



Edward Harrington
Controller

Monique Zmuda
Deputy Controller

October 1, 2003

Honorable Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Attention: Gloria L. Young
Clerk of the Board

RE: Taxicab Industry - Long-Term Lease Report

Dear Supervisors:

Ordinance #228-02 added Police Code Section 1135.1(i) requiring the Controller to report to the Board of Supervisors regarding long-term lease fee caps. Our findings and the resulting alternatives are outlined below.

EXECUTIVE SUMMARY

Throughout our review of long-term leases, we found that there are numerous working arrangements among the three industry principals: drivers, medallion holders and taxicab operating companies. Based on various reports from industry principals and the Taxi Commission, it would appear that long-term lease arrangements apply to a small group of drivers who prefer to have a longer-term arrangement rather than a daily gas and gate structure. We were unable to confirm exactly how many of the nearly 7,800 A-Card holding drivers (including full and part-time drivers) prefer or make use of a long-term lease arrangement, but various industry sources have estimated that some 100 to 250 drivers may be affected. However, because the City has not summarized this at this point, nor has any survey been conducted in the recent past that would facilitate estimation, it is difficult to know with certainty.

Due to these factors, we recommend that during this December's annual A-Card renewal process the Taxi Commission, with administrative coordination through the Tax Collector, conduct a driver survey including questions pertaining to long-term lease arrangements. We have provided a proposed driver survey for the Board's consideration. Following this survey completion, the Taxi Commission should file a report with the Board that summarizes survey responses.

In general, however, it would seem that drivers would not enter into long-term lease agreements unless they believed it to be a more beneficial arrangement than the daily gas and gate arrangement. This would suggest that additional regulation would not be

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warranted unless the City had evidence of wrongdoing or coercion to require drivers to agree to long-term leases - of which we did not hear of any such claim.

Given the limited information about lease arrangements, the lack of any claim of wrongdoing or coercion and the reported small proportion of drivers affected (some 100 to 250 of a total of 7,800 A-Card holding drivers), the general policy alternatives outlined in this report would suggest that maintaining the status quo is reasonable. Ultimately this is a policy decision for the Board of Supervisors. We have included a summary of alternatives by lease-type as we see them on pages 6-7 of this report for the Board's review.

RECOMMENDED NEXT STEPS

1. Remove the current sunset provision pertaining to the gate fee and long-term leases from the Police Code.
2. Direct the Taxi Commission, in coordination with the Tax Collector, to conduct a taxicab driver survey during the upcoming A-Card renewal in December - the proposed survey is attached.
3. Direct the Taxi Commission to file a report summarizing survey responses by the end of February 2004.

BACKGROUND

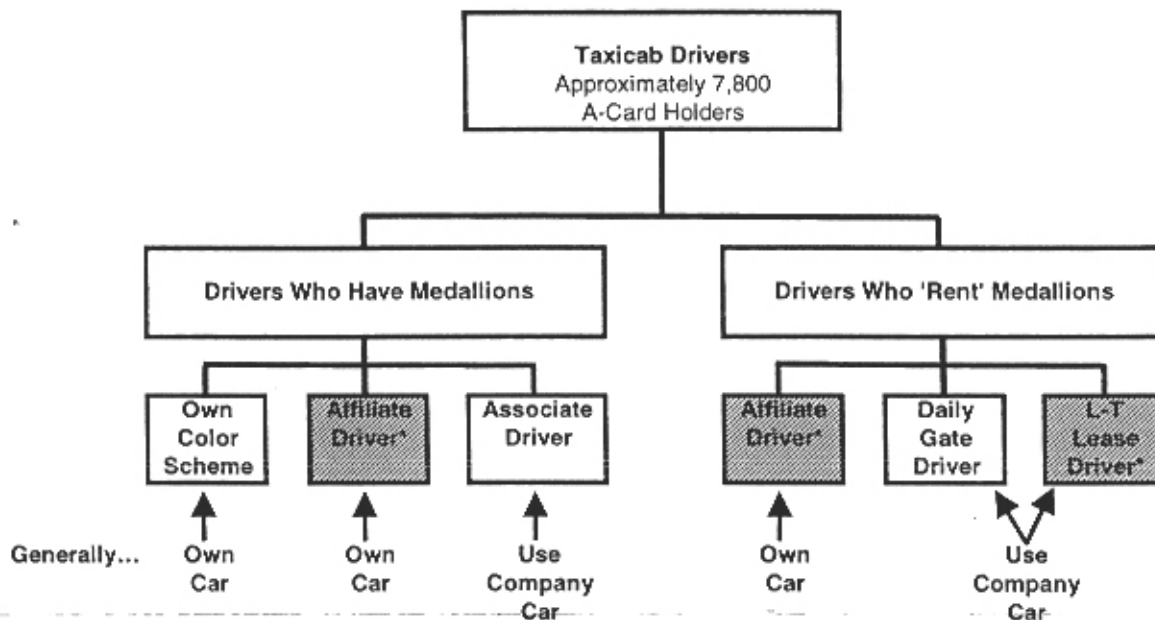
The San Francisco taxi industry is comprised of three major components: medallion (or permit) holders, color schemes (or taxicab companies), and drivers. The current structure of industry is geared toward senior drivers having an opportunity to become medallion holders. Medallion holders typically rent their medallion permits to color schemes that, in turn, provide drivers (both medallion holders and non-medallion holders) with vehicles, insurance, dispatch and other taxi support services. In consideration of these items the companies charge a fee to drivers commonly referred to as a "gate fee." In the case of larger companies this fee generally covers a wide range of services. For smaller companies, services can range from full service to only color scheme and radio dispatch services. While taxicab operating company services are not prescribed by legislation, it is important to note ranges of service because smaller companies, who provide limited service - and therefore charge lower gate fees - are not necessarily impacted by the City's gate fee cap while larger companies providing full service have, in effect, a revenue ceiling due to current legislative structure.

