Attachment 3

NELSON
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To: Chad Lynn, Director of Parking Operations

From: Roger Teal (DemandTrans Solutions) and David Koffman

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Subject: Taxi Economics Applied to Beverly Hills

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1. Why regulate taxis?
    a. Experience with unregulated taxi markets has been very problematic, typically leading to excessive and/or inconsistent fares, poor quality of taxi vehicles and drivers, excess capacity due to low entry costs, and unstable conditions in the local taxi industry.
    b. Experience shows that the market does not correct for oversupply, since there is a steady supply of drivers willing to replace those that fail.
    c. Regulation has been needed to prevent both abuse of customers and excess supply of taxis; the latter undermines "full-service" taxi operators (that attempt to serve the entire market, especially phone orders as well as cab stands and hotels) and can prevent them from maintaining a stable operation.
    d. The public policy question regarding taxi regulation has been how to encourage healthy competition within the local taxi industry while also preventing oversupply which typically results in the dysfunctional outcomes cited previously. The typical answer has been regulation of entry and taxi fare rates—but the specifics of the regulatory regime must be tailored to the individual market.
2. Experience with deregulation/open-entry
    a. The City of Santa Monica's problems during its period of unregulated taxi service are relatively common—too many taxis, inconsistent and often poor service, turned down trips, fare structures designed to confuse consumers, sub-par vehicles and drivers, street congestion and aggressive solicitation of customers.
    b. Various types of deregulation were adopted in several large cities in the 1980's, but all of these cities have now returned to some type of regulatory system that encompasses both fares and limits to numbers of companies and taxis.
3. Principal features of the current City of Beverly Hills regulatory system:
    a. Lower fares than in Los Angeles and neighboring cities (approximately 7 percent lower)
    b. Only taxis that serve Beverly Hills exclusively or Beverly Hills and West Hollywood are permitted to serve the Beverly Hills market; no Los Angeles permitted taxis are allowed to serve Beverly Hills.
    c. The method used to restrict entry to and control the size of the taxi market in Beverly Hills is the Certificate of Public Convenience and Necessity.
    d. Certificates are used to both limit the number of taxi companies that can serve the market and the number of taxi vehicles they are permitted to operate.
    e. The certificate system gives the City of Beverly Hills very little ability to set service standards for companies or means to enforce these.

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4. Some Issues with Current Regulatory Structure
    a. Beverly Hills regulates taxi companies, but its ability to influence market outcomes is limited due to fact that the taxi drivers are independent contractors. The companies have limited ability to enforce service quality and response time without threatening the independent-contractor status of drivers. Open-ended certificates provide no mechanism to penalize companies for driver behavior or overall service quality. Franchises create a flexible mechanism to enforce and incentivize improvement by companies, and added legal justification for companies to enforce behavior by drivers.
    b. The lower fares in Beverly Hills assist the objective of facilitating affordable taxi service for residents, but limit a company's ability to finance improvements such as newer vehicles, green vehicles, or accessible vehicles. Lower fares also restrict the ability of Beverly Hills taxi companies to charge more if drivers are obtaining insufficient monetary returns (although the evidence currently indicates that most taxi drivers are achieving sufficient monetary returns).
5. Existing Taxi Market Situation in Beverly Hills
    a. A single "full-service" company dominates the telephone-order (dispatch) market (87% market share), provides excellent response times, and works mainly in Beverly Hills.
    b. A second company has some dispatch business, providing good response times, but focuses mainly on cabs stands and large hotels; about half of its trips are in Beverly Hills.
    c. Third company works mainly in West Hollywood, about one-fourth of its trips are in Beverly Hills, and very few are via telephone orders.
    d. There are more than sufficient taxis and taxi companies to provide good response time and competition, though the City might prefer different companies.
6. Likely impacts of adding companies and/or taxis restricted to Beverly Hills and West Hollywood (see below for the option of combining this with dual permitting with Los Angeles)
    a. For the full-service taxi company that serves most of the taxi market in Beverly Hills, the likely impacts would be:
        - Drivers will make less money, leading to attempts to maintain income, for example overcharging and refusing short trips.
        - Possible longer response times for customers if fewer drivers or prospective drivers can afford to lease cabs
    b. For all taxi companies serving Beverly Hills, the likely impacts would be:
        - Beverly Hills becomes less attractive relative to any other service area, which currently is only West Hollywood, since a relatively fixed amount of consumer revenue is being competed for by more taxis.
        - Drivers and taxis are likely to spend more time in West Hollywood and less time in Beverly Hills.
        - Service response times may become worse due to fewer available vehicles for Beverly Hills trips.
    c. For <u>customers</u>, the likely impacts would be:
        - Despite the increase in the total number of taxis and choice of companies, customers are unlikely to perceive any improvement in response time, since this is primarily related to the number of taxis operated by the company that they call for service, not the total size of the local industry. If each company's total volume is reduced, response times may deteriorate.
        - There could be a negative impact on the level of service if the number of active taxis is reduced by the full-service taxi company that currently dominates the telephone order market.

- Customers with short trips might experience difficulty in obtaining service due to drivers turning down short trips.
- Drivers may try to cheat on meter fares to offset the loss of revenue, using the dual meter capability for Beverly Hills and West Hollywood, and attempting to charge the higher West Hollywood fare rates rather than the legal Beverly Hills rates. Many customers will be unaware that this is happening, so they will not complain and provide a basis for enforcement.
- A likely positive impact would be more choices among taxi operators, assuming that the new company and its drivers serve the telephone order market.
- For customers, the key positive impact would be additional consumer choice, assuming that a fourth company and/or additional drivers provide most of their service in the telephone order market. If they do not, the customers will perceive little positive benefit overall.
- Providing choice would not benefit customers if each individual company has reduced ability to respond to calls.

7. Allowing taxis to serve Los Angeles would not avoid the negative impacts of adding companies and taxis.
    - If drivers have a choice of serving Beverly Hills and the entire Los Angeles market, the ability of companies to respond to calls would be further reduced. This effect has been demonstrated in West Hollywood and Santa Monica.
    - Lower fares in Beverly Hills would intensify this effect.
    - On days when there is a major event in Los Angeles, response times in Beverly Hills would be much worse than average.
    - Application of penalties under the franchise system might avoid some negative impacts, but at the cost of considerable City resources for enforement. Customers would be at risk of poorer service.