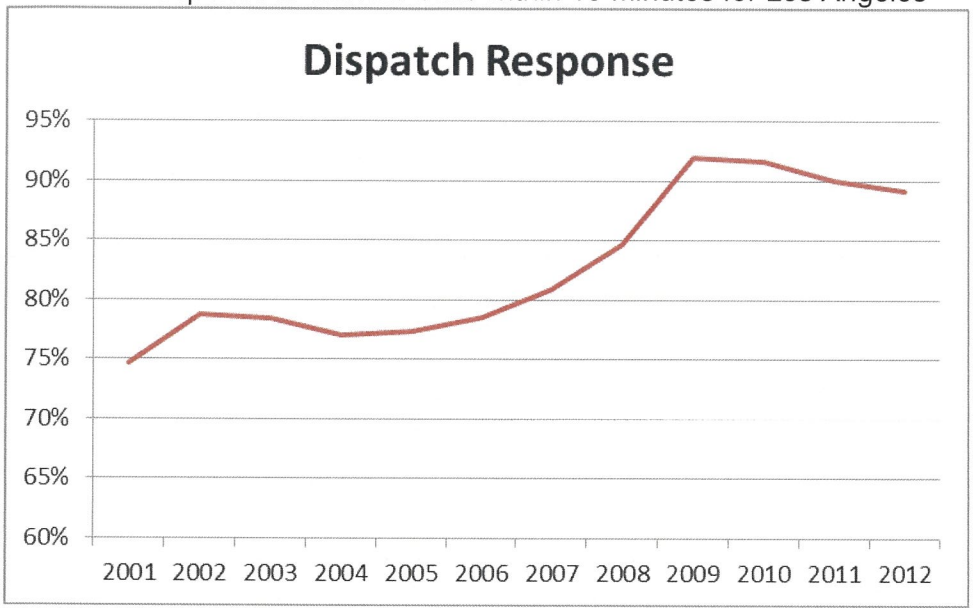
Accountability

The recommendation for a Franchise environment was in combination with maintaining the current number of service providers and vehicles in service, as these policies are generally meeting stated goals.

The Franchise environment provides the most effective method of holding taxi companies accountable for the overall performance of individual owner/operators, provided that a healthy taxi market has been established for the companies to operate within. Linking the measurement of an overall company's performance to the company's ability to maintain a franchise, including the conduct of its individual owner/operators and sustainability practices, encourages the organization and management of long-term service delivery. This is reinforced by the ability to contractually hold companies financially liable (through both permit actions and penalties) for individual owner/operators' conduct or for maintaining general standards. For instance, the City may reduce the number of taxis a company is permitted to operate based on the removal of a multiple-violator owner/operator or for a vehicle that does not meet a specified standard. This reduction may serve as a greater motivator for the company to manage these systems than if just the vehicle were removed from operation, allowing the company to backfill the vacancy with a replacement vehicle.

Experience in Los Angeles has demonstrated this principle; the franchises provide a mechanism to hold companies responsible for owner/operator conduct, a feature that is lacking in the City's current Certificate program. By using this capability, Los Angeles achieved dramatic, measurable improvements in service quality and compliance.

Historical Response to Service Calls within 15 Minutes for Los Angeles



Competition

A Franchise process also provides for the introduction of 'competition' into the process of selecting service providers. This creates competition between companies to offer the City higher levels of service related to technology, 'green' vehicles, driver training, service programs, management techniques and other related services or enhancements.

This type of organized competition should not be confused with the concept of introducing more companies and vehicles into service to compete in the streets for ridership. The concept of introducing more companies and vehicles does not necessarily provide greater levels of service to the community and in neighboring jurisdictions has actually demonstrated reductions in service in increases in dissatisfaction. Furthermore, a policy of increasing the number of vehicles in service without a demonstrated need for additional vehicles, would serve to exacerbate current complaints about vehicles illegally parking and impacting neighborhoods while waiting for fares.

An attempt to temper impacts such as taxi staging by allowing dual permitting with Los Angeles could predictably result in more taxis permitted in the City with reductions in availability and service. For instance, if a taxicab were to provide a ride from Beverly Hills to Los Angeles, it is likely that that taxicab would remain close to the point of termination to attract another fare rather than return to Beverly Hills empty. Los Angeles hosts sporting events, conventions and has multiple neighborhood travel destinations which could leave Beverly Hills with reduced supply during peak periods while taxicabs are servicing peak or spiking Los Angeles demands. This condition may be further exacerbated by the fact that the rates in the areas competing for supply are higher and more profitable for the service providers than those in Beverly Hills.