When addressing the "gate fee" it is also helpful to point out the broad usage of the term (i.e. - payment made to the taxicab operating companies) with the more narrow definition of the Police Code. Police Code Section 1135.1(c) specifically defines the gate fee as payment by a non-medallion holder, while Section 1135.1(a) sets forth the maximum restriction on gate fees as a payment to taxicab operating companies. Therefore, many of the industry's business arrangements we describe below are unregulated by gate fee restrictions.

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Conceptualizing Taxicab Business Relationships. In our review we found that there are numerous working arrangements among the three primary industry principals. We have summarized these relationships in the chart and descriptions that follow.

Taxicab Drivers Summary



*Shading reflects a driver classification that may be affected by a some type of lease.

It is helpful to note that, even within these summaries, there is a wide variance in how companies, medallion holders, and drivers interact to provide taxicab service to the public.

- **Affiliate – Medallion Holder:** *These are medallion-holding, primary drivers who generally own a car and have secondary drivers* (that is, primary drivers with medallions). This arrangement involves primary and secondary drivers. Primary drivers hold the medallions, generally own vehicles, and engage secondary drivers to provide 'around the clock' taxi service. Primary drivers then have an arrangement with a taxicab operating company to provide color scheme and dispatch services, but remain generally responsible for all other vehicle maintenance and operation costs.¹ In this situation either the operating company or the primary driver may own the vehicle. Given that no payment is typically made from a secondary driver to an operating company, the primary/secondary driver arrangement does not appear to be governed by City restrictions on gate fees.

¹ Maintenance and operation costs are commonly referred to as "gas and gate," although, in actuality, gasoline costs are paid by drivers and not part of the 'gate fee'. Full service including maintenance is distinguished from limited service, which typically includes only basic services like dispatch and color scheme.

