



REGULATING SF TAXI CABS



Regulations

There are two basic types of regulations in a utility setting

- ❖ Non-economic rules and regulations such as are currently being considered in the “Draft SFMTA Motor Vehicles for Hire Regulations,” and
- ❖ Economic regulations relating to ratemaking and cost recovery
- ❖ These slides pertain to making and implementing economic rules based on cost recovery (revenue requirement) and optimal economic allocation of industry resources



Summary History of SF Taxicab Economic Regulation

- Pre 1978 Proposition K – Basically unregulated from an economic view point
- Post 1978 Proposition K - Regulated particularly as to transfers, ownership limitations, driving requirements, and a queue-system for allocating medallions by City
- Fares regulated
- 1997 Mayor Brown creates Taxi Taskforce
- 1998 Taxi Commission created by ballot measure
- December 1998 in Ordinance No.362-98 regulated mean gate cap. Initially set at \$83.50. CPI
- Ordinance 228-02 mandated that the Controller in every even year make adjustments to the mean gate cap based on the CPI.
- CPI adjustments not made. Legislative intervention. & legal challenges Three main cab companies lost approximately \$30 MM on regulated gate vs. gate set automatically by CPI adjustment (1978-2006)



Organization of this Presentation

- Where has the taxicab regulation been
- Where is it today
- Where should it go now that Proposition A has vested complete power in the SFMTA to rewrite all taxicab regulations and rules? Return to pre-K? A CPUC type system? Other?
 - Non economic rules and regulations
 - Economic rules and regulations and a deterministic, transparent system for setting gates and fares and also establishing an auction system (not considered in this presentation)



Pre-Proposition K

Pre-Proposition K 1978

- | New taxicab permits issued when Police Commissions says they are needed
- | The fee for a new permit was \$7,500 (\$2008/\$24,435)
- | Permits could be freely sold from one person or company to another whatever price they agreed on
- | Any exchange required that the City receive a \$1,000 transfer fee (\$2008/\$3,258)
- | Permits were trading privately for approximately \$10,000 (\$2008/\$32,580)
- | By 1978 over 700 permits were out and no new permits were being issued.



Immediate Post K

Exit/Entry/Resource immobility/More Restrictive

Proposition K 1978 Charter Amendment

- | Forbid transferring of taxicab permits from one party to another
- | The Police Commission would set the amount of permit fees and hold hearings on applications for permits
- | New permits would be required for all taxicabs including those being operated under the old permits
- | Present owners were given a preference for new permits, but have to exchange their permits within 60 days
- | No permits could be bought and sold privately
- | Permits would belong to the City and County
- | Preference for new permits would go to anyone who had been a taxicab driver for one straight year within the past three years
- | Once the current permits had been exchanged, new permits would only be issued to individuals, not companies
- | The permit could be revoked if more than 10 percent of a taxi company's stock is sold or transferred
- | Owners would be required to keep specific financial records.



