

PROPOSED FARE AND LEASE CAP RULES

July 9, 2012

Overview of proposed fare and lease cap rules

Proposed rules will increase the rate of fare, increase fleet lease caps to offset cost shifts, and increase DOV lease caps to better reflect costs of different industry segments.

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□ Rate of fare

- The average fare would increase 17%; the unit charge (for each 1/5 mile traveled, or each 60 seconds in stopped or slow traffic) would be increased by \$0.10 from \$0.40 to \$0.50.
- Fares between JFK and Manhattan will increase to \$52 plus tolls, and the Newark airport surcharge will increase from \$15 to \$17.50.
- Set-aside for driver healthcare: to provide healthcare services (plan navigation and enrollment) and disability coverage, \$0.06 from each trip will be deposited into a fund.

□ Fleet lease caps

- Increase lease caps to offset shift of credit card processing costs to medallion owners, and implement an optional lease cap gas surcharge where fleets choose to provide gas to drivers.

□ DOV lease caps

- Increase current medallion-only lease cap and create a new “all-in” medallion-and-vehicle rate to better reflect current practices, and to put DOV agents on comparable footing to fleet operators.

Rate of fare: governing law and considerations

The Commission is authorized to review and set the rate of fare for taxicab service in the City; by Section 2304 of the City Charter and detailed in Section 52-04 of the TLC rules.

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Section 2304. Rates.

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c. In determining the rates of fare, the commission may consider all facts which in its judgment have a bearing on a proper determination, with due regard among other things to the time and distance of travel, to the character of the service provided, to the gross revenues derived from operation, to the net return derived from operation, to the expenses of operation including the income of drivers or operators, to the return upon capital actually expended and the necessity of making reservations out of income for surplus and contingencies, to the number of passengers transported, to the effect of fares upon the public and in relation to the fares for other forms of public transportation, and to the fares and practices with respect to similar services in other cities of the United States.

d. No determination by the commission changing the rates of fare shall be made except after a public hearing before the commission, at which evidence shall be taken.

e. At any public hearing involving a change in the rates of fare, the burden of proof to show that existing rates are not reasonable shall be upon such segment of the business or industry affected by this chapter as is involved in the change of rates.

Section 52-04. General powers of the commission.

(c) *Powers and Duties with Respect to Rate-Setting.*

- (1) The Commission will have the power and duty to set and enforce rates of fare to be charged and collected.
- (2) The Commission will prescribe, revise and regulate reasonable rates of fare that may be charged and collected for each type of service rendered.
- (3) **In determining rates of fare, the Commission may consider all relevant facts, including the following:**
 - (i) **The time and distance of travel;**
 - (ii) **The character of the service provided;**
 - (iii) **The gross revenues derived from operation;**
 - (iv) **The net return derived from operation;**
 - (v) **The expenses of operation including the income of drivers or operators;**
 - (vi) **The return upon capital actually expended and the need to reserve some income for surplus and contingencies;**
 - (vii) **The number of passengers transported;**
 - (viii) **The effect of fares on the public and in relation to the fares for other forms of public transportation;**
 - (ix) **The fares and practices with respect to similar services in other cities of the United States.**
- (4) The Commission may not change the rates of fare except after holding a public hearing at which evidence will be taken and considered.

Lease caps: governing law

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□ **Section 58-21. Leasing a taxicab or medallion.**

(d) *Commission Review and Change of Lease Caps.* The Commission can make changes to the lease caps as a response to policy needs or in conjunction with its regular two-year review, as follows:

(1) The Commission can initiate lease cap changes at any time, **if the Commission believes that policy considerations require changes to be made.**

(2) During March of each even-numbered year, the Commission will hold a public hearing and solicit written comment as to **operating expenses, driver earnings, the retention of experienced drivers in the Taxicab industry, and other matters relevant to the setting of lease caps,** for purposes of considering changes to the Standard Lease Caps.