- **Associate:** *These are medallion-holding drivers without vehicles, and without secondary driver relationships* (that is, drivers with medallions working directly with a company that then uses the medallion for other drivers when the medallion-holding driver is not driving). Associate drivers rely on operating companies to provide the **color scheme, dispatch, vehicle ownership, and gas and gate** in return for a fee. However, this fee does not appear to fall under the Police Code limit because a medallion holder pays it. Additionally, the value of placing a medallion with an operating company is market force leverage that may keep associate fee payments at or below the limit.
- **Affiliate – Non-Medallion Holder:** *These are non-medallion-holding drivers who generally own a car and hire drivers* (that is, primary drivers without medallions). This arrangement involves primary and secondary drivers. The primary drivers lease medallions, generally own vehicles, and engage secondary drivers to provide 'around the clock' taxi service. Primary drivers then have an arrangement with a taxicab operating company to provide color scheme and dispatch services, but remain generally responsible for all other vehicle maintenance and operation costs.²
- **Daily Gate Drivers:** *These are the non-medallion-holding drivers who drive for an operating company* (that is, drivers without medallions working directly through an operating company). Daily Gate Drivers comprise the majority of all drivers and are estimated to be about 90 percent or more of non-medallion-holding drivers. Daily Gate Drivers are provided with all of the operating companies range of service, from color scheme, dispatch, a vehicle, and maintenance, in exchange for a daily gate fee, which is currently limited to no more than \$91.50 on average. This gate fee cap serves as a protection to drivers who do not possess the economic leverage of owning a medallion. On occasion this type of arrangement may be extended to more than a 10-hour shift, perhaps by the week or month.
- **Long-Term Lease Drivers:** *These are non-medallion primary drivers who generally own a car and may have secondary drivers*³ (that is, primary drivers without medallions). As described for Affiliates above, this arrangement also involves primary and secondary drivers, and taxicab operating companies that provide basic color scheme and dispatch services. These primary drivers perform all the work of the Affiliates, but do not possess medallions. Frequently, Long-term lease drivers have a longer-term arrangement with a company that may include vehicle ownership. Again, payments from secondary drivers do not appear to be subject to the Police Code limit on gate fees because payment is not made to a company; and primary driver payment to the operating company falls well below the gate limit because it

² Maintenance and operation costs are commonly referred to as "gas and gate," although, in actuality, gasoline costs are paid by drivers and not part of the 'gate fee'. Full service including maintenance is distinguished from limited service, which typically includes only basic services like dispatch and color scheme.

³ This appears to be in conflict with the San Francisco Taxicab Commission's Taxicab / Ramped Taxi Rules and Regulations, Section C I, page 8, which states... "Every Medallion Holder and Color Scheme Holder shall limit the layers of medallion or permit leases to three (3) layers (e.g. Medallion Holder to Color Scheme to driver). No Taxicab Driver may lease a permit or medallion, either on a per shift basis or for any term of time from anyone other than the Medallion Permit Holder or the Color Scheme Company under which the permit or medallion is operating."

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does not typically include the full-range of services covered under the daily 'gas and gate' arrangement.

During our attempt to summarize the types of taxicab drivers and the various industry relationships, we found that an easy to understand, uniform model that describes all of the various operating relationships simply did not exist. This may be due to the complex range of operating and contractual combinations between primary drivers, secondary drivers, medallion holders, non-medallion holders and operating companies. Additionally, drivers individually self-select an operating arrangement that best serves them, whether that be through a direct relationship with an operating company or as a secondary driver for some primary driver.

Driver and Operating Company Trends. Medallion-holding status has important implications for drivers. Under the current system, drivers are generally considered to be self-employed. We say "generally considered" because for tax purposes (IRS and FTB), non-employee drivers are considered to be self-employed or independent contractors. However, for worker's compensation and general liability purposes the distinction between entities is less clear. Following the passage of Proposition K in 1978, the drivers shifted from employment status (i.e. being an employee of an operating company) toward self-employment or independent contractor status. At the same time, the number of primary / secondary driver relationships have increased. This has served to further separate any perceived employment relationship between operating companies and drivers, which some may claim has also made more complex adjudication of work-related injuries or driver/company liability exposure, as well as procurement of employee benefits coverage, like health insurance. Additionally, a recent trend toward increasing primary driver vehicle ownership serves to further underscore the nature of the driver being a distinctly separate entity from the operating company.

DISCUSSION

Understanding Long Term Leases. We have found the term "Long-Term Lease" does not have a single, uniform and widely accepted definition. Sections 1135.1(a) and (b) of the Police Code set the gate fee cap at a mean level of \$91.50 for a ten-hour shift, and is prorated for shifts of less than ten hours. On occasion, the gate fee is paid by a driver through a lease arrangement that covers a period beyond one shift, for example one week, one month, etc. To many larger operating companies this is the accepted understanding of "long-term lease." There are also various contractual arrangements between operating companies and primary drivers in which the operating company provides a long-term level of limited support through a written contractual agreement. These contractual agreements generally include color scheme and dispatch services and often involve vehicle ownership. To many primary drivers this arrangement is considered the "long-term lease." In this report, we consider both aspects of the definition and possible policy alternatives.

Long-Term Gate Fee Arrangements. In discussing gate fees with the Taxicab Commission, drivers and taxicab companies, and in reviewing financial submissions of the reporting companies regarding gate fee revenues, our office determined that long-term leases appear to be more common between larger companies and primary drivers, and only occasionally with associates and daily drivers. While the Police Code does not currently regulate limited service, long-term lease fees explicitly, the market has established its own equilibrium price.