Maintaining good response times requires having an adequate, but not excessive, number of vehicles available for service. Substantially reducing the market share of service providers can reduce their ability to provide responsive service without necessarily providing viable alternatives.

Experience in other cities has shown that an excessive number of taxicabs may result in greater impacts to the community, including reductions in response times, poor service quality, congestion at cab stands and on-street with taxis cruising for fares, aggressive customer solicitation, increases in overcharging and long-hauling, and the need for additional enforcement resources to pursue balance. In West Hollywood (where seven franchisees with dual permitting serve a similar if not larger market), competitive forces have not been able to match supply and demand. There is taxi congestion from cruising at certain times and complaints of residents having difficulty obtaining taxi service at other times, specifically when there are major events or increased demand in Los Angeles. An imbalanced adoption of policies could leave Beverly Hills with less availability and longer wait times after the transition.

These examples highlight how polices can influence the market to create balance and how the outcome of a seemingly positive solutions can create unintended consequences resulting in the creation or exacerbation of known problems.

The RFP Process

To be considered for award of a Franchise, the following minimum requirements shall be met:

- Completion of all required forms, including:
  - Proof of Financial Liability (Equity Funding, Debt Funding)
  - Proof of Identity (Articles of Incorporation, Board of Directors, Officers, Principal Stockholders)
- Ability to provide and maintain the minimum number of vehicles (25 recommended)
- Ability to meet all technical requirements, including:
  - 24-hour dispatch
  - digital service and request tracking
  - digital taxicab activity and location tracking
  - credit/debit card equipment and procedures
  - taxicard payment plan (senior citizen program)
- Ability to meet minimum accessibility requirements
- Ability to provide Green Vehicles as regionally defined (State of California and City of Los Angeles)
- Must maintain an existing servicing and storage facility within 20 miles of Beverly Hills City Hall

Staff is recommending a review of written materials by the City's Consultant for compliance with the proposal requirements and to ensure each proposer meets the minimum qualifications for providing service. A select number of proposing companies will be invited to present and interview before a City selection panel.

The selection panel is proposed as a 5-7 member group of the following composition:

- Traffic and Parking Commissioner(s)
  - Citizen advocate/representative with previous experience working with taxicab companies
- Health and Safety Commissioner(s)
  - Citizen advocate/representative with previous experience related to citizen health, welfare, safety and quality of life
- Representative from Convention and Visitors Bureau
  - This is a civic partner of the City that is an advocate/representative of the hotel, tourist, and visitor interests served by taxicabs
- Expert from an outside jurisdiction
  - This person brings expertise in the administration and management of taxi operations from the perspective of the regulatory agency
- City Staff Member(s)
  - A representative of the City functions as a regulatory agency

This process provides an opportunity for the City's panel to rate and rank each of the proposals based on their content and the ability of the service provider to deliver the services proposed.

Based on a 100 point scale, the panel will be provided guidelines and forms for assigning points in the distribution of categories as outlined below. In assigning scores, the panel will not be limited to the information in the proposals, but may also use independent information gathered by staff or community/panel members, including objective data provided by other jurisdictions, random use of proposers' services, and interviews with references provided by the proposers and/or staff of other jurisdictions. These scores will be used to determine the recommend proposers for franchise awards and the number of permits to be awarded to each recommended proposer.

Points	Description
15	Experience, including in and/or around Beverly Hills, and quality of service
15	Key Management Staff - Experience, Qualifications, Character
30	Management Plan, Organizational Structure, Quality Assurance Plan, Customer Service Training Programs
15	Infrastructure, Facilities and Equipment
10	Financial Stability and Capacity to Meet Commitments
15	Enhancements: Ex. 'Green' Vehicles, Payment/Order Options, Others
100	TOTAL Points

A transition that replaces an incumbent with a new service provider has inherent impacts on members of the community that use taxicab services, including business, visitors,

seniors, and residents. This requires an organized transition process which includes public information, education, outreach, and enforcement to communicate to the community the new service providers that are legally permitted to provide service in Beverly Hills. This transition may also prevent users from choosing a taxicab company that they have previously developed a relationship with as a preferred service provider.

Staff is recommending that the rating criteria reflect the potential impacts to the community related to changing services providers by establishing that an interested party must score a minimum of five points (5%) above a current certificate holder to be awarded a franchise.