Driver income has declined 15% since the last fare increase

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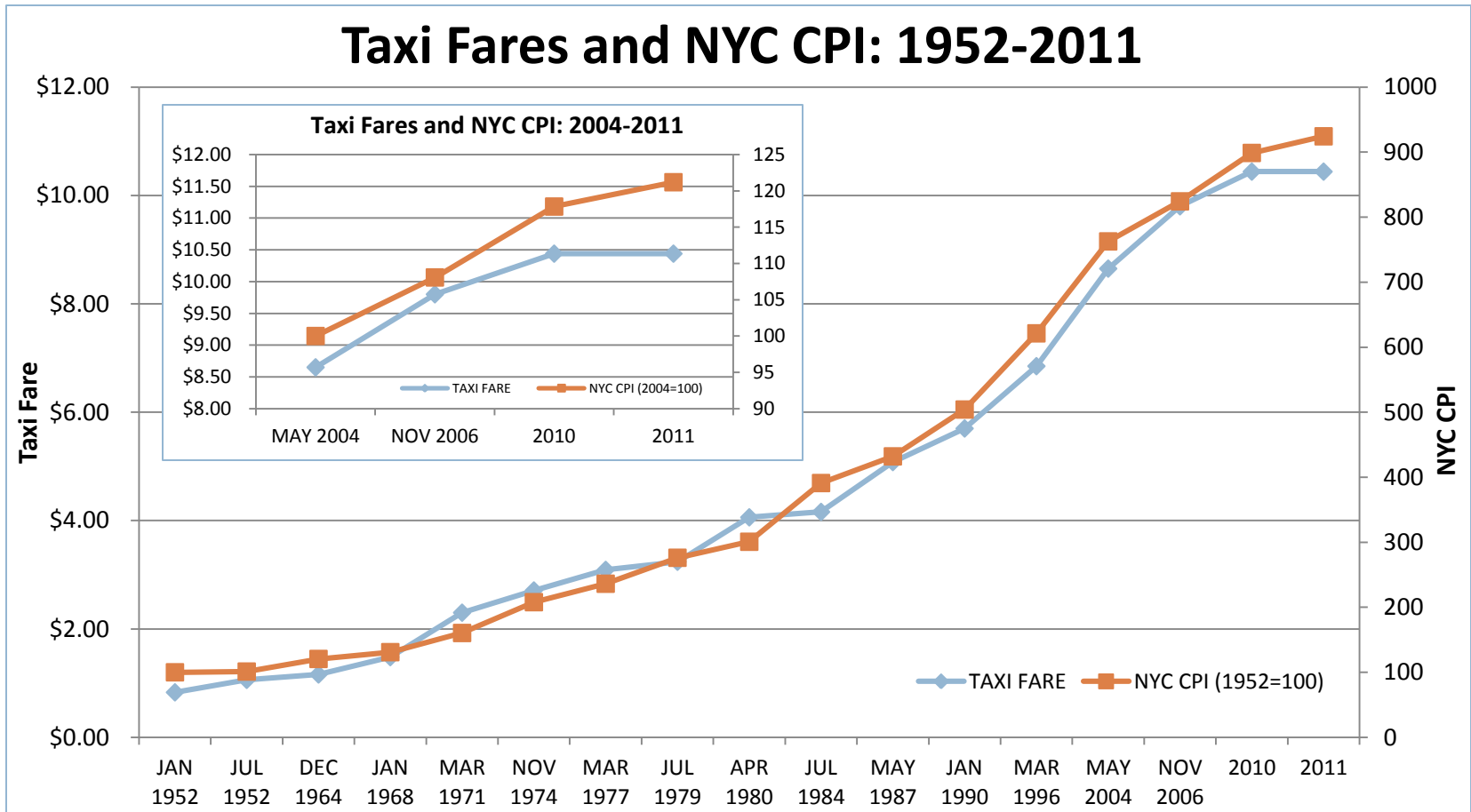
- **Gas prices:** The average price for a gallon of gas was \$3.90 in March 2012, compared to \$2.69 in 2006 – a 45% increase. Monthly costs for gas have increased from \$500 in 2006, to \$800 today.
- **Credit card costs:** Drivers must pay up to 5% of all credit card fares for processing fees. As credit card usage has increased, this has become a large expense for drivers.

	2006	2012
Fares and tips	\$289	\$289
TOTAL REVENUE	\$289	\$289
Lease	(\$113)	(\$113)
Sales tax	\$0	(\$5)
Gas	(\$29)	(\$38)
Credit card fees	\$0	(\$8)
TOTAL EXPENSES	(\$142)	(\$164)
NET DRIVER INCOME	\$147	\$125
Change from 2006		-15%

Inflation has (and will continue to) erode real driver earnings

Historically, taxi fares have very closely tracked the consumer price index. However, since the last fare increase in 2006, CPI has outpaced taxi fares.