We found that long-term lease fees are a multiple of individual shift gate fees and can cover a one-month or one-year period. Often, the gate fee of \$83.50 (i.e., the gate fee limit which was in effect during the companies' last reporting period) generated average company gate fee revenue of approximately \$5,000 per month per medallion. In a 30-day month the sum of daily fees would be \$5,010 (i.e., 30 days x 2 shifts x \$83.50); in a thirty-one day month the sum would amount to \$5,177 (i.e., 31 days x 2 shifts x \$83.50). Based on the assumption that not all shifts are fully booked, companies appear to have a motivation to lease on a monthly basis at a slight discount. According to Henry Kim of the San Francisco Taxi Association long-term discounts "... are generally nominal, in the range of 5% to 10%." While this standard seems to apply generally to drivers dealing directly with the companies, lease terms also depend on the range of services provided by the company.

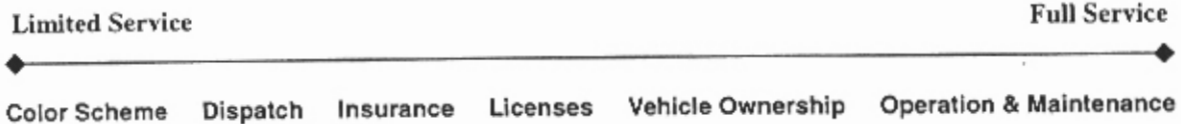
In the case of smaller companies there is little company-reported information. This may occur because the services provided and associated revenues fall below the gate fee cap. Company vehicle ownership, company vehicle repair and other factors such as insurance and workers' compensation (for the period reported) are often excluded from the gate fees for the small company.

Long-Term Company and Primary Driver Arrangements. To date, operating companies have reported and the City has gathered some, but limited information regarding this type of lease arrangement. Existing reporting requirements require financial information to be disclosed by medallion permit holders and operating companies. However, there is no specific requirement to report contractual relationships among companies, medallion holders or drivers at this point.

In general, the current gate provides an upper limit for the industry, but these types of contractual relationships typically involve limited services. Based on our research, we found that monthly leases paid by non-medallion holding primary drivers to operating companies are generally in the \$3,500 per month range. When we asked the various industry principals, most reported that they believed there were a small number, approximately 100 – 250 of these types of contracts now in effect, each of which varied based upon services provided. This would mean that of the 7,800 A-Card holding drivers, between 1 to 3 percent are likely covered under this type of arrangement.

If the City were to cap this type of long-term lease it would also need to codify the various levels of service in the current gate fee structure and may need to apply individual limits for each service component beyond basic color scheme and dispatch services. Below we have identified the continuum of services. *(Note: This chart is provided for illustration purposes only and is not intended to be a comprehensive list of the services being provided.)*

CONTINUUM OF TAXICAB SERVICES



It appears that to effectively regulate long-term leases would also necessitate establishing control over service components and require: (1) a delineation and definition of the component services, (2) a determination of the cap value of each service; and, (3) a possible discount factor for unfilled shifts. Such an undertaking would involve a scope of analysis that extends beyond the limits of this review. To fully undertake such a task would require additional service pricing models to estimate the value of the component parts of a full service gate fee. Additionally, were this to occur additional administrative duties may be required of the Taxi Commission to review prototype lease contracts and to monitor lease fees and service levels.

RESEARCH MATERIALS & RESOURCES

Of the approximately 33 taxicab companies in operation, 17 have filed their latest annual statements.⁴ Of the 33, 12 companies control 1,189 of the 1,381 total issued permits in service. In other words, approximately one-third of the companies control 85 percent of the permits. This concentration of control would also apply to the 7,800 A-Card holding drivers (full- and part-time drivers) who are eligible to drive for operating companies in the same approximate proportion, as well as the estimated population that would have their gate fees capped. For the remaining 21 small companies, only 5 have filed annual reports. It may be that smaller companies have not reported because they provide drivers with less service for lower gate fee charges than the cap would otherwise limit. Thus, the reporting incentive in Ordinance 228-02 to allow an increased gate fee (from \$83.50 to \$91.50) may not impact smaller companies as they remain below the capped level.

