

# Santa Monica Taxi Study

## EXECUTIVE SUMMARY



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The City of Santa Monica has identified a need to assess and improve its methods of regulating taxicabs. In 2006, the City Council directed staff to research and evaluate whether the City should consider franchising taxicabs in conjunction with developing an ordinance to set air quality performance standards for awarding taxi franchise agreements.

## Issues with Taxicabs in Santa Monica

The City currently has an open-entry system of regulation that has enabled large numbers of taxicabs to operate in the City, including many operated by self-employed individuals and local entrepreneurs. The result has been an abundance of service, with many options to choose from for residents, tourists, and business travelers. However, the system has also resulted in a variety of problems that have been documented through interviews with City staff, business representatives, taxicab drivers, and taxi company owners and managers, and through observation of taxicab operations. In Santa Monica, as in other cities with open-entry regulation, experience has shown that market forces are not sufficient to ensure quality service and an economically healthy taxicab industry. Specific issues that have been documented include:

- Too many cabs, especially independents that rely for business on walk-ups at taxi stands and hotels
- Parking and traffic issues, downtown and on Santa Monica Pier
- A wide and confusing range of fares, including some very high fares
- Passenger complaints about high fares and overcharging
- Difficulty investigating complaints and enforcing rules, including insurance.
- Driver behavior issues, especially downtown
- Low driver incomes, which re-enforce other problems
- Air pollution from old vehicles and vehicles cruising for business
- Drivers operating Illegally in Los Angeles

The system requires a significant level of effort by City staff for administration and enforcement. Changes introduced in 2004 made some improvements but the fundamental problems remain.

Regulations used by many other cities but not by Santa Monica include:

- Taxicab companies: limits on number of companies and rules that lay out requirements for operating as a taxicab company
- Numbers of taxicabs: rules that control the total number of taxicabs that can operate in the city in order to avoid destructive competition and to allow companies and drivers to achieve reasonable earnings
- Fares: a maximum fare or one specific fare structure
- Color schemes and numbers: requirements for distinctive color schemes and names for each company, and unique numbers on vehicles, that enable customers to easily distinguish among companies, and that help City staff enforce rules and investigate complaints
- Vehicles: age limits or strict standards for appearance and safety

- Dispatching: requirement for effective radio or computer dispatching that avoids drivers having to rely on walk-up business, ensures comprehensive service to customers, and improves security
- Driver qualifications: required training or tests for knowledge of rules, geography, and English

In addition to these widespread rules, many cities have instituted rules requiring:

- Discounts for elderly and disabled riders
- Some portion of each fleet consisting of wheelchair accessible vehicles
- Vehicles that meet rules concerning air quality or fuel efficiency

## The Taxicab Industry in Santa Monica

Based on permits issued in October of 2007, there are 412 permitted cabs in Santa Monica, including 18 operated as one-cab companies and another 65 cabs operated in companies with two to five cabs. "Los Angeles companies" (i.e. companies that are franchised in Los Angeles) account for 154 cabs or 37% of the total.

| Company Size Category   | Number of Companies | Total Number of Cabs | Percent of Total Cabs |
|-------------------------|---------------------|----------------------|-----------------------|
| 1 cab                   | 18                  | 18                   | 4%                    |
| 2 to 5 cabs             | 21                  | 65                   | 16%                   |
| 6 to 10 cabs            | 7                   | 57                   | 14%                   |
| 11 to 49 cabs           | 5                   | 118                  | 29%                   |
| "Los Angeles" Companies | 4                   | 154                  | 37%                   |
| Total                   | 55                  | 412                  | 100%                  |

Compared to other cities, Santa Monica has many more taxi companies and also more taxicabs per population. Of the cities examined for this study, only West Hollywood has more taxicabs per population than Santa Monica, but most of West Hollywood's taxis actually work in other cities, including Los Angeles, most of the time.

| City           | Population | Taxicab Permits | Companies | Cabs per 1,000 Residents |
|----------------|------------|-----------------|-----------|--------------------------|
| Santa Monica   | 84,084     | 412             | 55        | 4.9                      |
| Beverly Hills  | 33,784     | 120             | 3         | 3.6                      |
| Los Angeles    | 3,694,820  | 2,303           | 9         | 0.6                      |
| West Hollywood | 35,716     | 530             | 7         | 14.8                     |
| Sacramento     | 407,018    | 371             | 8         | 0.9                      |
| Arlington, VA  | 199,776    | 666             | 6         | 3.3                      |

Despite heavy competition, taxis in Santa Monica mostly charge higher rates than taxis in other cities. The Los Angeles taxi companies charge the rates set by the Los Angeles Department of

Transportation (LADOT), which are currently \$2.65 for the first 1/7th mile and \$0.35 for each additional 1/7th mile (\$2.45 per mile). For a five-mile trip, the total would be \$14.90. The most common rate charged by companies licensed only in Santa Monica is \$1.90 for the first 1/18th mile and \$0.20 for each additional 1/18th mile (\$3.60 per mile). At these rates, the total for a five-mile trips would be \$19.90, 34% higher than the total with the Los Angeles companies. Managers of some Santa Monica companies justify their higher rates by pointing to the fact that they have to travel empty when returning from a trip into Los Angeles and the many short, local trips they provide, including trips for older people going shopping. Some local companies operate newer more luxurious vehicles.