E. Summary of San Francisco Regulatory System

Figure 4
Current and Suggested Taxicab Regulator Review

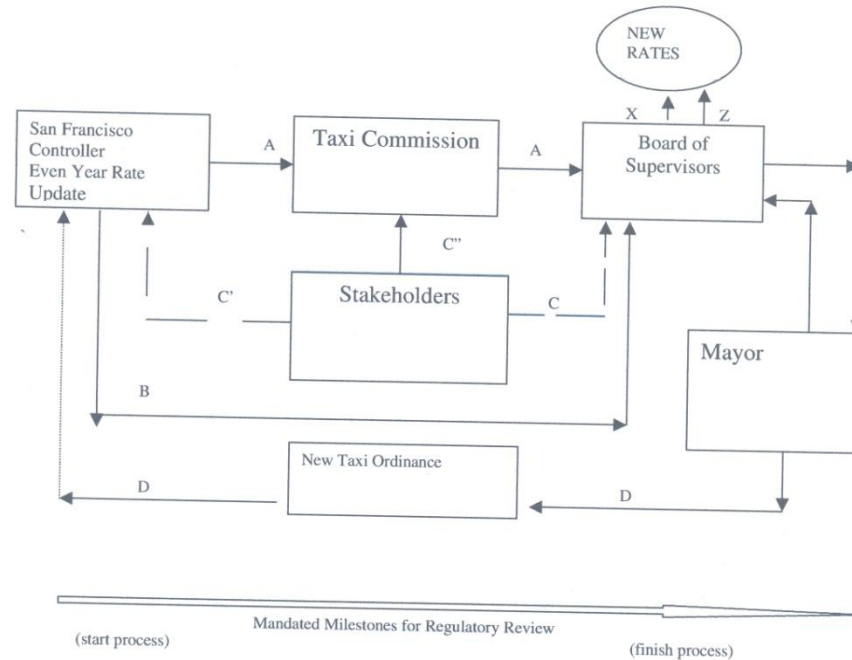


Figure 4 summarizes the current process and highlights possible ways to improve it. It shows the current every-even-year mean gate adjustment process. The main participants in the regulatory process are the Controller, Taxi Commission, Board of Supervisors, and stakeholders. The stakeholders include the public, medallion holders, drivers, taxi companies, and any other interested party.

Revenue Differences, Capitalized at Percent -- If Gate Caps Kept Up With CPI – Regulatory Lag

Regulatory Lag at 6 percent capitalization

	Yellow \$ Cap. Value	Luxor \$ Cap Value	Desoto \$ Cap Value	Total of 3 Full Service Cabs
1999	\$799,500.40	\$314,557.53	\$196,598.46	\$1,310,656.39
2000	\$1,934,320.05	\$761,043.95	\$475,652.47	\$3,171,016.47
2001	\$3,421,228.48	\$1,346,057.11	\$841,285.69	\$5,608,571.27
2002	\$3,752,705.04	\$1,476,474.11	\$922,796.32	\$6,151,975.47
2003	\$2,513,120.86	\$988,768.86	\$617,980.54	\$4,119,870.26
2004	\$2,361,364.09	\$929,061.28	\$580,663.30	\$3,871,088.67
2005	\$2,718,526.44	\$1,069,584.17	\$668,490.11	\$4,456,600.72
2006	\$3,288,641.14	\$1,293,891.60	\$808,682.25	\$5,391,214.98
2007	\$2,994,336.59	\$1,178,099.64	\$736,312.28	\$4,908,748.51
Total Cap. Val Reg. Lag	\$23,783,743.07	\$9,357,538.26	\$5,848,461.41	\$38,989,742.73



The Current Implosive and Indeterminate Nature of The SF Taxicab Economic Regulatory System

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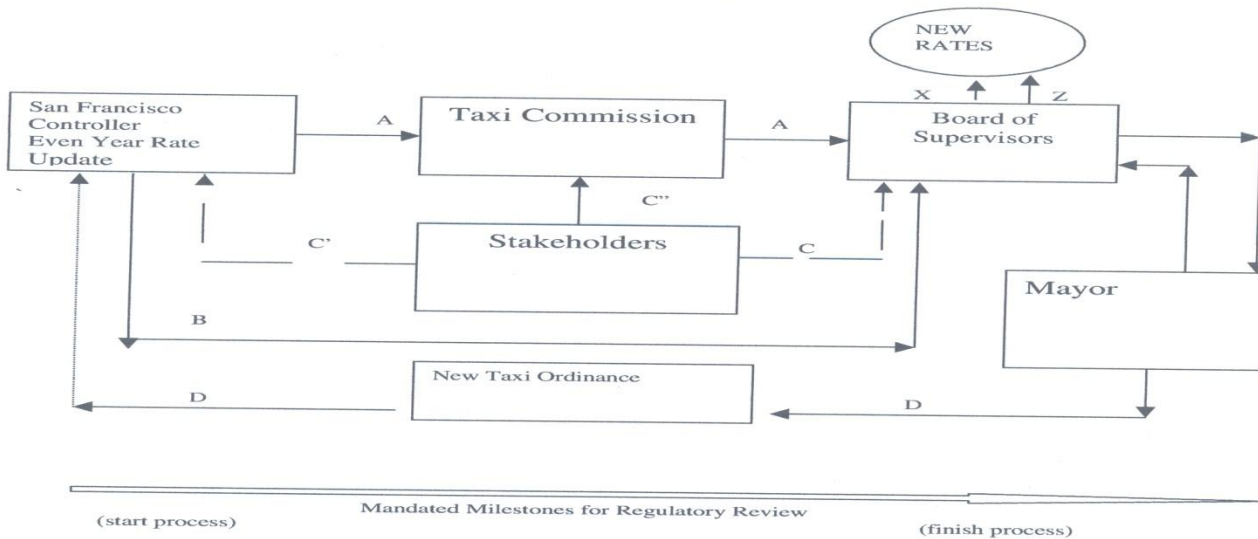


