

Richard A. Briesch, PhD
Professor of Marketing
Corrigan Research Professor
Research Fellow, National Center for Arts Research
Cox School of Business, SMU
(972) 275-6180

August 11, 2014

TO: Interested Parties

FM: Dr. Richard Briesch, PhD
Professor of Marketing
Cox School of Business
Southern Methodist University

RE: Research on the Implications of Regulatory Change to the "Transportation for Hire" Industry in North Texas

As the Dallas City Council and City officials consider changes to the City's regulation of the taxicab, limousine and car service industry, it's important to take a broad view of the value of these private services as an extension of our public transportation system in North Texas, and the implication of changing the regulatory environment to accommodate new entries into the marketplace.

Dallas is in a unique position to be able to review other U.S. cities' new regulations as they are facing nearly identical concerns over the Transportation for Hire (TFH) industry. Seattle, San Francisco, New York and other major cities are testing, measuring and working through concerns to insure public safety is paramount with the new entries into the TFH industry. This report highlights those efforts. In every major market, creating a competitive level-playing field for all TFH participants is critical to insuring:

- Safe, quality services
- Affordable rates
- Access for all sectors of our community
- Clean, reliable vehicles
- Reasonable profits for companies and drivers.

We believe the research report ***Transportation for Hire in North Texas: What Are the Regulatory Tradeoffs?*** is important to the public discussion and decision making process. The issues addressed in this study are:

1. The TFH industry has a significant economic impact on North Texas communities – an estimated \$682.9 million this year alone, affecting a \$13 billion hotel and tourism industry. *What effect will regulatory change in the TFH industry have on an essential sector of our local economy?*
2. Taxicab companies are an extension of Dallas' public transportation system and required by regulation to provide 24/7 services to all parts of the City including "transportation disadvantaged" riders (disabled, poor, minority and elderly) at a cost fixed by the City. *What impact will regulatory change have on the companies that serve this community and the riders who are dependent on these services?*

3. Ride Share companies are not currently regulated and operate at a considerable cost advantage that allows for predatory pricing and price gouging. These privately-owned, unmarked vehicles and their insurance coverage have been controversial issues in every major market where these companies operate. *Is it desirable to have Ride Share operators provide the same level of insurance and visibility as other TFH operators?*
4. If regulators want to continue to insure accessible, affordable private transportation services to all sectors of the City, they must find a way to balance the need for companies to make reasonable profits with riders' needs for affordable, reliable service. *How can regulators create a balanced environment that allows the entry of new Ride Share operators, meets the community's needs, and avoids creating conditions that harm taxicab, limo and shuttle businesses?*

Conclusions:

- A regulated TFH business is important to a healthy local economy. Regulations that allow open entry and/or deregulated prices could cause severe problems for the taxi-stand business. Market failure in this TFH sector will create customer dissatisfaction, resulting in harm to tourism, convention and hotel industries.
- It should be the goal of regulators to create a fair market where all companies are able to compete under the same regulations. Insurance requirements must be uniform for all TFH operators including Ride Share drivers and operators. Inconsistent insurance requirements create cost advantages and disadvantages, and are a significant public safety issue.
- Regulatory changes should insure that underserved neighborhoods and disadvantaged riders continue to be served. Providers must be able to recoup the cost of providing these services. Ride Share providers, because they are currently unregulated, are not saddled with these costs and selectively serve a more profitable market. This discrepancy needs to be addressed by regulators to insure a healthy, competitive industry and a well-served community.

We believe that ***Transportation for Hire in North Texas: What Are the Regulatory Tradeoffs?*** is a careful look at the new regulatory challenges for a changing private transportation industry. We offer this report, its findings and our market expertise to help in this effort. I'm happy to offer my advice and services.

Sincerely,

DocuSigned by:

Richard D Briesch, PhD

006945466C744BB...

Dr. Richard Briesch, PhD

Transportation for Hire in North Texas: What Are the Regulatory Tradeoffs?

July 31, 2014

By Richard A. Briesch, PhD
Professor of Marketing
Cox School of Business
Southern Methodist University

Derek Grubs
Daryl Rush, Jr.
Kartik Rathore

Editing provided by
Chong Kim

EXTENDED SUMMARY

This study provides background on the Transportation for Hire (TFH) industry in North Texas regarding the current companies, new entrants, and how regulatory objectives are currently being met. In addition, some of the tradeoffs facing regulators are provided. The impetus for this report is the fact that ride-sharing companies (e.g., Uber and Lyft) have entered the market and started providing services, and regulators are struggling on how to respond with appropriate regulations.

The underlying themes of this study are:

1. All companies within an industry should face the same regulations to promote fair competition. Specifically, if ride-share companies want to operate like limo and/or shared shuttle companies, then they should be subject to the same regulations. Similarly, if ride-share companies want to operate like taxi companies, then they should be subject to the same regulations that incumbent taxi companies face. We do not find this position to be unreasonable or overly burdensome to ride-share companies, as they do follow the regulations in New York.
2. Ride Share companies place new and special burdens on regulators. Because the drivers use their own private vehicles, they may not have special colors, brands, or other indicators that they are TFH vehicles. From a regulatory standpoint, how can the vehicles/drivers be identified without data from the companies?
3. Because ride-share companies, like Uber, do not follow local regulations, they have a competitive advantage in the market-place that allow them to perform "predatory pricing" – where they can price below incumbent firms, and the incumbent firms cannot respond due to the fact that they follow local regulations.
4. An assumption of opening the markets to new competitors is that they will provide a wider variety of services, give consumers more options and ultimately provide price competition which increases consumer welfare. However, there are markets where the opposite result occurs (called "Market Failures" by economists): increased prices and poorer service. Regulator intervention is one way to correct for these market failures and this paper explores the reasons for market failures in this industry.
5. Currently in Dallas, taxi-cab companies are treated as an extension of the public transportation system providing service 24 hours a day/7 days a week to all parts of the city. This treatment provides affordable transportation to many parts of the city which are "transportation disadvantaged", e.g., poor, disabled, minority and elderly residents. If regulators want to continue this service, how do they balance the companies need to make reasonable profits, with the residents need for affordable and reliable service?

SIGNIFICANT REGIONAL ECONOMIC IMPACT

The TFH industry has a significant economic impact on communities in North Texas and requires careful consideration in regards to regulation. The TFH industry will contribute an estimated \$682.9 million in economic impact this year alone. Further, the industry is the first exposure many visitors have to North Texas upon arriving. Tourism will have an estimated \$13 billion economic impact in North Texas this year impacting more than 116,000 jobs.

Four distinct types of operators serve the TFH industry in the North Texas area:

1. Taxi-Cabs: driver serviced vehicle carrying individuals or groups of passengers, often for a non-shared ride. Taxi-cab services are provided in four ways:
 - a. Hail cabs: customers flag down passing taxis.
 - b. Dispatch service: customers contact central dispatch office who then deploys closest taxi-cab available to pick-up passenger(s).
 - c. Cab stands: taxi-cabs wait at predetermined areas where passengers are looking for transportation services, i.e. airports, convention centers, office buildings. (e.g., Yellow Cab, Alamo Cab, Cowboy Cab).
 - d. Online reservations and mobile phone applications: customers can reserve and request taxi service via webpage or mobile application.
2. Private Limo Service: driver serviced company-owned vehicle, primarily pre-booked, providing transportation for passenger from pre-determined pick-up and drop off locations for a set fare. Also referred to as "black car" or "limo" service (e.g., Select DFW, Premier Transportation of Dallas, ECS).
3. Shared Shuttles: shared vans or buses often operating on pre-determined routes, usually making multiple stops and carrying multiple, independent passengers (e.g., Super Shuttle, GO Airport Shuttle).
4. Ridesharing: driver-serviced, driver-owned vehicles, primarily pre-booked, demand dispatch, providing transportation for passengers based on unregulated rates of time, time of day, volume and mileage; this allows for fluctuation of pricing as seen by their surge prices (e.g., Uber, Lyft, Halo).

SAME FUNCTION | DIFFERENT BUSINESS MODEL | DIFFERENT REGULATORY OVERSIGHT

Although all four operators in this market serve essentially the same function (providing transportation for hire), their business models vary drastically, primarily in how they are regulated. Whereas taxi cabs, private limo services, shuttle services are highly regulated—ride-sharing companies, such as Uber and Lyft, operate following few federal, state, or city regulations. Ride-share companies claim that the regulations do not apply to them because they are technology companies, not TFH companies (see, e.g., Reyes and Van Cleaves, 2014).