The City requires taxi companies to charge a flat rate for trips to LAX. The Los Angeles companies charge the rate set by LADOT, which is \$30. The most common rate charged by companies licensed only in Santa Monica is \$45, but some offer advertised or unadvertised discounts. This flat rate corresponds to the meter rate for about 12 miles, which is the distance from Santa Monica City Hall to LAX by freeway. But for some residents of the southern part of the city, a trip to LAX by surface streets would be seven miles or less and would cost about \$27 using meter rates.

The large number of taxicabs limits drivers' ability earn a living. The actual size of the market for taxi trips is unknown. However, even assuming that demand for taxi trips is very high compared to other cities, taxi drivers in Santa Monica are currently making only about \$24,000 per year working six days a week. Taxis are significantly underutilized and could easily carry more passengers in an average shift.

## Options for Improving Conditions

A number of methods can be used to address issues with taxicabs in Santa Monica. All of these have certain features in common, including:

- Regulations that apply to companies, as well as to individual drivers and vehicles
- Measures intended to avoid an oversupply of cabs
- Standards designed to improve service quality
- Requirements for low-emission vehicles

The overall approaches can be grouped in three options according to their emphasis. These are:

1. Set minimum standards for companies, vehicles, and drivers
2. Regulate the number of taxicabs
3. Regulate entry by companies

### Option 1: Minimum Standards

No matter what overall approach to taxi regulation is used, it should include minimum standards that apply to taxicab companies, as well as standards that apply to vehicles and to drivers. Minimum company requirements should include:

**A minimum taxicab fleet size.** A reasonable minimum fleet size based on other cities would be 25 vehicles permitted in Santa Monica. The intent of a minimum fleet size is to ensure that companies have enough vehicles to justify the overhead of a dispatch system and professional company management. A minimum fleet size need not eliminate independent drivers. In other

cities independent drivers have been able to comply with minimum fleet size requirements by banding together into associations.

**Centralized dispatching.** A dispatch system should have the ability to make trips available to drivers throughout the city without favoring any driver, while minimizing response time during all times that the company's vehicles are operating. Centralized dispatching ensures availability of service, helps drivers obtain business, and avoids having drivers who are entirely dependent on finding business on the street. Centralized dispatching goes beyond calling drivers on cell phones, for example using voice radio optionally combined with a computerized digital dispatch system.

**A staffed place of business.** Companies should maintain a staffed place of business where required records are kept and can be inspected by the City, and customers can file complaints and retrieve property left in vehicles.

**Distinctive color schemes and names.** Each company should have a distinctive color scheme and name that are easily distinguishable from color schemes and names of other companies operating in Santa Monica and nearby jurisdictions. This avoids customer confusion, encourages companies to invest in building up their businesses, and helps the City follow up on complaints.

**Unique taxicab numbers.** To aid in enforcement and complaint investigation, the City should assign a unique number to every taxicab which would be permanently and prominently displayed on the exterior of the vehicle, posted on the vehicle interior and, if the City decides to require printing meters, would be printed on a receipt generated by the taxicab meter. The number would be unique to each taxicab in the overall fleet of vehicles operating in the city.

**Recordkeeping.** Companies should be required to keep dispatch logs. Drivers should also be required to keep logs showing trips that they carry, including trips that were dispatched to them and trips that they obtain on the street, at hotels, or by personal calls. These records will be an aid to enforcement and also can help the City assess the economic health of the taxicab industry in order to determine if changes are needed to reduce or increase the supply of taxicabs.

**Maximum rates and posting of rates.** Companies should be free to set their own rates, within limits set by the City, including a maximum meter rate and a common mileage increment that all companies must use, as well as maximum flat rates for airport trips. The mileage increment should be compatible with requirements set by the City of Los Angeles, which currently requires mileage charges per 1/7<sup>th</sup> of a mile. A maximum rate corresponding to \$19.90 for a five-mile trip would include the fares currently charged by 88% of all permitted taxis in the city. Most regional companies would probably continue to charge lower rates, consistent with those required in Los Angeles. The City should require that rates be posted on the exterior of each cab, as well as in the interior. There should be two flat rates to LAX, one for the area south of the Santa Monica freeway, and one for the area north of the Santa Monica freeway.