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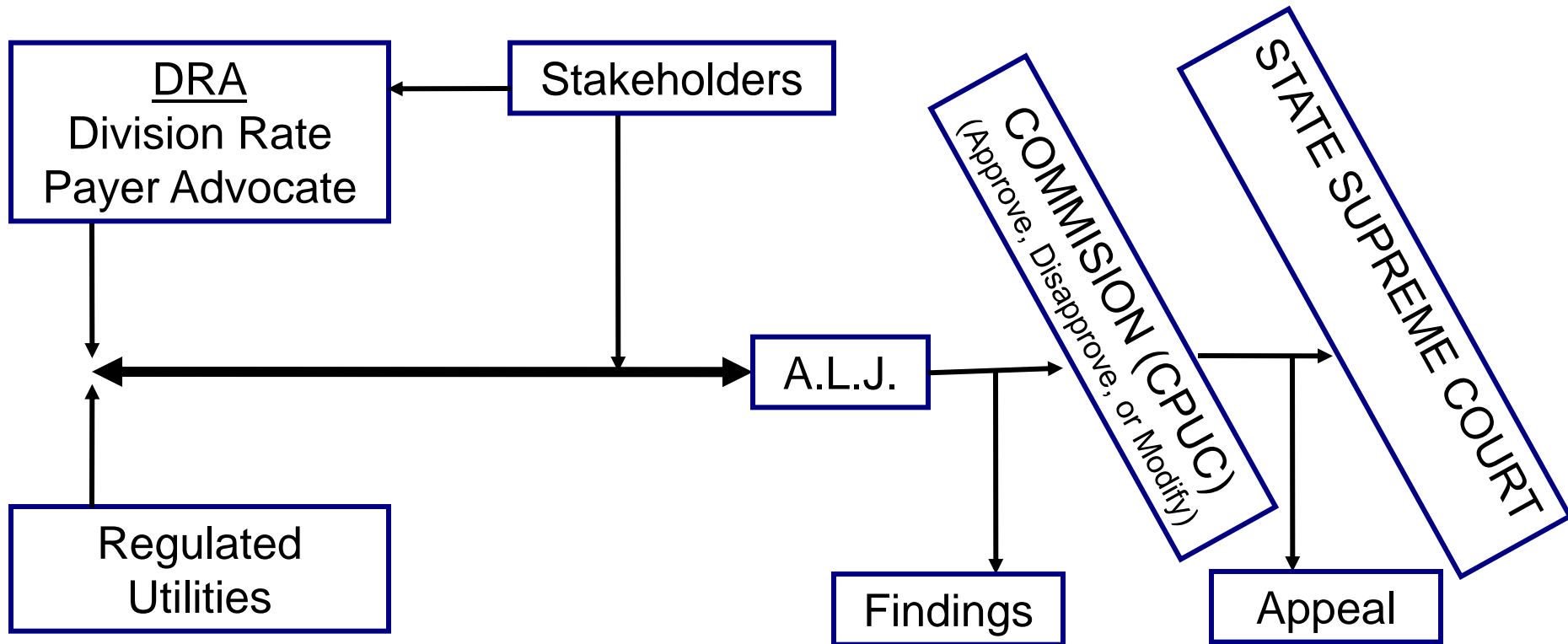