While this claim has been rejected in multiple jurisdictions, it raises three important issues:

1. What are the goals of TFH regulations?
2. What are some of the regulatory options and their consequences?
3. How can one regulate a company that stealthily hires contractors as drivers?

GOALS OF REGULATIONS – WHY REGULATE THIS INDUSTRY?

An overarching goal of regulation should be to have the same rules apply to each class of operator noted above, so that there is a level-playing field—no one firm has a competitive advantage. The regulations should also be easily enforced and understood. Trudel (1996). The following outlines the six fundamental goals or reasons for taxicab regulation:

1. **Public Safety** - In North Texas, TFH companies are required to carry commercial insurance to protect the driver, passengers, as well as other vehicles and their passengers. In contrast, Uber claims that they are not responsible for their drivers' insurance (or any liability for accidents) because the drivers are independent contractors (www.uber.com). Recently, Uber did announce that they are providing \$1 million supplemental insurance policies for the drivers (i.e., the driver's personal policies are charged first). Yet, it is not clear that personal insurance covers commercial driving and whether or not the insurance is sufficient. It is clear, however, that supplemental

insurance is less costly which provides significant cost savings for Uber, but at the expense of the public's safety. Recently, San Francisco and Seattle issued proposals to require Uber to carry commercial insurance for public safety. Additionally, the University of California system has banned public employees from using Uber due to insurance and safety concerns. However, UberX does carry commercial

In addition to insurance, there are other regulations in place to protect public safety. For instance, TFH drivers must have background checks performed by the city to ensure they are properly licensed and do not have too many points on their records; safety inspections of vehicles; age limits for vehicles; and training of drivers. Uber claims to check their drivers' backgrounds to ensure proper licensing, but this is clearly not the case (see Appendix A). Given that ridesharing drivers' cars are not identified to regulators, it is impossible to know whether or not the vehicles meet safety standards, inspections, or age limits. It is clear, however, that these drivers are not paying appropriate licensing and other fees to the city—so the training is also insufficient.

2. **Consumer Protection and Safety** - The first step in ensuring passenger safety is the background checks that Uber claims it does internally. In recent months, investigative reporters have documented cases of Uber drivers with records of felonies, domestic abuse, drug dealing, etc. These company-performed background checks are clearly insufficient and are putting their customers at risk. Even worse, in this disclaimer, Uber refuses to be held accountable for their driver's actions, expressly requiring customers to waive all liability regarding the suitability of the transportation.

Safety also includes protecting consumers from unreasonable pricing. Taxis' prices are set by the city, and other firms must file their prices with the city. Uber's and Lyft's are below their competitor's prices. However, they use something called "surge pricing" – where fares can be increased up to eight times the regular fare during busy periods (e.g., holidays, storms, bar closing, sporting events, etc.). While this model does increase the availability of drivers, it results in less access for lower income people who cannot afford the service during these periods, and greater dissatisfaction among the people who use the service. Consequently, Uber has been accused of "price gouging" (see, e.g., Coscarelli 2013).

3. **Service Availability** - Regulated taxi companies are required to provide service to all parts of the city, at any hour (24/7), and forbidden from refusing rides to anyone (including short-trip rides). While ridesharing companies do not have explicit policies excluding parts of the city, as a practical matter, their pricing and other policies do have this effect. First, as noted above, "surge pricing" makes the service unaffordable to poorer consumers during periods of high demand. Second, their minimum fare charges have the effect of raising prices on "transportation challenged" individuals who use TFH for basic necessities like shopping, doctor visits, and trips to/from public transportation – generally, the poor, elderly and disabled. Third, the requirement that consumers have both a smart phone and credit card has the effect of eliminating a large part of the population. A survey in Florida found that this policy alienates 50% of the adults, and has disproportionate effects on minority and poor communities. Finally, Uber allows its drivers to rate passengers. Other drivers may access these ratings to decide if they wish to provide service to this customer.
4. **Service Quality** - Ridesharing companies have a reputation for providing good customer service. A recent study found that taxi companies in Dallas respond to 78-87% of dispatch calls within 20 minutes.
5. **Reasonable Profitability** - When the city views TFH companies as an extension of public transportation, and requires the companies to provide some services below the companies' cost,

the companies need to make a profit in other areas to maintain reasonable profitability. This is one reason for regulating competition between limo/shuttles and taxis (e.g., minimum trip charges, service in advance, etc.). These policies have the effect of indirectly taxing some customers so others can have an affordable service.

6. **Reduction of Traffic Congestion and Pollution** - One key Dallas regulation is designed to improve air quality by allowing Compressed Natural Gas or CNG-equipped vehicles to go to the head of the line of taxis waiting for passengers. This regulation was put in place to encourage companies to equip their cars with CNG, and to recoup the large investment.

REGULATORY OPTIONS

Much of the debate regarding regulatory options centers on whether or not to open up the TFH market to more companies (e.g., open access) and how to regulate prices in the market. It is very important to make a distinction between the taxi stand market and the dispatch market. For the taxi stand market (generally airports, transportation terminals, event centers, and lodging), previous studies conclude that open access does not have positive results. They find, for instance, that open access leads to:

- lower driver wages
- decreased appearance and cleanliness of taxis
- vandalism
- poor customer service
- short-trip refusals
- aggressive recruiting of customers

These behaviors do not portray the image of a sophisticated city, and could put our tourism industry at risk. Ride-share companies make this problem worse, as these drivers do not wait in line like taxi drivers, but go directly to pick up passengers. This gives ride-share drivers a competitive advantage in being able to take more trips (less time waiting in queues), which depresses taxi drivers' wages and their ability to maintain their vehicles, decreasing their ability to serve customers properly. While there are many reasons for this market failure, the number of taxis at the airport does not increase demand, and there does not appear to be a shortage of taxis at the airport. Therefore, the effect of increasing the number of vehicles is to split the demand (and income) among more drivers – hurting all of the drivers.

In contrast, there is some evidence that increased competition in the dispatch market can increase demand and consumption of TFH services. However, regulators should keep in mind how opening this market affects the regulatory goals above, i.e., public safety, passenger safety, and access to service. By allowing new entrants in this market, taxi companies may not have the profits to act as an extension of the public transportation system and provide 24/7 service to the entire city without raising their prices across the board, including service for the elderly, disabled and low-income passengers.

Price - Removing regulations on TFH pricing would enable operators to set pricing without oversight from city and state institutions. This price deregulation can be evaluated using the following criteria:

1. What are the effects of regulations on pricing?
2. How do regulations affect availability, quality, and variety of service? As with open access, the effects of price deregulation depend upon whether the operator serves the taxi stand market or the dispatch market.

In the taxi stand market, price deregulation (especially when combined with open access) tends to lead to higher prices, and lower quality service. In fact, prices for trips from the airport tend to be much higher than prices returning to the airport. Unfortunately, this price differential is a major source of complaints, where consumers feel that they were "taken advantage of."

Because ride-sharing companies do not conform to regulations (pricing, safety, liability, health regulations, social welfare and service); they have a competitive advantage in their cost structure that allows them to price below TFH companies' prices. However, TFH companies cannot respond due to regulatory restrictions.

ENFORCING REGULATIONS

Several other jurisdictions are struggling with the issue of how to regulate and whether or not to allow ride-share companies to operate in their municipalities. If the city decides to allow ride-share companies, the first step is captured in the adage, "You cannot manage what you do not measure." Therefore, in Seattle, the ride-sharing companies (Uber/Lyft) have committed to providing the City with data about rides provided through their services. Seattle has also required that they boost the insurance coverage for their drivers during the times when they aren't carrying a passenger. Dallas is in a unique position to be able to review other U.S. cities' new regulations as they are facing nearly identical concerns over the TFH industry (Bishop and Soper 2014).

Similarly, San Francisco released documents revealing a proposed expansion of regulations for insurance coverage with ride companies like Uber. The regulation demands they provide \$1 million commercial liability insurance starting when drivers turn on a smartphone app showing they are available to work (Nelson 2014). Finally, California has banned public employees from using Uber due to safety and insurance concerns (Inside HigherEd, 2014).

In the state of New York, Uber drivers are required to obtain the same licenses as for-hire drivers operating in the state. "Uber, and its UberX service in New York City, have been operating as a licensed company with several for-hire business (or "base") licenses (limousine, black car and livery bases). NY City's and NY State's position is that these companies are engaging in for-hire transportation, and must be licensed like everyone else" (Appendix B).