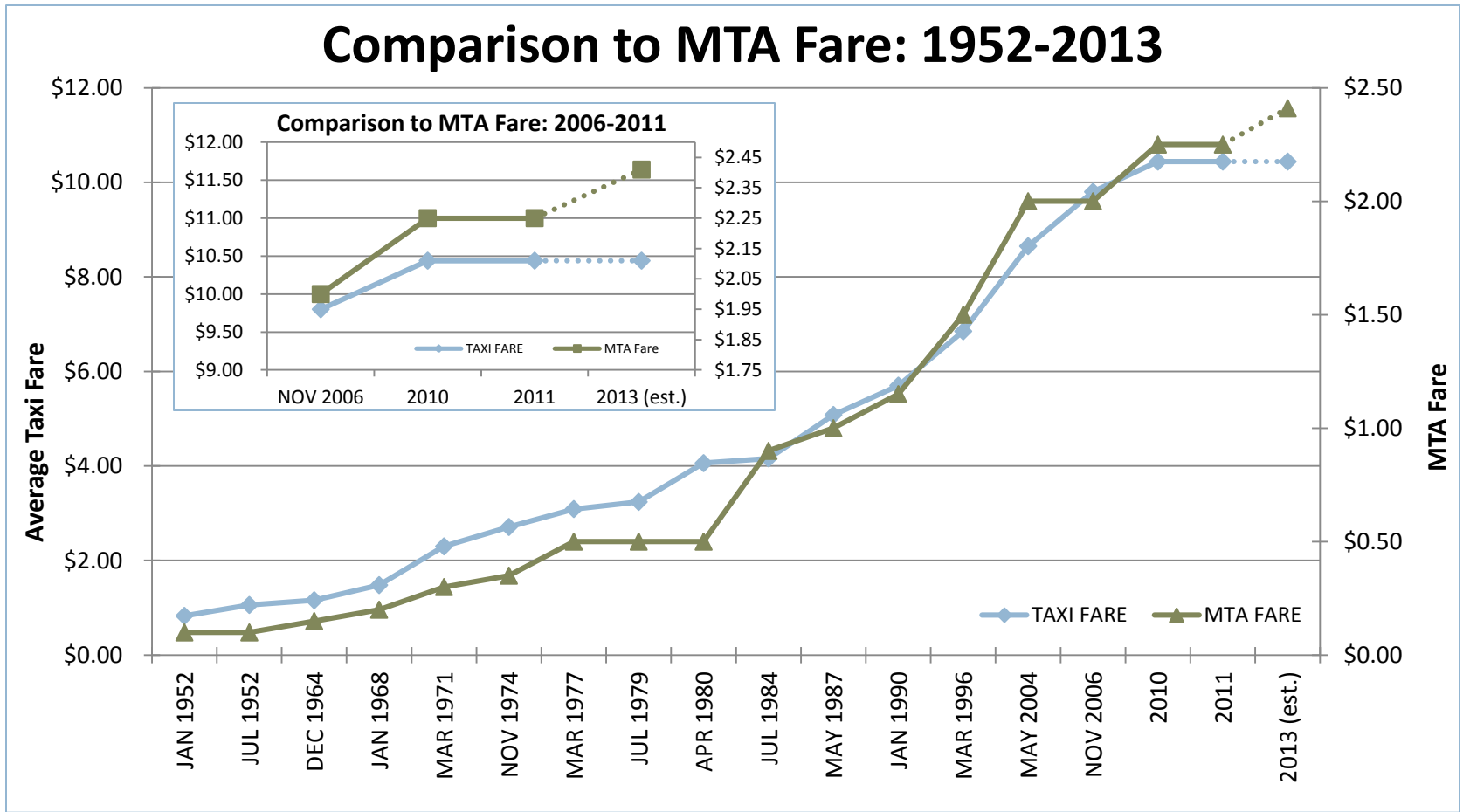
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Other transportation costs have risen

MTA fare is a key benchmark for taxi fares. Recent (and upcoming) MTA fare increases have outpaced taxi fares.

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Other costs have risen over this period

Like CPI and MTA fares, costs for other goods and services have risen since 2006. Just as these consumer goods have increased in price, it is also reasonable to expect that the cost of taxis may increase.