This 5% premium ensures that the level of service offered by an interested party is providing an improvement which is potentially greater than the impacts created when changing operators. For instance, if an incumbent and interested party were to complete the process with tied rankings, it may not be in the public's best interest to be subjected to the impacts of changing service providers when there does not appear to be a measureable difference in service levels. A 5% premium establishes a service level improvement that minimally warrants the potential impacts to the public. Applying this premium does not preclude a proposer from being rated a low score based on proposal criteria, including demonstrated service quality, poor references, or ineffective management.

Urgency Ordinance and Ordinance for Age of Vehicles

At the formal City Council meeting of February 18, 2014, an ordinance entitled "Ordinance of the City of Beverly Hills Amending the Beverly Hills Municipal Code Regarding Age of Taxicab Vehicles" was tabled to be reintroduced at the formal City Council meeting of March 4, 2014

All current taxicab permits will expire on April 1, 2014. The City will begin the permitting process for the 2014/2015 service year in March 2014. The current language in the municipal code allows for vehicles to be in service until 7 years from the date of manufacture.

The City's use of 'manufacture date' instead of the more common 'model year' criteria may result in up to 10% of the City's currently permitted fleet being ineligible for permitting. The potential award and implementation of a taxicab franchise program has created a concern that has not previously been a major concern of service providers. Historically, the service providers have replaced vehicles based on the City's current criteria. Facing the competitive RFP process and the concern that their company may not be awarded a franchise, owner/operators have raised concerns investing in new vehicles.

Approving the ordinance to reference the 'model year' instead of the 'manufacture date' and providing for additional years of service for ADA accessible vehicles mitigates the potential that owners may choose to operate in other jurisdictions where the same vehicle may remain in service during this transition period.

If the regular ordinance is adopted, it will not become effective until May 2014 which could result in reduction of taxicab service since permits will not be issued to those vehicles exceeding the current age limit. The additional Urgency Ordinance is proposed in consideration of the potential of up to 10% of the fleet that may not be eligible for

permitting at the time of inspection and permit issuance. This Urgency Ordinance is necessary for the preservation of the public peace, health and safety and to mitigate the reduction of taxicabs permitted to serve the community, including seniors, the disabled and others that may rely on such service as their primary source of transportation.

RECOMMENDATION

Competition for award in a limited market, such as the market in Beverly Hills, can result in a very contentious process, with unsuccessful proposers appealing to the City Council and seeking 'compromises' which often include adding companies and vehicles to the market.

An interested party that is not recommended during the award process may request adding them as a service provider with dual permitting in Los Angeles. This 'compromise' allows the proposer, incumbent or interested party, to maintain or expand their own market to Beverly Hills with minimal, if any, investment other than the cost of the permit. It is reasonable to predict that the Beverly Hills market will be underserved by this 'compromise' unless demand is low in the surrounding, higher rate, more profitable areas. Since the Beverly Hills taxi market has been shown to be semi-fixed in value, this circumstance leads to greater fracturing of the Beverly Hills market, as service is spread between more providers and vehicles, reducing the financial stability of the market, and resulting in reduced service levels to the community.

In the interest of maintaining a healthy taxicab service market and minimizing the impacts of the transition process on the community, staff is recommending that the City Council adopt and maintain a position related to the current number of taxi companies and vehicles that will be awarded Franchises for publication in the RFP.

Recommendations are as follows:

- Allow proposers that have operating infrastructure within 20 miles of Beverly Hills
- Allow proposers that can provide a minimum of 25 taxicabs
- Limit award to three (3) taxicab companies
- Limit award to 150 taxicabs distributed among the three (3) companies
- Maintain dual permitting with West Hollywood and restrict dual permitting with Los Angeles

The agreement term is recommended as follows:

- Initial term of five (5) years
- Additional one (1) year terms extended annually based on performance requirements
- A total term not to exceed 10 years

The combination of proposed standards and terms are pursuant to the consultant's recommendations, which has been created based on the size, services and demands that have been exhibited in the Beverly Hills taxicab market. This combination is proposed to preserve the current equilibrium measured in the Beverly Hills market while introducing organized competition into the selection process by allowing regional service providers entry into the existing market when they score at least five (5) points higher than an incumbent certificate holder.