FINDINGS & RECOMMENDATION

In general, it would seem that drivers would not enter into long-term leases unless they believed it to be a beneficial arrangement. This would then argue that additional regulation would not be warranted unless the City had evidence of wrongdoing - of which we did not find any claim. However, given the paucity of information pertaining to the subject of long-term leases, we do recommend that a survey of drivers be conducted and have attached a proposed driver survey that could be conducted during the A-Card renewal process in December. This would serve to better estimate just how many drivers are affected by long-term leases and they types of long-term leases.

⁴ Based on Calendar Year 2001 review.

RECOMMENDED NEXT STEPS

1. Remove the current sunset provision pertaining to the gate fee and long-term leases from the Police Code.
2. Direct the Taxi Commission, in coordination with the Tax Collector, to conduct a taxicab driver survey during the upcoming A-Card renewal in December - the proposed survey is attached.
3. Direct the Taxi Commission to file a report summarizing survey responses by the end of February 2004.

In addition to conducting a driver survey, we have outlined the general policy alternatives that the Board of Supervisors could review in the area of the two main categories of long-term leases.

Long-Term Leases under Gate Fee Extension Arrangements:

1. Stay with the status quo. As is, the market appears to be efficiently determining lease fees – market equilibrium, within the context of the cap, appears to be reached as larger operating companies afford drivers slight discounts with the longer-term lease arrangements. The current limit may serve as a full-service market cap, providing reference pricing to contracts not covered by the Police Code and to contracts that provide less than full gate fee services. OR
2. Extend the per shift cap on gate fees to become a long-term fee cap. Using this alternative the Board could extend the gate fee to a daily, monthly, or longer period by simply multiplying the current daily fee to the period the lease is intended to cover. However, it appears the private market already affords a discount as operating companies have some level of unfilled shifts.

Long-Term Leases between Operating Companies and Primary Driver:

1. Stay with the status quo. As is the market appears to be efficiently determining the willingness to drivers to pay for desired services levels with operating companies. OR
2. Address legislation that attributes value to various service components of the gate fee, extending these limits to all contracts among components in the industry. Such legislation could provide protections for all drivers whether they are medallion holders or not, or primary drivers or not. We believe such an approach would need to follow the steps outlined in the discussion above and would involve additional analysis and administrative resources.

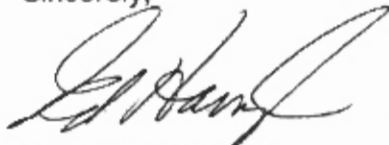
Other Board of Supervisor considerations may also include the following items raised during our research.

The current protections of the Police Code do not appear to be afforded to secondary drivers or medallion holders. In our discussions with Marc Gruberg of the United Taxi Workers, he also pointed out that the focus of gate fee caps should simply be the driver and the shift, without regard to color scheme or medallion relationship. In addressing any legislation which cover various long-term leases, the Board may wish to extend the definition of gate fees to cover payment for services made between primary and secondary driver relationships, as well a company and medallion holder relationships.

Additionally, the primary drivers covered under a lease, who have secondary drivers operating under their lease, may be out of compliance with the Taxi Commission's own regulation. This issue should be reviewed by the Taxi Commission and clarified.

If you have any questions regarding this report, please contact Todd Rydstrom, Director of Budget & Analysis in the Controller's Office, at 554-4809 or Joe Matranga, Senior Financial Analyst, at 554-7569.

Sincerely,



ED HARRINGTON,
Controller

cc: Naomi Little, San Francisco Taxi Commission
Mark Gruberg, United Taxicab Workers
Henry Kim, San Francisco Taxi Association

Attachment: Appendix A: Taxicab Driver Survey, 2 pages

Appendix A

Sample Taxicab Driver Survey

GENERAL DRIVER DEMOGRAPHICS

AGE

- Under 30
 30 to 39
 40 to 49
 50 to 59
 60 or older

GENDER

- Female
 Male

PLACE OF RESIDENCE

- San Francisco
 Peninsula
 East Bay
 North Bay
 Other: _____

ESTIMATED ANNUAL INCOME FROM DRIVING A TAXI

[Take-home pay from driving only, excluding medallion lease fees.]

- Less than \$10,000
 \$10,000 to \$14,999
 \$15,000 to \$19,999
 \$20,000 to \$24,999
 \$25,000 to \$29,999
 \$30,000 to \$34,999
 \$35,000 to \$39,999
 \$40,000 to \$44,999
 \$45,000 to \$49,999
 \$50,000 or greater

DRIVER CHARACTERISTICS

OVER THE PAST 12 MONTHS, HOW MANY HOURS DID YOU DRIVE PER WEEK?