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Prices - 2006 and today

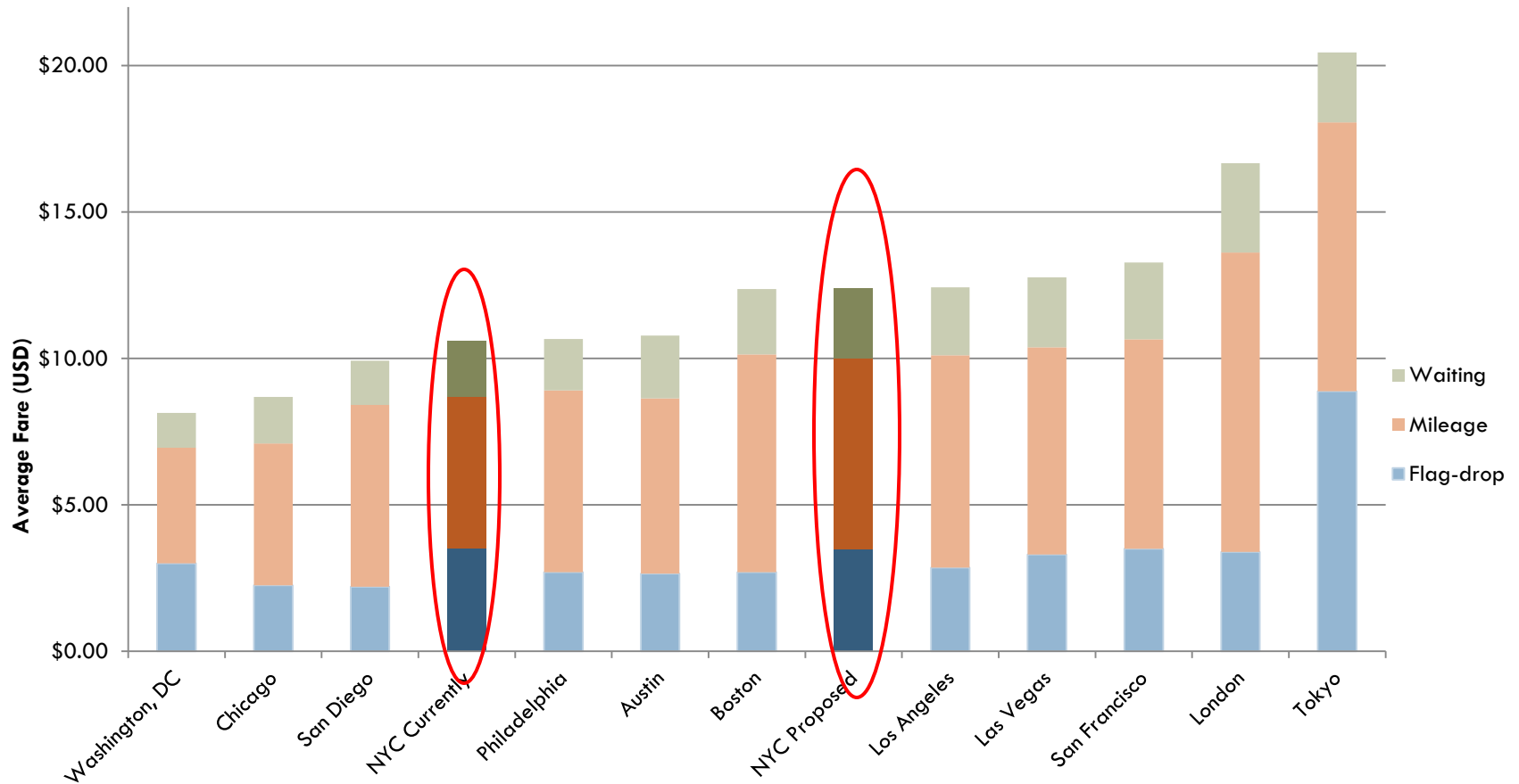
	2006	2012	Percent Change
Pound of ground beef	\$2.61	\$3.37	+29%
Loaf of bread	\$1.05	\$1.44	+37%
Movie ticket	\$6.55	\$7.92	+21%
Gas (gallon)	\$2.70	\$3.90	+44%
Proposed taxi fares	\$9.91	\$11.97*	+21%*

*Note: Includes MTA fifty-cent surcharge enacted in 2009. This amount does not add to driver income.

Taxi fares in comparison cities

(Calculated using typical NYC trip: 2.8 miles traveled and 4.77 minutes waiting time; weekday at 5:00pm)

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Fleet profits

At the May 31 lease cap hearing, MTBOT presented estimates of fleet revenue and expenses per medallion. Based on additional data available to it, TLC staff has also estimated fleet profits.