**Driver training.** Companies should be responsible for training their drivers. The training should cover City regulations, company procedures, defensive driving, map reading, local geography, customer relations, security and public safety, and requirements for non-discrimination in treatment of people with disabilities.

**Responsibility for drivers.** Companies should be responsible for their drivers' compliance with City regulations and laws. This should include financial responsibility for fines and company-specific penalties for a persistent pattern of driver violations.

**Marketing.** Companies should be required, at a minimum, to maintain a listing in the local telephone directory and Yellow Pages to ensure that potential customers can contact the company and to ensure that drivers are not dependent on walk-ups and street hails for business.

**Wheelchair Accessibility.** Initially, each company should be required to have at least one wheelchair accessible taxicab in service at all times. Since the demand for this service is not known, a flexible standard may be needed that would apply beyond the initial requirement. For example, each company could be required to show that it can respond to a request for wheelchair accessible service within a specified response time, such as 15 minutes.

**Low-emission vehicles.** Companies should be responsible for ensuring that their fleets meet environmental standards set by the City. A requirement that all vehicles meet the California Air Resources Board SULEV (super ultra-low emission vehicle) standard should be phased in over three years to avoid the risk of significant disruption to the taxicab industry in Santa Monica. Vehicles meeting the SULEV standard will generally cost more than vehicles typically used as taxicabs. However, an economic analysis for this study confirms that savings from reduced fuel usage can result in lower total cost over the life of the vehicle. Wheelchair accessible vehicles should be exempt from the SULEV requirement until suitable wheelchair accessible vehicles become available.

**Financial stability.** Companies should be required to submit evidence that they have sufficient financial resources to comply with all of the minimum company standards.

In addition to these company standards, regardless of the overall regulatory approach chosen by the City, there should be enhanced requirements relating to vehicles, drivers and insurance.

**Vehicle requirements.** In addition to meeting air pollution standards, all vehicles should be required to pass a thorough inspection for safety, required signage and markings, and meters. To make the inspection meaningful, all inspections should be done by a single entity designated by the City. If the City does not wish to perform inspections itself, then a private entity should be designated through a competitive selection process.

**Drivers.** In addition to completing the training that companies are required to provide, drivers should continue to obtain permits from City, but using expanded and more precise standards. At a minimum violations of taxicab regulations in other jurisdictions should be added to the grounds for permit denial. Also the City should ensure that it is notified by the Department of Motor Vehicles about licensing actions and by the Department of Justice about arrests.

**Insurance.** For purposes of consumer protection the City should increase the required level of liability insurance on taxicabs to \$1 million combined single limit.

All of these requirements together might be able to address many of the current issues with taxicabs in Santa Monica without needing to involve the City in selecting companies or regulating numbers of taxis. In principle, market forces could then be allowed to determine the right number of cabs and companies. If further measures were needed, they could be taken in the future as needed. However, experience in other cities has shown that market forces are not always enough. It is possible that there could still be too many cabs and numerous companies, with resulting service problems and poor earnings potential for drivers. It is also possible that the cost of complying with the new requirements combined with the financial uncertainty of unlimited competition could result in the taxi market being dominated by regional companies based in Los Angeles and other cities.

## Option 2: Regulate the Number of Taxicabs

In addition to setting minimum standards, the City could restrict the total allowable number of taxicabs. The appropriate number of cabs would be established at a level high enough to provide sufficient service but not so high as to dilute the ability of drivers to earn a living or of companies to earn a reasonable profit. The number would be based on comparisons to other cities, current service levels, or an economic analysis of taxicab operations in the city. Adjustments would be made to respond to changing circumstances. If the limit on the number of cabs is a meaningful one, then a process is needed to determine who gets to operate a taxi or a taxicab company.

Many cities regulate the number of taxicabs. Commonly companies are required to demonstrate “need and necessity” in order justify additional taxi permits or to obtain a license to begin operating. This is often a political process involving public hearings before a taxicab commission or advisory board, although formulas and service analysis can be used to inform the process. The political process may be strongly influenced by the taxi companies themselves.

For Santa Monica, there are serious drawbacks to a process that focuses principally on regulating the number of taxicabs. The correct number of taxicabs is not known. For this study, an analysis was conducted based on other cities, the current structure of the taxi business in Santa Monica, and the economics of driving a taxi in the city. Because of lack of data, it was necessary to make numerous assumptions about the actual level of taxicab business and the costs of operating a taxi. Depending on these assumptions, and depending on the mix of taxicabs that operate only in Santa Monica or also operate in other cities (especially Los Angeles), a desirable number of taxicabs for the city could range from less than 200 to more than 300.