In addition to data sharing and insurance, and in the interest of the public's safety, the City of Dallas should require that the city perform background checks for all ride-share company drivers. The city performing the background checks ensures proper procedure and allows the city to audit data provided by the companies, ensuring compliance with training, licensing, safety, taxing, and other regulations. Regulations should include provisions to fine the companies as well as the drivers for violations; this will ensure compliance with regulations and requirements that appropriate training programs are provided prior to their first ride.

Finally, if the city decides to regulate the number of operating permits at the airports (similar to San Francisco), then the ridesharing companies must be able to demonstrate that their algorithms are credential-based – that is: the software will not assign a driver to an airport ride if the driver does not have proper permits.

CONTENTS

- SPONSORSii
- EXTENDED SUMMARY iii
 - SIGNIFICANT REGIONAL ECONOMIC IMPACT iii
 - SAME FUNCTION | DIFFERENT BUSINESS MODEL | DIFFERENT REGULATORY
OVERSIGHTiv
 - GOALS OF REGULATIONS – WHY REGULATE THIS INDUSTRY?iv
 - REGULATORY OPTIONSvi
 - ENFORCING REGULATIONSvii
- INTRODUCTION..... 1
 - ADDITIONAL STAKEHOLDERS..... 1
 - DRIVERS 1
 - PASSENGERS | TRAVELERS | EVENTS..... 2
 - CITY OF DALLAS..... 2
 - CONVENTION | TOURISM..... 3
 - REGULATORS..... 5
 - INDUSTRY SEGMENTS..... 5
 - REGULATORY OBJECTIVES 6
 - PUBLIC SAFETY 6
 - CONSUMER PROTECTION..... 7
 - AVAILABILITY OF SERVICE | BARRIERS TO SERVICE 11
 - QUALITY OF SERVICE 11
 - REASONABLE PROFITABILTY OF SERVICE 12
 - REDUCTION OF TRAFFIC CONGESTION AND POLLUTION..... 13
- REGULATORY ISSUES..... 14
 - WHY SEPARATE TAXI AND LIMO MARKETS?..... 14
 - ENFORCEMENT ISSUES 14
 - OPEN MARKET VS. RESTRICTED ACCESS – “THE TRAGEDY OF THE
COMMONS”..... 15
 - PRICE REGULATION & MARKET FAILURE OF DEREGULATION..... 16
- CONCLUSIONS..... 19
- REFERENCES 21
- Appendix A: Letter from California to Uber 23
- Appendix B: IATR Memo..... 26

INTRODUCTION

"The lessons of Seattle taxicab deregulation are more complicated than the simple one that deregulation works or does not work. First, a change in regulation--from more to less, just as from less to more--can have unexpected side effects. Second, reformers should realize that, in some markets, even institutional structures that at first sight appear to restrict entry—such as Amtrak's franchise operations—are compatible with a competitive (low-cost) solution. To view the choice of policies as a black-and-white dichotomy between regulation and deregulation is much too simple." (Zerby, 1983)

Zerby's quote provides the proper context for this report, as the purpose of this report is to provide an overview of the industry as well as some of the tradeoffs and consequences of different policy decisions.

Recent events with Uber and Lyft have brought national attention to the TFH industry, in particular, ridesharing. In Virginia, Uber and Lyft pledged to continue operations after receiving cease and desist orders from the department of motor vehicles for operating illegally in the state (Reyes and Van Cleaves, 2014). In contrast, Colorado recently passed legislation that permits ride sharing services in the state and instructs localities to adjust their regulations to ensure that all TFH companies (including Taxis, Limos and Shuttles) are not disadvantaged by the regulations (Vuong, 2014). This attention on ridesharing is timely as both North Texas and Houston are struggling with the appropriate amount/type of regulation for TFH industry.

The next section provides an identification of additional stakeholders in the regulatory decisions, an overview of the current industry segments, and a discussion about the regulatory goals and how ride-share and current operators have responded to these goals.

ADDITIONAL STAKEHOLDERS

This section provides an introduction to additional stakeholders in the regulatory decisions beyond North Texas residents and the companies involved.

DRIVERS

Taxi-cab drivers: Understandably, taxi-cab drivers around the globe are affected by the entrance of TFH services like Uber and Lyft. Taxi-cab drivers are often immigrant or low-income workers whose low wages are diminished by increased competition. So, one of their key interests is to make a living wage. In addition, taxi-cab drivers are forced to comply with regulations, such as minimum fares, availability of services in low-profit markets, and compliance with local requirements (e.g. insurance minimum requirements) that ride-share drivers do not follow.

Transportation-for-hire drivers: Uber and Lyft contend that their services are creating job opportunities by connecting drivers with passengers. Many of Uber's employees provide transportation services to supplement their income, i.e. second or third jobs. With services like UberX, the only requirement is a vehicle to transport passengers. Compensation varies for Uber drivers; some figures range as high as \$75K/annually gross income (<http://www.pcmag.com/article2/0,2817,2458816,00.asp>). In fact one of the key arguments for allowing entry of ride-share companies is that they create jobs, and allow part-time drivers. However, Full-time jobs could be lost as a result of these new part-time jobs as many taxi-cab operators use this occupation as their primary means of income.

PASSENGERS | TRAVELERS | EVENTS

City residents are entitled to safe and affordable transportation options. Availability of taxi-cabs and comparable services, supplement the public transportation options the city provides. Therefore, the first consumer segment is “transportation challenged” passengers – the poor, elderly, disabled – who generally use TFH for essential services. These services include grocery shopping, visiting doctors, pharmacies, transportation after public transportation ceases, or, even, transportation from the bus/train station to their house late at night after work (Mundy, 2010).

A second group of passengers can be called “travelers.” These individuals may be North Texas residents travelling elsewhere who want to avoid parking at the airport. However, this segment also includes visitors to North Texas – which includes business professionals, tourists, convention goers, etc. This group is extremely important for the following reasons:

1. Our analysis below suggests that the economic impact of this group is more than \$13 billion for Dallas’ economy in 2014.
2. For most of this group, their first experience with North Texas, upon leaving the terminal, is with TFH. This first impression cannot be remade, so it is important to have attractive, clean, affordable TFH vehicles that provide good customer service.

ICANN (<http://meetings.icann.org/location-selection-criteria>) provides 10 criteria used in their selection of sites for their international conference, and local transportation is third on the list. Boyd (2009) reports increasing competition for conventions, due, in part, to the more than \$1,500 economic impact of each visitor. Therefore, poor service experience in TFH industry could harm this important North Texas industry.

The final group of passengers can be classified as “event attenders.” This group includes individuals using TFH for special events (e.g., proms, weddings, etc.), for events with expensive or difficult parking, for social events where they may be consuming alcohol (e.g., holiday parties, dinners, etc.), and for situations where good judgment dictates (e.g., after consuming alcohol at a bar or club or friend’s house).

CITY OF DALLAS

Availability of transportation options for residents of the greater DFW Metroplex and its visitors is a priority for city officials. Clean, safe, and affordable options increase the ability of the city's businesses to continue to operate. The city of Dallas collects tax revenue and fees from taxi-cabs, shuttles, and delivery services that are used to maintain streets and traffic services.

In addition, Dallas’ ownership stake in DFW International Airport, Love Field Airport, and the Dallas Convention Center makes these decisions important to city revenues.

CONVENTION | TOURISM

The estimated visitor total to the Dallas Metro Division for 2014 is 45.6 million. The volume of travelers is dominated by leisure travelers, and the spending per person was higher for business travelers. This indicates that drawing business travelers to Dallas is beneficial. Trustworthy transportation is paramount in ensuring Dallas remains a destination for business travelers. Overnight visitors spend on average over \$220 per trip, while a day visitor spends just over \$75. The graph below shows the visitor spending by category. Highlighted is the transportation spending which is expected to total near \$1.3 billion. Total spending estimates are more than \$8 billion. Drawing visitors to Dallas is paramount for its economic growth, and a stable, safe, efficient taxi system is crucial in maintaining a good experience for each North Texas visitor.