Negative Economic Impacts of Current Economic System

- Indeterminate and discretionary – Investment expectations by all industry participants (human and non-human capital decisions) uncertain
- No formal regulatory process with well defined benchmarks (actions), milestones (time constraints), and formula-approach for rate making (fares and gates), based on setting revenues equal to reasonable and allowable costs exist in SF.
- Application of the CPI must be non-discretionary.
- Regulatory lag, over politicization, and opportunistic law suits are endemic to the current system.
- These explicit and implicit costs are internalized by owners, drivers, and medallion holders
- A better system based on how the California Public Utilities Commission (CPUC) regulate investor owned utilities in California.



GENERAL RATE CASE



SET PERIOD FOR PROCESS TO RESOLVE

("X" WEEKS / MONTHS)

"A Process that Yields an Outcome"



A California Public Utilities Commissions (CPUC) Type System Required

with:

- BENCHMARKS
- MILESTONES
- TRANSPARENT
- NON-DISCRETIONARY
- “FORMULA APPROACH”

- Revenues Must Cover Allowed And Reasonable Costs Including Return On Investment
- Rate Design Must Be Fair
- Regulatory Lag Eliminated
- Incremental Annual Increases To Avoid Past Inertia, CPI, PPI, ETC.



CPUC RATEMAKING

REVENUES = ALLOWABLE COST & ROI

$$R = O + D + T + rB$$

R = Revenues Required

O = O & M COSTS

D = Depreciation

T = Taxes

r = Rate of Return = Weighted Average Cost of Capital

B = Rate Base = Historical Cost less Accumulated Depreciation
+ Working Capital (other.)



CPUC RATE DESIGN

- FIXED CHARGES
- COMMODITY CHARGES

➤ CABS (FARES)

FIXED = FARE FLAG DROP

COMMODITY = MILES/MINUTES

➤ CAB GATES

JUST A FIXED RATE CHARGE



ESTIMATE THE WEIGHTED COST OF CAPITAL(WACC) IN A REGULATORY SETTING

	Percent	<u>Capital Cost</u>
DEBT CAPITAL = 4,000,000	40%	4%
EQUITY CAPITAL = 6,000,000	60%	6%
Total Capital (Debt + Equity)		\$10,000,000,