The limitation on dual permitting ensures that taxicabs will be available in close proximity to the City during all operating hours. This mitigates concerns related to trips terminating outside of Beverly Hills in which both economics and traffic or road conditions would encourage dual permitted taxicabs to remain at the destination instead of returning to provide service in Beverly Hills. Additionally, there are specific cycles of demand in alternate jurisdictions which may conflict with providing services in Beverly Hills. For instance, sporting events, conventions and peak travel periods in Los Angeles could leave Beverly Hills with reduced supply during peak periods while taxicabs are servicing Los Angeles demands. This condition may be further exacerbated by the fact that the rates in areas competing for supply are higher and more profitable for the service providers.

This recommendation is the most conservative approach to Franchise award with the most predictable outcomes based on historical metrics.

Alternatives

Irrespective of choosing alternatives, long-term flexibility can be built into the regulatory system and the City Council can retain the authority to make changes to the system as needed. Such changes include but are not limited to:

- Increase/Decrease the number of companies
- Increase/Decrease the number of taxicabs
- Redistribute or modify the number of existing taxicabs based on performance, annual ratings and/or service levels
- Allow for dual permitting upon approval

Upon consideration of alternatives, staff recommends that the City Council limit the choice of alternatives and consider the interrelated nature of the regulatory environment and the impacts such alternatives may have on the stated goals of the taxi service program. For instance, maintaining reduced taxi rates may result in service reductions when combined with dual permitting vehicles in Los Angeles.

ALTERNATIVE 1

In recognition of how the economics of taxicab regulations are interrelated, such as the number of taxicabs and dual permitting, the following alternative is presented as 'packages' of regulatory policies. Although in most cases the City Council may choose to select these regulatory policies on a per-item basis staff recommends choosing complementary regulatory policies as proposed.

The proposed terms of this alternative are as follows:

- Award franchises to four (4) taxicab companies
- Permit 200 taxicabs for service, evenly distributed among the four (4) Franchisees
- Dual Permitting to be set at 50% of each company's fleet

Staff recommends this alternative be adopted as a contingency measure to the consultant's primary recommendation of three (3) companies if the RFP process returns

a recommendation of award to the three (3) incumbents and the City Council determines that the addition of an additional service provider is necessary to improve customer service to the community.

This alternative balances the concerns raised by the interested parties related to the award of franchises to incumbents with the stated goals of the taxi program to limit impacts to the community. The consultant's analysis shows that there are already more than enough taxis serving Beverly Hills, and this alternative allows for the adding of a company and taxicabs along with dual permitting to reduce the oversupply caused by these additions.

ALETERNATIVE 2

The proposed terms of this alternative award are as follows:

- Award franchises to taxicab companies achieving a minimum score based on the proposed criteria, without respect to the number of companies awarded
- Establish a minimum and maximum number of vehicles and allow each company to select the number of vehicles within this range
- Approve dual permitting as necessary to mitigate oversupply

This alternative allows for market competition outside of the scope of the selection process. Companies and drivers are free to adjust service to demand, with multiple choices of providers by the public. It avoids the need to make difficult choices related to proposals and service quality, leaving it to market forces to determine which companies will be able to offer quality service over a long-term basis.

This is effectively an 'open-entry' system. Numerous implementations of open-entry systems in other cities have demonstrated that it generally leads to reduced service quality. One or two companies generally establish a dominant reputation for quality service among residents and businesses after a period of disorder. It is also possible that no company will be able to maintain sufficient market share to ensure long-term reliable, responsive service, with drivers favoring surrounding jurisdictions or competing aggressively, on-street and at taxi stands, for the limited demand in the City's market.

Strict application of service quality standards within the franchise system could mitigate negative effects of this alternative, however; additional staff resources would be required with limited benefit to the riding public.

<u>Recommendation Summary</u>
It is recommended the City Council direct staff to the release of the RFP based on the recommendations of the City's Consultant:

- Allow proposers that have operating infrastructure within 20 miles of Beverly Hills
- Allow proposers that can provide a minimum of 25 taxicabs
- Limit award to three (3) taxicab companies
- Limit award to 150 taxicabs distributed among the three (3) companies
- Maintain dual permitting with West Hollywood and restrict dual permitting with Los Angeles
- Initial term of five (5) years

- Additional one (1) year terms extended annually based on performance requirements
- A total term not to exceed 10 years
- Maintain flexibility to:
    - Increase/Decrease the number of companies
    - Increase/Decrease the number of taxicabs
    - Redistribute the number of existing taxicabs based on performance, annual ratings and/or service levels
    - Allow for dual permitting upon approval
- Return to the City Council with recommendations for the award of Franchises based on the process and criteria stated herein.

George Chavez
Approved By