Visitor spending by category (mm\$)

	2014(est.)
Lodging	2,222.4
Room rental	1,560.1
Food & bev.	1,608.8
Retail	1,499.5
Transportation	1,296.2
Recreation	1,050.7
Air	413.3
Total	8,090.9

This table shows the full economic impact of tourism in the Dallas Metro Division (DMD). It is expected to have a total impact of nearly \$13 billion. (Dallas Convention Bureau)

2014(est.) Tourism Sales (mm\$)

	Direct	Indirect	Induced	Total
Agriculture, Fishing, and Mining	-	77.3	11.9	89.2
Construction and Utilities	-	232.6	57.3	289.9
Manufacturing	-	229.9	50.3	280.2
Wholesale Trade	-	58.5	65.9	124.4
Air Transport	439.4	9.9	11.2	460.5
Other Transport	537.1	115.0	30.9	682.9
Retail Trade	1,515.5	14.6	176.4	1,706.4
Gas Stations	630.5	0.8	11.2	642.4
Communications	-	309.3	96.1	405.4
Finance, Insurance, and Real Estate	117.8	627.0	711.1	1,455.8
Business Services	-	794.8	157.6	952.5
Education and Health Care	-	6.7	321.0	327.7
Recreation and Entertainment	894.4	109.6	32.4	1,036.4
Lodging	2,252.3	1.5	0.9	2,254.7
Food and Beverage	1,607.1	118.8	134.9	1,860.8
Personal Services	96.8	80.8	81.7	259.2
Government	-	93.2	25.9	119.1
TOTAL	8,090.9	2,880.1	1,976.5	12,947.6

Tourism is a significant part of several industries and is expected to support more than 116,000 jobs in the Dallas metro division. These jobs supported by tourism affect every section of the economy, either

directly or indirectly. The following table shows a breakdown of the impacts on each sector.

2014 (est.) Tourism Employment Effect

	Direct	Indirect	Induced	Total
Agriculture, Fishing, and Mining	-	157	35	192
Construction and Utilities	-	795	159	954
Manufacturing	-	430	103	534
Wholesale Trade	-	265	299	564
Air Transport	1,611	27	31	1,669
Other Transport	7,361	1,090	259	8,709
Retail Trade	8,253	186	2,178	10,617
Gas Stations	949	7	116	1,072
Communications	-	771	220	992
Finance, Insurance, and Real Estate	484	2,741	2,093	5,318
Business Services	-	7,244	1,438	8,683
Education and Health Care	-	96	2,988	3,084
Recreation and Entertainment	16,490	2,548	542	19,580
Lodging	24,093	12	7	24,112
Food and Beverage	22,320	1,819	2,037	26,176
Personal Services	1,186	925	1,025	3,136
Government	-	697	158	855
TOTAL	82,748	19,812	13,688	116,248

2014(est.) Tourism Employment Income Earned (mm\$)

	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	-	10.0	1.8	11.8
Construction and Utilities	-	70.8	16.0	86.9
Manufacturing	-	33.6	7.7	41.3
Wholesale Trade	-	25.4	28.7	54.2
Air Transport	11.1	2.6	2.8	16.4
Other Transport	246.5	43.7	12.7	303.0
Retail Trade	255.3	6.7	82.4	344.4
Gas Stations	33.3	0.3	4.1	37.7
Communications	-	107.4	23.1	130.5
Finance, Insurance, and Real Estate	35.4	135.2	105.2	275.8
Business Services	-	397.7	82.9	480.6
Education and Health Care	-	3.2	185.6	188.8
Recreation and Entertainment	352.6	36.9	13.6	403.2
Lodging	734.1	0.5	0.3	735.0
Food and Beverage	615.5	46.6	57.8	720.0
Personal Services	64.5	53.4	49.1	167.0
Government	-	54.3	10.9	65.1
TOTAL	2,348	1,029	685	4,062

REGULATORS

As it currently stands, taxi and limo services are regulated by the city. Regulators ensure that the vehicles are safe and operable (by requiring operational and safety inspections), and no older than 60-84 months old (depending on whether or not the vehicle is an alternative fuel vehicle). Regulators also ensure that companies' insurance meets the minimum requirements of liability to cover any and all accidents that may occur, both while serving passengers and when not. Regulators also ensure that drivers have proper permits/medallions to operate in the city and have completed required training to continue to operate.

Ride-sharing companies place new burdens on the regulators— perhaps the biggest problem being how to identify them as they may not contain special markings (as the drivers are most likely using their personal cars). Even if drivers can be identified, how then can the regulators ensure compliance with all other regulations?

INDUSTRY SEGMENTS

Four distinct types of operators serve the VFH industry in the Dallas Fort Worth Metroplex:

1. **Taxi Cabs:** driver serviced vehicle carrying individuals or groups of passengers, often for a non-shared ride. Taxi-cab services are provided in four ways:
 - a. Hail cabs: customers flag down passing taxis.
 - b. Dispatch service: customers contact central dispatch office who then deploys closest taxi-cab available to pick-up passenger(s).
 - c. Cab stands: taxi-cabs wait at predetermined areas where passengers are looking for transportation services, i.e. airports, convention centers, office buildings (e.g., Yellow Cab, Alamo Cab, Cowboy Cab).
 - d. Online reservations and mobile phone applications: customers can reserve and request taxi service via webpage or mobile application.
2. **Private Limo Service:** driver serviced company-owned vehicle, primarily pre-booked, providing transportation for passenger from pre-determined pick-up and drop off locations for a set fare. Also referred to as "black car" or "limo" service (e.g., Select DFW, Premier Transportation of Dallas).
3. **Shared shuttles:** shared vans or buses often operating on pre-determined routes, usually making multiple stops and carrying multiple, independent passengers (e.g., Super Shuttle, GO Airport Shuttle)
4. **Ridesharing:** driver serviced driver-owned vehicles, primarily demand dispatch providing transportation for passenger at rates based on unregulated rates of time and mileage; allowing for fluctuation of rates as seen with surge pricing. (e.g., Uber, Lyft, Halo).

Although all four operators in this market serve essentially the same function (providing transportation for hire), their business models vary drastically, primarily in how they are regulated. Whereas taxi cabs, private limo services, shuttle services are highly regulated—ride-share companies, such as Uber and Lyft, operate following few federal, state, or city regulations.

Uber and Lyft contend that they are not transportation companies, but rather technology companies that are serving an unmet need in the market (Maly, 2013; Reyes and Van Cleaves, 2014). They argue that they simply connect supply with demand in an efficient, effective, and intelligent manner. In doing so, they have raised millions of dollars in funding, operate in numerous cities around the world, and have raised the ire of regulatory boards in the United States and abroad. Recently, Uber was valued at \$17 billion.

Resistance to Uber and other ride-sharing services stem from:

1. Lack of regulation: Taxi cabs, shuttles, and private car services are highly regulated in most markets. State/city officials play a role in determining pricing, availability, insurance requirements, condition of vehicles, and eligibility of drivers, amongst various other requirements. Ride-share services do not follow any of those regulations, which creates an unfair advantage and raises questions about the safety of the services they render.
2. Lack of accountability: In their disclaimers, Uber requires their customers to absolve them of any and all liability related to their service (see passenger safety section below).
3. Inequity in charges and revenue: Taxi cabs and private cars are subject to fees, surcharges, tolls, etc. that are revenue streams for local interests, including tourism industries, roadway authorities, airports, etc. The economic impact of a shrinking taxi cab industry could have economic consequences that affect current and future residents of the DFW Metroplex. In addition to charges and fees imposed on taxi cabs, private cars, or shuttle services, tax revenue generated by these companies is used for projects in the local economy. Ride-share drivers are required to report their earnings on a federal level, but local municipalities may not be receiving tax revenue from these profit-generating companies.

REGULATORY OBJECTIVES

In this section, we discuss objectives of taxi regulation using Trudel's (1996) six fundamental objectives—in his order of importance. We include, as part of the discussion, how Uber, Lyft, and current operators have responded to these goals.

PUBLIC SAFETY

Taxi-cab drivers are required to carry minimum insurance liability coverage necessary before they begin operating. In addition, taxi-cab drivers are only allowed to work for one company. The reason for this restriction is if the driver gets into an accident, which insurance policy applies—especially if the driver is between assignments? Further, to whom do other drivers complain of aggressive or dangerous driving—especially when the vehicles are not marked with a company logo? As opposed to Uber/Lyft drivers who, at times may be “available for service” on both platforms at the same time.

Uber recently changed its insurance policy, but after a detailed review, it is apparent that Uber is providing surplus insurance—to start coverage after the driver's private insurance through James River Insurance Company (<http://blogcdn.uber.com/wp-content/uploads/2014/02/commercial-insurance-policy.pdf>). However, Uber states in their disclaimer that they are not responsible (<https://www.uber.com/cities/dallas> - retrieved June 9, 2014), and have in the past claimed they are not responsible for coverage when their drivers are in accidents (Kirchner, Paredes and Pham, 2014). Therefore, further analysis of whether or not this insurance meets the appropriate regulations is required.

Finally, the surplus insurance market is not regulated in Texas:

“The Texas Department of Insurance by law does not regulate surplus lines insurers as they do the authorized insurers. The rates and policy forms are not subject to TDI review or to most Texas insurance laws. This gives surplus lines insurers maximum flexibility to provide a market for unusual, large or hard-to-place risks.”