If the City were to set the allowed number of taxicabs, and if there is a minimum size for a taxicab company, then it would also be necessary to decide which companies can operate and how many taxis each company could operate. This suggests that a process that focuses principally on selecting companies may be a more straightforward solution for Santa Monica.

## Option 3: Regulate Entry by Companies

In addition to setting minimum standards, the City would establish a competitive selection process to award franchises to a limited number of companies. Companies would be encouraged to propose enhancements that go beyond the minimum requirements, and these enhancements would be used by the City in determining which companies would receive franchises and how many taxicabs they could operate.

This type of system could limit competition sufficiently to provide economic viability for drivers and companies while still allowing flexibility in taxicab numbers. The City could use a familiar request for proposals process to award franchises, and apply selection criteria through a purely administrative process. The selection process would create incentives for companies to offer enhancements that exceed minimum requirements. The City could explicitly favor local companies and determine a desirable balance between local and regional companies. This type of process is not common in the U.S. overall, but it is common in Southern California, so there are nearby examples and staff with experience that the City can draw upon.

The selection process would need to be designed to provide clarity and objectivity, while allowing some degree of flexibility. Based on experience in other cities, it is possible that the results would be challenged by losing companies.

In principle, the City could let the companies that receive franchises decide for themselves how many taxicabs to operate, just as other competing business decide on the scale of their operations. A danger in this approach is that qualified applicants may be deterred by the high initial cost of meeting the proposed minimum requirements if there are no limits on the number of cabs that can be operated. As in Option 1, the result could be dominance by a few regional companies.

## Recommended Process

The recommended process is based on Option 3, which incorporates the minimum standards presented in Option 1. The City should issue an RFP to award franchises to between four and eight companies to operate taxicab service in Santa Monica. Fewer than four franchises would not provide effective competition or allow for a sufficient balance of local and regional companies. More than eight franchises would make it difficult for the companies to compete effectively and would unduly restrict the size of fleets that any one company could operate. Provisions of the RFP should include:

- The City will award franchises to one or more regional companies, i.e. companies that operate in other cities as well as Santa Monica.
- The City will award franchises to three or more local companies, i.e. companies that operate in Santa Monica only.
- All taxicab companies will be required to meet all of the minimum requirements described in Option 1 regarding minimum fleet size, centralized dispatching, fares, low-emission vehicles, etc.
- The City will authorize all franchisees combined to operate approximately 200 “full-time equivalent” taxicabs in Santa Monica, where a cab that operates only part time in Santa Monica is counted according to the percentage of the time that it operates in the city.
- Each proposer must submit a comprehensive business plan with two options, one for a desired fleet size, and one for a minimum acceptable fleet size. The business plans would need to show financial viability and include a description of the dispatch system, a fleet plan, a hiring and training plan, a proposed color scheme and name, proposed rates, a marketing plan, a management plan, ownership information, and proposed lease rates and fees that would be charged to drivers.

The City will then rate the proposals using selection criteria based on the RFP requirements and enhancements offered by the proposers. Starting with the highest rated proposal, the City would allocate permits within the companies’ proposed fleet size ranges up to the desired total number of full-time equivalent cabs, taking into account the desired number of companies and the desired balance between local and regional companies.

After the initial selection process, companies could apply to increase their authorized fleet sizes. Increases would be granted if the company can show, through both dispatch logs and driver logs, that their existing fleet is well utilized. Companies that are not using some of their permits or whose drivers are not getting enough business or consistently violate taxi zone or parking rules would have their minimum fleet sizes reduced.

Administering and enforcing the new system would require some additional staffing beyond that currently devoted to taxicab issues. Based on preliminary research by the City Attorney, there is no legal bar to the City setting franchise fees at a level that would recover the full cost of all staff

time and expenses rated to administering the new process. Costs of continuing enforcement could be covered from a combination of franchise fees and any penalties assessed against drivers or companies.

The franchises should be for a minimum of three years, with additional one-year extensions as long as permitted by the City code. If one or more companies ceases operation in Santa Monica or has its franchise revoked, a supplemental RFP could be issued.

In principle, the recommended process would allow for continuous adjustment of the allowed number of full-time equivalent taxicabs, using on-street observation, analysis of records kept by the companies, and review of complaints received by the City. In addition, at any time, the City could undertake a comprehensive review of the total authorized number of cabs. Such a review would be appropriate if the City decides to issue a new RFP for franchises. Factors suggesting that the authorized number should be reduced would include underutilized cabs, a pattern of parking and on-street waiting violations, complaints about taxis cruising for business, and short response times for telephone orders. Factors suggesting that the authorized number should be increased would include fully utilized cabs, a scarcity of cabs at taxi stands, and long response times for telephone orders.