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MTBOT Estimates

Lease Income	\$82,525
(less 7% loss shifts)	\$5,775
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TOTAL REVENUE	\$76,750
Liability Insurance	\$12,000
Workers' Compensation	\$2,000
Medallion Licensing	\$2,000
Vehicle Purchase	\$10,000
Vehicle Maintenance	\$13,000
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TOTAL EXPENSES	\$39,000
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NET INCOME	\$37,750
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TLC Estimates

Lease Income	\$82,525
(less 7% loss shifts)	\$5,775
Advertising revenue	\$1,000
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TOTAL REVENUE	\$77,750
Liability Insurance	\$12,000
Workers' Compensation	\$2,000
Medallion Licensing	\$2,000
Vehicle Purchase	\$5,100
Vehicle Maintenance	\$8,000
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TOTAL EXPENSES	\$29,100
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NET INCOME	\$48,650
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Fleet operation – competitive rate of return

	Medallion (w/ cap. app.)	Medallion (w/o cap. app.)	S&P 500	DJI Corporate Bond Index
Principal	\$313,731	\$313,731	\$313,731	\$380,939*
Capital Appreciation	\$696,983	\$0	\$112,912	\$43,514
Dividends/Operating Income	\$296,000	\$296,000	\$55,938	\$0
Total Gains	\$992,983	\$296,000	\$168,850	\$43,514
Percentage Gain	316.5%	94.3%	53.8%	11.4%
Annualized Gain	19.5%	8.5%	3.9%	1.7%

*Note: The DJI Corporate Bond Index only began in 2006; therefore ROI is calculated based upon the medallion purchase price from that year.

Credit card processing

Proposed rules raise lease caps to change the way in which fleets/agents collect credit card processing fees.

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- Credit card processing
 - ▣ Drivers currently pay 5% to fleets on each credit card fare. (currently approximately \$7.50 per shift)
 - ▣ Given the overwhelming use of credit cards, this has been an increased cost for drivers.
 - ▣ Staff proposes adding \$9 (estimated using current credit usage rate and increased fare) to the lease cap to cover processing fees instead of drivers paying 5% on each credit card fare.
 - ▣ This provides opportunities for additional fleet revenue by negotiating lower processing fees.
 - ▣ Reduces (and hopefully eliminates) driver reluctance to accept credit cards.

Optional fleet gas surcharge

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- **Optional gas surcharge**
 - Gas is a driver's second highest cost (after the lease payment).
 - Gas prices fluctuate frequently and make it difficult for drivers to predict and plan for costs.
 - Staff proposes to shift burden of fuel and add a \$21 lease cap surcharge (at the fleet's option) that will be adjusted every six months for changing prices.

When the Index is:	The surcharge will be:
\$2.49 or less	\$13 per shift (or \$78 per week)
\$2.50 to \$2.99	\$16 per shift (or \$96 per week)
\$3.00 to \$3.49	\$18 per shift (or \$108 per week)
\$3.50 to \$3.99	\$21 per shift (or \$126 per week)
\$4.00 to \$4.49	\$23 per shift (or 138 per week)
\$4.50 to \$4.99	\$26 per shift (or \$156 per week)
\$5.00 or more	\$28 per shift (or \$168 per week)

Revised lease caps

Medallion and Vehicle Leases

		Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Weekly
AM	Current	\$105	\$105	\$105	\$105	\$105	\$105	\$105	\$666
	+Credit Card	\$114	\$114	\$114	\$114	\$114	\$114	\$114	\$684
	+Gas	\$135	\$135	\$135	\$135	\$135	\$135	\$135	\$810
PM	Current	\$115	\$115	\$120	\$129	\$129	\$129	\$115	\$666
	+Credit Card	\$124	\$124	\$129	\$138	\$138	\$138	\$128	\$791
	+Gas	\$145	\$145	\$150	\$159	\$159	\$159	\$145	\$917

- **Weekly lease caps** -- the weekly lease cap rate will be the most that a fleet can charge an individual driver over any consecutive seven-day period. This will assure that drivers get the reduced rate for weekly leases and provide a better enforcement mechanism for the agency.

DOV lease caps

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Maximum Fleet Charge (14 shifts)		\$1,713
Fleet Costs	Cost of dispatch operation	(\$338)
	Routine vehicle maintenance	
	Non-utilization cost	
	Vehicle fees and taxes	
DOV Medallion-and-Vehicle Lease Cap		\$1,375
Vehicle Costs	Vehicle purchase	(\$350)
	Repairs/collision insurance	
DOV Medallion-Only Lease Cap		\$1,025