<http://www.tdi.texas.gov/dtisrch/dtisapi6.dll?cmd=getdoc&DocId=791566&Index=%2a2aab23fd4bb4d6322239cbac263ac909ac&HitCount=6&hits=49c+49d+49e+4d5+4d6+4d7+&SearchForm=%2fsearch%2ftdisearchform%2ehtml>

Concerns about this insurance are valid. Recently, Seattle proposed allowing ride-share companies to operate, but they had to get commercial insurance similar to other TFH companies. Additionally, this

insurance would need to cover the drivers for the entire time they are available to the ride-share companies through their “app” (Bishop and Soper 2014).

Similarly, San Francisco released documents proposing an expansion of regulations for insurance coverage with companies like Uber. The regulation demands they provide \$1 million commercial liability insurance starting when drivers turn on a smartphone app. Currently, ride-share companies only provide coverage between when a driver has accepted a ride request and when a driver drops off a passenger. This proposed regulation will require the ride-share companies’ insurance be the primary coverage (Nelson 2014).

Insurance provides customer protection during unfortunate circumstances. To ensure the customer is riding in a safe vehicle, there are other safety requirements such as frequent vehicle inspections and age of the vehicle (Sadlak, 2004). The rationale for the first requirement is to ensure safe vehicles on the roadways, especially when they are traveling many miles. The second requirement is generally used in place of mileage restrictions, as mileage restrictions can be circumvented by replacing odometers and/or speedometers. A secondary reason for the age limit is to control the appearance of the TFH vehicles—noting that the TFH vehicles are many tourists, conventioners, and business travelers’ first exposure to North Texas when they exit the airport. This first impression cannot be unmade and will influence their satisfaction with their North Texas trip and future destination choices.

While ride-sharing companies do want clean vehicles, these vehicles are subject to consumer, not commercial safety inspections and are restricted by the current age limits for other TFH vehicles.

CONSUMER PROTECTION

In addition to the insurance requirement, the driver should also have an acceptable driving record and background check so that any person convicted of a serious felony—such as fraud, burglary, or assault—are denied the opportunity to drive a TFH vehicle (Sadlak, 2004). Dallas currently provides background checks for all TFH providers; however, ride-share companies like Uber handle such matters internally. Uber has stated:

“We screen for convictions and violations going back 7 years that are reasonably related to task the drivers perform (e.g., DUIs, violent/sexual offenses, major moving violations, etc.). We’re confident that every ride on the Uber platform is safer than a taxi.” (Kirchner, Paredes, and Pham 2014)

However, NBC investigative reports found Uber drivers with serious felony convictions such as drug dealing, burglary and domestic assault (Kirchner, Paredes and Pham, 2014; Grover and Esparros, 2014). Further, the letter from the California PUC (see Appendix A) suggests that Uber is hiring drivers without valid driver licenses—or training in appropriate licenses, permits and regulations. Uber’s attitude toward their client’s safety is expressed in their disclaimer (<https://www.uber.com/cities/dallas> - retrieved June 9, 2014):

“The quality of the transportation services scheduled through the use of the service or application is entirely the responsibility of the third party provider who ultimately provides such transportation services to you. You understand, therefore, that by using the application and the service, you may be exposed to transportation that is potentially dangerous, offensive, harmful to minors, unsafe or otherwise objectionable, and that you use the application and the service at your own risk.”

Given these results, it would seem foolhardy to continue to allow self-regulation of ride-share companies. A secondary benefit to the North Texas area is that by requiring ride-share companies to use municipal background checks for all of their drivers, regulatory authorities will know the identities of all TFH drivers in the area. This knowledge will allow regulatory authorities to protect public safety by ensuring that all drivers

have proper credentials (e.g., permits, insurance, vehicle safety, and North Texas Tollway Authority or NTTA tags). Otherwise, the use of vice police officers may be required to enforce the regulations. However, this approach also requires resources from the city.

In addition to the above licensing requirements, many localities regulate the fares that the companies can charge. While this issue is discussed in more detail below, the reasons for these types of restrictions include:

1. Many localities, such as Dallas, treat TFH as an extension of the public transportation system, placing service requirements on the companies (Dempsey, 1997). As such, pricing regulations help the companies make a reasonable return while providing these services, and allow transportation-disadvantaged, disabled, elderly and other fixed-income consumers to have access to “reasonably priced” transportation.

FARE BREAKDOWN (\$)

Costs	TAXI	UberX	Lyft
Base Fare¹	2.25	1.90	0.90
Per minute	0.30	0.19	0.17
Per mile	1.80	1.48	1.33
Safe ride fee	-	1.00	1.00
Minimum fare	-	5.70	5.00
Cancellation fee	-	6.00	5.00
Additional rider fee	2.00	-	-
Minimum for starting at Love Field	8.00	-	-
Love Field loading fee	1.00	-	-
Gas surcharge	1.50	-	-
DFW terminal transfer	7.00	-	-
Airport exit fee	5.00	-	-
Airport dropoff	4.00	-	-

¹ Lyft calls this the pick-up fee, Taxi calls this the initial meter drop

SOURCES: Taxifarefinder.com; uber.com/cities/dallas; lyft.com/help?article=1302208; dallascityhall.com

2. Pricing regulations prevent “price gouging” during periods of high demand – such as snow/ice storm, holidays, bar closing times, etc. (see, e.g., Coscarelli 2013) – and prevent price gouging to and from airports and other local destinations. Consumer complaints are highest when fares returning to the airport (and other destinations) are markedly different than fares from the airport (Zerby, 1983).

The above table provides fares and costs for Taxi’s versus Uber and Lyft. A couple of points about the numbers in the table:

1. Uber and Lyft do not follow the pricing regulations for base fare, minute or distance charges.
2. Uber and Lyft are priced below Taxi fares. One might applaud lower prices for consumers in the market; however the taxi companies cannot match the lower prices due to the expenses caused by regulatory burdens.
3. Note the minimum charges for Uber and Lyft that increase the prices for short trips (note that Uber’s other two services—UberBlack and UberSUV—have different minimum charges). In effect, the ride-sharing companies are taking some of the margin provided to taxi companies to provide services (see next sections) where they lose money.

The table below provides sample fares from DFW airport to local destinations. The fares are averages of high and low estimates. To Uber's credit, they notify consumers beforehand of surge pricing spikes and require acknowledgement of the surge pricing from the consumer prior to dispatching a vehicle. However, the side effects of the surge pricing should be carefully considered. First, when prices rise, demand also falls. Clearly, wealthier individuals can afford these higher prices, so the consumers who suffer, who either don't get a ride or have to wait to get a ride are the poorer consumers. Second, it is not clear that it is in the City's best interest to discourage consumers from using TFH (i.e., acting responsibly) after drinking and/or going to parties by raising the prices for responsible behavior.

COST FOR TRIPS TO DALLAS-FORT WORTH AIRPORT PRICE COMPARISONS (\$)

Trip Origin	TAXI ²	UberX ¹	Limousine	UberBlack ¹	UberSUV ¹
American Airlines Center	41.83	38.50	82.00	75.00	105.00
Arlington Convention and Visitors	27.78	27.00	77.00	53.50	67-85
Dallas Convention and Visitors Bureau	43.99	41.00	75.00	75.00	105.00
Dallas Market Center	37.55	36.00	73.00	75.00	105.00
Dallas West End	42.00	39.50	72.00	75.00	105.00
Fort Worth Convention and Visitors	53.89	47.50	93.00	80.00	110.00
Fort Worth Cultural District	54.69	51.50	88.00	102.50	141.50
Fort Worth Northside (Stockyards)	52.00	52.50	93.00	80.00	110.00
Lone Star Park	25.59	26.00	74.00	51.50	74.50
Mesquite Rodeo	70.53	65.50	103.00	131.00	180.00
Six Flags Over Texas	27.06	27.00	77.00	53.50	77.00
Texas Motor Speedway	48.43	42.00	82.00	84.00	118.00
AT&T Stadium	29.98	29.00	77.00	58.50	83.00
The Ballpark in Arlington - Rangers	28.20	27.00	77.00	55.00	78.00
Christ for the Nations Institute	54.82	51.50	78.00	102.00	141.00
Dallas Baptist University	41.45	39.50	82.00	78.50	110.00
Dallas Theological Seminary	46.92	44.00	73.00	75.00	105.00
Northwood University	51.47	44.50	99.00	80.00	110.00
Paul Quinn College	62.50	61.00	82.00	113.50	156.50
Southwest Baptist Theological	63.34	58.50	82.00	117.50	157.00
Texas A&M University Research &	56.23	51.50	78.00	101.50	141.00
Texas Christian University	59.50	56.50	82.00	80.00	110.00
Texas Wesleyan University	52.30	49.00	87.00	80.00	110.00
Texas Woman's University	61.74	56.00	108.00	111.00	153.00
University of Dallas	24.32	25.50	67.00	51.00	73.50
University of North Texas	61.03	55.00	105.00	110.00	152.00
University of Texas at Arlington	34.52	33.00	78.00	66.50	93.50
University of Texas at Dallas	57.57	54.50	82.00	107.50	149.00
University of Texas Southwest Medical	50.48	47.50	79.00	92.50	128.00