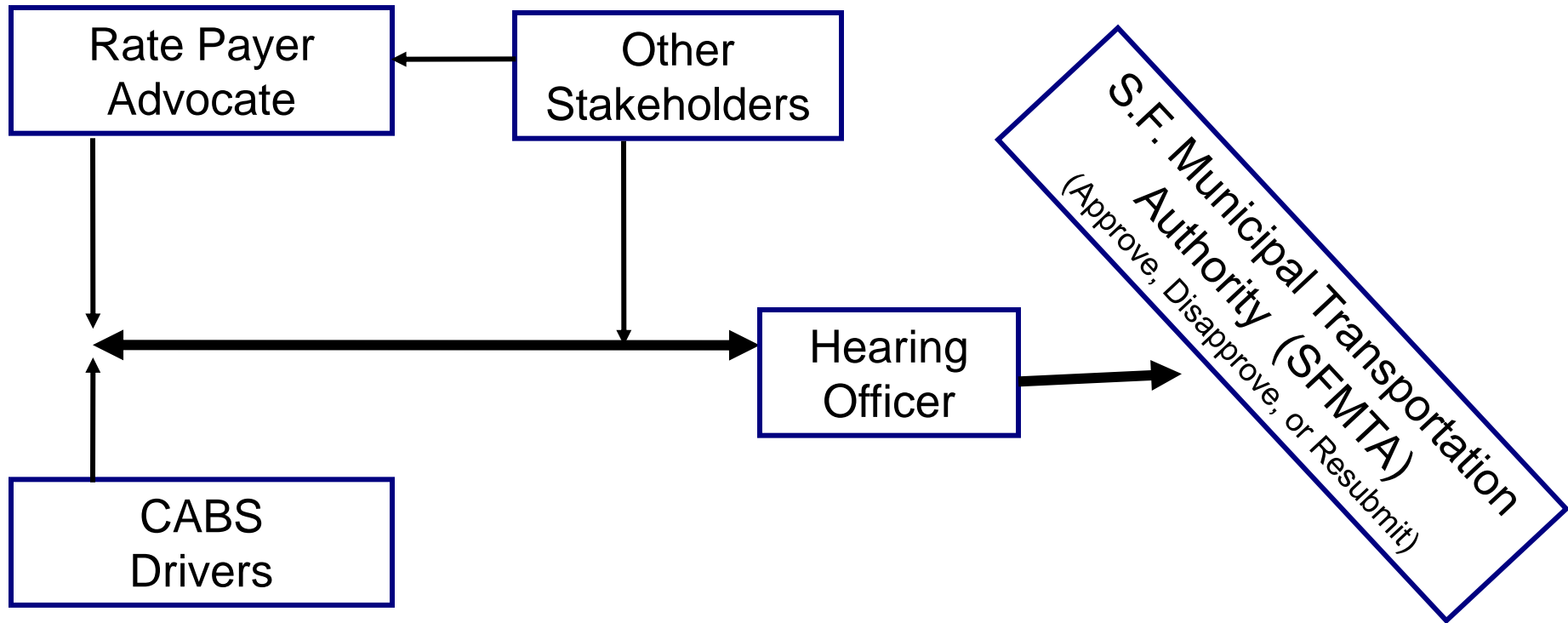
Example calculation: WACC

$$.4 \times 0.4 + .6 \times .06$$

$$1.6 \% + 3.6\% = 5.2\% = \text{WACC}$$



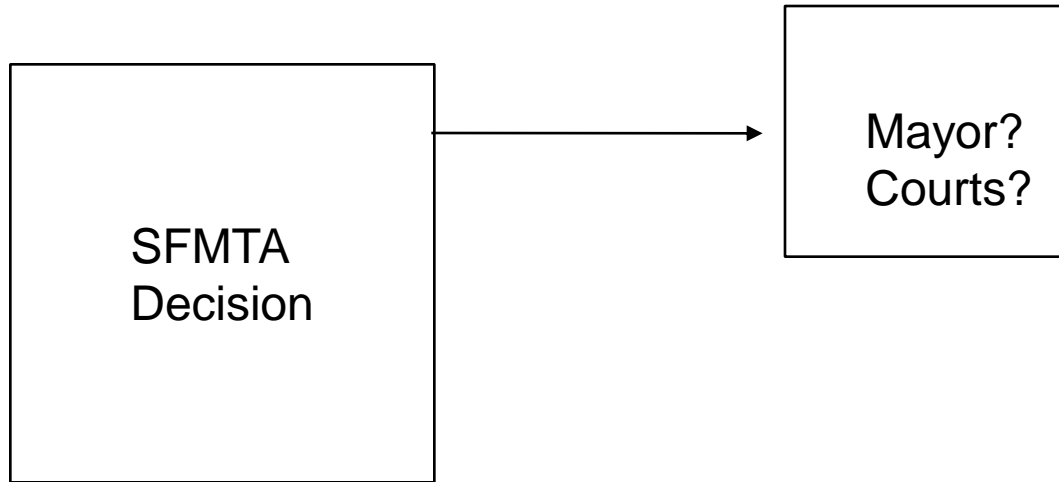
SAN FRANCISCO TAXI REGULATORY SYSTEM BASED ON CPUC MODEL



Clearly established bench marks (filing requirements) and milestones (time) for regulatory process to resolve (“X” weeks/months)



Appeal Process



Note:
CPUC decisions may only be appealed to the
Supreme Court of California



Next Chapter

- Auctions
- Find attached taxicab economic studies