- On average, 10 or fewer hours per week.
 On average, more than 10, but not more than 20 per week.
 On average, more than 20, but not more than 30 per week.
 On average, more than 30, but not more than 40 per week.
 On average, more than 40, but not more than 50 per week.
 On average, more than 50, but not more than 60 per week.
 On average, more than 60 per week.

MEDALLION STATUS

- I am a Medallion Permit Holder.
 I am a non-medallion driver.

IF YOU HOLD A MEDALLION, INDICATE PRE- or POST-K CLASSIFICATION.

- I hold a pre-K medallion.
 I hold a post-K medallion.

DRIVER TYPE

- I am a daily 'gas and gate' driver.
 I am a 'gas and gate' driver, but operate under a weekly or monthly lease.
 I have a long-term lease with a taxi operating company for selected services.
 I drive for someone who has a long-term lease with a taxi operating company.

Appendix A

DRIVER HEALTHCARE NEEDS

HEALTH STATUS: Please indicate your personal health status.

- Excellent
- Good
- Average
- Below Average
- Suffer from chronic illness and require regular medical treatment

HEALTH BENEFITS COVERAGE

- Currently covered through individual insurance
- Currently covered through a spouse or domestic partner's plan
- Not covered
- Other (please explain): _____

IF YOU DO NOT HAVE HEALTH BENEFITS COVERAGE, Why?

- I am healthy and don't believe I need it.
- I cannot afford the cost coverage.
- I was previously denied coverage due to pre-existing condition(s).
- Other (please explain): _____

OVER THE PAST 12 MONTHS, WHERE HAVE YOU RECEIVED MEDICAL CARE?

- City & County Public Health Clinics and/or San Francisco General Hospital
- I have other coverage so I went to my covered providers.
- I did not seek any medical care in over the last 12 months.
- Other (please explain): _____

ASSUMING HEALTH INSURANCE COSTS \$200 MONTHLY, INDICATE YOUR WILLINGNESS / ABILITY TO PAY.

- up to 100% or \$200 per month.
- up to 90% or \$180 per month.
- up to 80% or \$160 per month.
- up to 70% or \$140 per month.
- up to 60% or \$120 per month.
- up to 50% or \$100 per month.
- up to 40% or \$80 per month.
- up to 30% or \$60 per month.
- up to 20% or \$40 per month.
- up to 10% or \$20 per month.
- I am not willing/able to pay for any portion of the cost.

ASSUMING YOUR WILLINGNESS/ABILITY TO PAY ABOVE, WOULD YOU PARTICIPATE IN A VOLUNTARY HEALTH INSURANCE PROGRAM?

- Yes
- No

TAXICAB CUSTOMER DEMAND CHARACTERISTICS

OVER THE PAST 12 MONTHS, ESTIMATE YOUR CUSTOMER BASE.

- % are Airport Customers
- % are Visiting Tourists (Non-Convention Goers)
- % are Visiting Convention Goers
- % are Business Travelers
- % are Paratransit Customers
- % are Other Local, Non-Paratransit Customers
- % are Other [please explain]: _____

100 % Total Customers

OVER THE PAST 12 MONTHS, ESTIMATE YOUR CUSTOMER DEMAND...

Based on a typical 10-hour shift, how many fares did you have?

- More than 20 fares per typical 10-hour shift
- 20 fares per 10-hour shift
- 19 fares per 10-hour shift
- 18 fares per 10-hour shift
- 17 fares per 10-hour shift
- 16 fares per 10-hour shift
- 15 fares per 10-hour shift
- 11 to 14 fares per 10-hour shift
- 10 fares or less per 10-hour shift

OVER THE PAST 12 MONTHS, ESTIMATE YOUR AVERAGE FARE...

- \$20 or greater
- \$19 to \$19.99
- \$18 to \$18.99
- \$17 to \$17.99
- \$16 to \$16.99
- \$15 to \$15.99
- \$14 to \$14.99
- \$13 to \$13.99
- \$12 to \$12.99
- \$11 to \$11.99
- \$10 to \$10.99
- \$9 to \$9.99
- \$8 to \$8.99
- \$7 to \$7.99
- \$6 to \$6.99
- \$5.99 or less