¹ fares were quoted in a range, the numbers shown are the average of the high and low estimates

² fares stated include a 15% gratuity

AVAILABILITY OF SERVICE | BARRIERS TO SERVICE

As it stands, any person can get a taxi at any time of the day (24/7), and it is illegal for a taxi company to refuse passengers. This means that persons without the means of owning a vehicle can get picked up and have a ride to the grocery store, bus station, or local drug store for medication in a timely and inexpensive fashion. The above requirement is why it is essential that taxi cab companies have full service dispatch e.g., telephone, web booking, apps, accepting cash or credit cards and established vehicle minimums for operation authority, without vehicle minimums the company cannot have the critical density to service dispatch calls on citywide basis. If you do not have a vehicle in the area, it is impossible to service the customer in a timely manner. Schaller (2007) recommended 50 taxi cabs for Fort Worth to provide that city with citywide service which Fort Worth is much smaller in population than Dallas. As noted above, rideshare companies' minimum fare and surge pricing policies have the effect of either significantly raising prices for these consumers, eliminating these consumers ability to get an affordable short-distance ride, and/or eliminating these consumers ability to get rides during peak demand periods.

A second, more subtle problem arises from the ride-share companies' requirement that consumers have both a credit card and a smart phone to use their service. In terms of a business model, combined with cancellation fees, it reduces uncertainty for the drivers. However, nationally, only 72.2 percent of consumers over the age of 18 own credit cards (Ray and Ghahremani 2014). Therefore, Uber is essentially "red-lining" almost 30 percent of the population by requiring a credit card. This problem worsens when the requirement of also having a smart phone is included:

"Based on my review of the polling data, statewide, about half of those polled would be unable to use the UBER service," said Dr. James Wright, the Provost's Distinguished Research Professor in the Department of Sociology at the University of Central Florida. "The UBER-ineligible Floridians are disproportionately Hispanic (59%) and African American (55%), low income (70% not eligible among those earning less than 25K per year vs. 26% in the highest income group), and the elderly (64% not eligible among those 65 and older)." (PRNewswire, 2014a).

A third problem results from recent legislative testimony that Uber drivers rate the passengers, and drivers have the ability to see ratings of passengers. Further, Uber could use this information to decide whether or not to reject service to individual consumers (Source: Florida House of Representatives, Transportation & Highway Safety Subcommittee – March 24, 2014; cited in PRNewswire 2014b).

QUALITY OF SERVICE

Standards for the quality of service ensure proper conduct, regulate vehicle appearance and cleanliness, and specify the types of services provided by taxi-cab drivers and companies. The underlying purpose of these regulations is to create a minimum standard for the comfort and protection of passengers.

While we do not have more recent information, Schaller (2007) says that computerized dispatch information shows that 78 to 87 percent of the dispatch calls in Dallas (among other cities) were picked up within 20 minutes of the passenger placing the call. This shows that Dallas consumers are receiving quality response to dispatch calls to the current Taxicab companies. In contrast, Uber allows passengers to rate the drivers; those drivers with consistently low ratings are let go.

The importance of customer satisfaction in this industry is provided by the chief administrator of the taxicab board Manitoba, Canada who quotes Stanley Brown:

"One should never rejoice that his or her arm rarely receives any complaints, because the average company never even hears from 96% of its dissatisfied customers! For every complaint that is

actually recorded, 26 other customers had problems with the firm, and 6 of those were considered "serious".

Of those customers who do complain, between 1/2 and 2/3 will continue to do business with that firm, if their complaint is satisfactorily resolved. That number leaps to 96% if that complaint is resolved quickly!

According to TARP (Technical Assistance Research Programs, Washington, DC), only 17% of customers who were dissatisfied with a recent customer service experience intended to continue doing business with the offending company! Again, only 17%, less than 1 in 6, of customers who were displeased with the customer service they received would buy other products or services from that company. Loyalty increased to 50% when customer service was acceptable, and zoomed to 80% among those who were completely satisfied.

In other words, excellent customer service is clearly a powerful marketing tool." (Smythe, 1990).

Vehicle minimums for operating authority are essential requirements for citywide dispatch service, without vehicle minimums the company cannot have the critical density to service dispatch calls. If you do not have a vehicle in the area it is impossible to service the customer in a timely manner. Shaller (2007) recommended 50 cabs for Fort Worth which is much smaller population than Dallas.

REASONABLE PROFITABILITY OF SERVICE

Transportation companies collaborate with city and/or state officials to set service and pricing requirements in efforts to protect companies and consumers alike from unfair and predatory pricing—such as surge pricing. Profitability measures are achieved, in part, by setting fares and limiting the number of taxi-cabs through implementation of medallion, licensing, and/or permit systems.

In Dallas, taxi companies are protected from some competitive forces by limos (ie. Limos are not allowed to have a meter, and the service is a set at a fixed predetermined amount). Separating limo and taxi service allows taxi companies to make profits on certain trips, while losing money on other services mandated by regulations, e.g., 24/7 coverage, city-wide coverage, no passenger refusal, acting as an extension of public transportation, etc.

This tradeoff helps explain why taxi companies are upset with ride-share companies: if the city views taxis as an extension of the public transportation system, and requires them to provide services at a loss, then the companies need other markets where they can make profit to cover the losses. The following passage highlights the problem of not subsidizing the social services (Mundy 2010):

The airport taxicab system might have an impact on low-income and residential users - the primary market for non-airport taxicabs. Professor Gorman Gilbert, one of the country's foremost writers on taxicabs and former Commissioner of the New York City Limousine and Taxi Authority writes the following:

*"The increase in taxicab fares in residential areas produces a particularly bitter impact on low-income persons. A major and increasing proportion of residential taxicab business originates in low-income or minority neighborhood....this is not surprising since residents in these areas are often dependent on taxicab service for mobility. These trips are for essential purposes, such as trips to grocery stores and medical factories. In contrast, the trips from airports and downtown hotel stands are made by persons who are clearly more affluent businesspersons, vacationers, and conventioners. "Increasing fares to residential areas means that the impact of more taxicab is borne disproportionately by low-income persons. In other words, **those who can least afford to pay would be charged the most...** Those who follow the academic argument of 'letting the market decide' taxicab fares are really 'letting the poor pay more.'"*

Uber's business model already provides evidence of this phenomenon, where there are minimum trip charges, and surge pricing during periods of high demand or low supply of drivers (see, e.g., www.uber.com, Coscarelli 2013, Roose 2013, The Economist, 2014).

With that said, the objective of providing these services can be provided in other creative ways, e.g., taxing all dispatch calls to pay for this service. For instance, TFH companies could bid to provide these services, and any losses covered by surcharge could added to all taxicab/ride-share fares. This approach would make explicit what is currently being done implicitly. However, these solutions also assume that all of the transportation companies in Dallas follow the rules and regulations.

REDUCTION OF TRAFFIC CONGESTION AND POLLUTION

Dallas city officials have implemented various controls to limit congestion and pollution caused by taxi cabs and transportation companies. Taxi cab stands and multiple passenger vehicle lanes help mitigate traffic congestion during busy hours. To comply with CNG requirements, taxi cab companies incurred a significant expense, retro-fitting their vehicles. To help alleviate this investment, CNG fueled vehicles are allowed to go to the front of the taxi-stand line at Dallas Love Field and DFW International Airports. However, with those requirements set to expire in early 2015, taxi cab companies may not have the ability to fully recoup their investments.

REGULATORY ISSUES

In this section, different regulatory issues are presented along with their potential impact, based upon the academic literature and historical analysis. However, before discussing the different potential regulatory policy tradeoffs, we note that the fundamental tradeoff policy revolves around a free market and the potential market failures and/or appropriate social policies. Of course any regulations should make a level playing field for all competitors (both new and incumbent), be easily understood, and be able to be easily enforced.

WHY SEPARATE TAXI AND LIMO MARKETS?

Independent of what history teaches and academics believe about the wisdom of allowing an open entry taxi market and allowing unregulated pricing, this section discusses other reasons to retain regulatory distinctions between the two markets.

First is the notion of “truth in advertising.” Consumers have distinct expectations about the type of automobiles that will provide transportation and the relative prices when ordering a taxi vs. a limo. A consumer would be upset if a driver showed up in a Prius when ordering a limo. The consumer would also be upset when he/she ordered what he/she thought was a taxi cab and a shared shuttle arrived which would make multiple stops in route to the destination. Consumers should have regulatory recourse when an inappropriate vehicle arrives for an appointment. Further, this distinction allows airport and other officials to ensure that the vehicles are in the appropriate queue.

Second, as discussed above, this distinction allows taxi companies to recoup losses they incur acting as an extension (e.g., public utility) of the public transportation system.

ENFORCEMENT ISSUES

If Dallas decides to let ride-share companies enter the dispatch market, there are issues that the city should be aware of if the goal is to create a fair competitive market:

1. The companies should be held to the same health and safety regulations as the current companies. Given their history (as noted above with Uber’s background checks), it is foolhardy to rely upon company assurances that the regulations are being met (see, e.g., Appendix A and B). To ensure compliance, strong penalties should exist for the companies as well as the drivers.
2. Given the fact that simply legalizing ride-share companies does not result in compliance with local regulations (see, e.g., Appendix A), the companies should not be able to operate in Texas until they can demonstrate that:
 - a. Their software does not assign rides to drivers without the proper credentials, permits, licenses and insurance—for instance, without the proper permit a driver is not assigned a trip to the airport.
 - b. Their software provides data sharing with local regulators where their fares, trips, drivers (and credentials) can be audited by City and State agencies to ensure compliance.
 - c. Their company shares driver licenses and plate numbers, with local regulators to ensure proper fares are paid if/when the drivers bring (or pickup) passengers at local airports. Specifically, charge the cars the commercial rate whenever they enter or leave the airport with more than one person in the vehicle.
 - d. They have appropriate driver training programs in place that instruct drivers in public safety, passenger safety, local regulations, taxes, permitting, and other business requirements.

OPEN MARKET VS. RESTRICTED ACCESS – “THE TRAGEDY OF THE COMMONS”

This policy decision is whether or not to restrict access to the TFH market, and if access is restricted, then how much should the market be restricted? So, it is a question of a free market, allowing entrepreneurs to enter the market creating new jobs in the market, and potentially finding new price/quality and service models that increase consumer well-being (Stanley, et al, 1996).

These benefits, however, need to be discussed in the context of the specific TFH market. In terms of the “walk up” or taxi-stand market where taxis are in a first-come, first-serve queue, no benefits have been found when cities allow open access (Schaller, 2007). The reason is that there is not a shortage of taxis at the airports or at hotels—the key place for taxi stands. Therefore, allowing more taxis does not increase the demand in this market, it only divides the revenue between more people, resulting in diminished wages for the drivers due to longer wait times at the taxi stands. These lower wages then have the consequence of drivers more aggressively soliciting business, upward pressure on taxi fares, price gouging, refusal of short-trip fares, dirty cabs and drivers (Shaller, 2007). Le Crox, et al (1997) concluded that open systems for the taxi-stand are unworkable.

Prior to 2003, Dallas attempted a modified open-system program which allows entry, but the drivers had to be affiliated with a specific company. Schaller (2007) summarizes the results:

“It is notable that, even with the inclusion of company-level entry requirements, Dallas and San Jose also experienced an oversupply of cabs at airport cab stands. Driver incomes, service quality and accountability suffered as a result of oversupply conditions.”

The reason for this market failure is known as the “Tragedy of the Commons” (Harden, 1968). Because the first-come, first-serve queue is a common good over which none of the taxi drivers or owners have a responsibility to maintain, the cost of adding an additional taxi to the queue is less than the benefit of additional revenue and market share. As a result, taxi-cab companies have incentive to increase supply well beyond what is needed at the airport. The consequence, as noted by Schaller above, is the oversupply of taxis, reduction of wages for the drivers, and reduction of service quality to the consumers.

This problem is only exacerbated by ride-share companies. Not only would there be an oversupply of TFH vehicles at the airport, but ride-share company drivers would not have to wait in a queue to pick-up their passengers because they are dispatched through their smart phone application. That is, they want the ability to jump to the front of the queue of taxis waiting for customers.

Uber and Lyft are in the dispatch market—they just use a different technology to dispatch the drivers than the current radio dispatch. Several authors have found benefits in allowing open access to this market (see, e.g., Roose, 2013, The Economist, 2014, Zerby, 1983). However, these benefits were derived in markets that also deregulated prices, so a discussion of these results will be included in the section on price deregulation below.

Schaller (2007) notes that when open entry in the dispatch market is combined with open entry in the taxi-stand market, poor results generally result as the new entrants tend to focus on the taxi-stand business (e.g. airport). In fact, (Frankena and Pautler 1984) note that, in Atlanta, service to minority communities decreased even though the number of taxi cabs doubled.

In Dallas prior to 2003, the dispatch market did thrive even though the airport market was in disarray. Schaller (2007) attributes this success to the three strong dispatch companies in the city. These results seem to raise the question of whether new entrants, in general, and Uber/Lyft in particular, could survive and add quality competition to our city. Other municipalities nationwide continue to struggle with the new entrants in the transportation-for-hire market. Since 2011, New York State has required all Uber

drivers to adhere to local regulations and obtain proper licensing before carrying passengers, including (see Appendix B):

- **Insurance:** 24/7 commercial insurance liability limits of \$100,000 per person and \$300,000 per occurrence in liability insurance, and \$200,000 per occurrence in No-Fault or Personal Injury Protection coverage (and coverage applies whether or not the app is on or off, or whether the vehicle is being used for-hire or is off-duty);
- **Drug Testing:** every driver must receive a drug test before being licensed, and once every year thereafter;
- **Workers Compensation:** every base must pay a percentage of gross annual receipts into a fund to compensate drivers for work-related injuries, irrespective of fault;
- **Vehicle Inspections:** every vehicle affiliated with a base must undergo safety and emissions inspections three times per year (where private automobiles are only required to do so once annually); and
- **Criminal Background Checks:** each driver must be fingerprinted and undergo a background check prior to licensure, and the TLC is notified immediately of any arrests by such drivers

PRICE REGULATION & MARKET FAILURE OF DEREGULATION

In this section, we discuss the historical and academic thought about price deregulation in TFH industry focusing on dispatch and taxi stand markets. The prearranged market in Dallas (e.g., shuttle and limo/town car) is already somewhat deregulated where they have their rates on file downtown. The purpose of this charge is to separate pre-arranged from the other two markets and allow taxi companies to make reasonable profits to subsidize the social services they are required to provide (see above discussion on reasonable profits).

The underlying argument for price deregulation is tied to the Federal Trade Commission's fundamental principle that competition produces efficiencies, which, in turn, increases consumer welfare through lower prices and greater variety:

"Competition in America is about price, selection and service. It benefits consumers by keeping prices low and the quality and choice of goods and services high" (FTC 2009).

This philosophy provides the first two ways to measure the success of regulatory actions: 1) how do they affect the prices in the market, and 2) how do they affect the quality and availability of services in the market? However, as noted above, regulatory goals also include public safety, consumer protection, driver safety, ability of a company to make a reasonable profit, job creation, and the reduction of traffic congestion and pollution. As before, the taxi-stand and dispatch markets are discussed separately, as they have different characteristics.

The Failure of Deregulation - In the taxi-stand market, by almost all measures, price deregulation was a failure. In terms of price, PriceWaterhouse (1993) reports price increases in all markets they studied. Many other authors report price gouging at the airports and other terminals (see, e.g., Sadlar 2004, Dempsey 2007, Laisy 2001, Zerby 1983). Zerby (1983) argues that while prices did increase, relative to the consumer price index (i.e., taking inflation into account) relative prices for taxi fares actually decreased. However, all of the authors note a significant price discrepancy between fares from the airport and fares to the airport (from the same location), sometimes exceeding 50% difference. Zerby (1983) comments:

*"Interestingly, consumers have protested more about the fare **discrepancies** than about the **amount** of the fare, which suggests they would pay a premium to have uniform rates." (p.46)*

It is important to note the causes of this market failure where increased competition and price deregulation should have decreased prices. The first cause is known as *information asymmetry* (see, e.g., Dempsey 1997, Zerby 1983, Schaller 2007). That is, consumers may not be aware of local regulations that allow differing prices between the different taxi companies. They may assume that the regulations are similar to other cities in the U.S., where taxi fares are uniform across companies. Even if the consumers do know about the regulations, visitors do not have the chance to repeatedly select companies to determine the price and quality tradeoffs among the different companies. The reason that the prices are lower for the return trip to the airport is that the hotels have a vested interest in their customer's satisfaction, and have information regarding the price/quality tradeoffs in the marketplace. Therefore, the hotel staff can make appropriate recommendations and/or screen the taxi companies to ensure appropriate pricing. Airports and other city-owned property can be viewed in a similar manner where we want the city to select appropriate TFH companies that will not harm the important tourism, convention, and hotel industries by creating dissatisfied customers.

Transactional Costs - A second cause for this failure is known as *transaction costs* (see, e.g., Dempsey 1997, Zerby 1983). In this market failure, consumers may know about different pricing by the different companies, but still not want to bargain for prices or shop the different taxis available for the best price due to the effort involved (especially after a long day or days of traveling); the fact that they may be on an expense account, so the savings are not kept by the person expending the effort; they may be afraid of upsetting the drivers and other passengers by comparison shopping; and the strong normative value that the first cab in line should be the one taken.

First-Come, First Serve - A third cause for this failure is the structure of the *first-come, first-serve* taxi lines at the airport. Because all of the available taxis are not sitting curbside, there is no guarantee that the low-cost provider is even available. Further, if we assume that the previous customers did comparison shop, then the high price and/or low quality providers will be the ones left in the queue. As noted above, the new technologies make this problem worse, not better—as ride-share companies do not want to stand in line with the other drivers.

Cost Recovery - A fourth cause of this problem is *cost recovery* (see, e.g., Dempsey, 1997). In this case, drivers may refuse short-haul trips (or raise the prices via minimum charges) to ensure that they are compensated for the time the driver spends in the queue. Cost recovery (from "dead-end" trips) can also result in the drivers "red-lining" certain parts of the city, especially rural and/or parts of the city far from other taxi stands, due to the fact that their taxi will be empty on their return trip to another taxi-stand. Therefore, the drivers want to recover the costs of this return trip. This market failure can then result in poor customer service, and poor coverage for the city.

Market Pricing - Clearly, one way to address the price gouging is to set maximum prices. However, Zerby (1983) notes that maximum prices tend to become the market price (and can be manipulated by taxis when they are set to some average value). In summary, Zerby (a proponent of deregulation) (1983) concludes:

"...[I]n markets where price competition is difficult (at the airport and at cab stands downtown), it led to fare discrepancies, higher fares, and other problems that were a major source of consumer dissatisfaction."

When price deregulation is combined with open entry, service deteriorates even further. Several authors have reported vandalism, fights, dirty cabs and drivers, unknowledgeable drivers, and aggressive solicitation of customers (see, e.g., Sandlar 2004, Zerby 1983, Dempsey 1987). These results are due, in part, to reduced driver income (even with the higher prices), due to increased competition for a fixed market.

Even before Uber/Lyft, there was evidence that increasing a companies' price flexibility (thereby increasing competition) in the dispatch market has positive effects (Shaller, 2007). The reasons for this include: 1) most of the customers in this market are local, so the information asymmetry issue does not apply and the customers have the opportunity to repeatedly sample companies to determine the price/quality tradeoffs; 2) Consumers have time to evaluate the alternatives before making a reservation, which is especially true with the internet. So, the question in this market is the degree of flexibility that companies should have to set prices. For instance, is raising prices during high-demand periods considered "price gouging?" or how much of an increase is gouging? How often can companies change prices and do they need to notify regulatory bodies? However, regulators should also monitor the effect of the pricing regulations on service availability for all of North Texas residents and their ability to find affordable and reliable service 24/7.

Predatory Pricing - Finally, because ride-sharing companies do not conform to regulations (i.e. pricing, safety, liability, health regulations, social welfare and service); they have a competitive advantage in their cost structure that allows them to perform "predatory pricing" on incumbent firms. The term predatory pricing has a specific legal meaning, which is why it appears in quotes. However, ride-share companies are pricing below incumbent firm prices, and the incumbent firms cannot respond due to regulatory restrictions.

CONCLUSIONS

All TFH companies should have to follow the same regulations, and all regulations should be transparent and enforceable. Uber has been performing “predatory pricing” on the incumbent firms which they are able to do because of their lack of regulation on the type of Transportation for Hire (TFH) service that they provide. Any regulations adopted should make a level playing field for all competitors, be easily understood, and be easily enforceable. The top priorities are, and always should be, the safety of the public and customer, as well as the availability and quality of the service. Uber’s lack of proper insurance and its operation outside of any regulation has led cities to order cease and desist orders until ride-sharing companies (Uber/Lyft) are able to operate with proper authority.

The historical evidence is clear that **market failures in the taxi-stand segment of the market will cause severe problems if regulations are adopted to allow open entry and/or deregulated prices. These problems will create customer dissatisfaction, resulting in harm to our tourism, convention, and hotel industries,** with an estimated economic impact of \$13 billion in 2014.

Due to the nature of the market, perfect competition is impossible in the TFH industry. However, **creating a fair market, where all companies are able to compete under the same regulations could have a positive effect.** Lower fares can be expected as more service providers compete, lowering operating costs due to competitive incentives, improved service quality as competition encourages friendly, reliable service, innovations due to its necessity to stay ahead of the competition, and increasing demand for the service as prices fall and quality improves (Moore, Adrian T. & Balaker, Ted 2006).

Dallas is in a unique position because it has the ability to benchmark how other U.S. cities’ are dealing with ride-sharing companies entering the market. . In Seattle, ride-sharing companies have committed to providing the city with data about the rides provided through their services. Seattle has also required that they increase the insurance coverage for their drivers during the times when they aren’t carrying a passenger. The following are the key terms of a recent proposal out of Seattle:

- Transportation network companies and their drivers will be licensed and required to meet specific insurance requirements.
- The City will work with the industry to clarify or change state insurance law to account for recent changes in the industry, similar to recent actions in Colorado.
- There will be no cap on the number of transportation network company drivers.
- The City will provide 200 new taxi licenses over the next four years.
- Taxi and for-hire licenses will transition to a property right that is similar to a medallion in other cities.
- For-hire drivers will have hailing rights.
- An accessibility fund will be created through a \$0.10 per ride surcharge for drivers and owners to offset higher trip and vehicle costs for riders who require accessibility services (Bishop and Soper 2014).

In San Francisco, where Uber originated, there have been disputes ongoing for quite some time—assessing their decisions will be a great case study for Dallas. Recently, San Francisco released documents revealing a proposed expansion of regulations for insurance coverage with ride-share companies like Uber. The regulation demands they provide \$1 million commercial liability insurance starting when drivers turn on a smartphone app showing they are available to work and to make the ride companies’ insurance be the primary coverage (Nelson, Katie 2014).

Pricing regulations prevent “price gouging” during periods of high demand, such as snow/ice storm, holidays, bar closing times, etc. (see, e.g., Coscarelli 2013). This gives Uber/Lyft an unfair

advantage in the market as they do not follow the pricing regulations for base fare, minute, or distance charges. Second, Uber and Lyft are priced below taxi fares. The taxi companies simply cannot match their lower prices due to the expense of regulation.

Finally, we find the impact of ride-share companies on availability of service for the elderly, poor, minority communities to be very disconcerting. This issue will be one of the largest challenges facing regulators should they decide to let ride-share companies compete in the market.

REFERENCES

- Bishop, T., & Soper, T. (2014, June 16). Seattle mayor reaches deal to legalize Uber, Lyft and Sidecar, without driver limits - GeekWire. *GeekWire*. Retrieved June 22, 2014, from <http://www.geekwire.com/2014/seattle-legalizes-uber-lyft-caps/>.
- Boyd, Bill (2009), "Meeting Planners' Criteria For Convention Centers," Oklahoma City. Retrieved from: www.okc.gov/planning/roundtable/BillBoyd.pdf.
- Coscarelli, Joe (2013), "The Uber Hangover: That Bar Tab Might Not Be the Only Thing You'll Regret in the Morning," New York magazine. Retrieved from: <http://nymag.com/daily/intelligencer/2013/12/uber-surge-pricing-model.html>.
- Dempsey, Paul Steven (1996), "Taxi Industry Regulation, Deregulation & Reregulation: the Paradox of Market Failure," **Transportation Law Journal**, 24:73.
- Frankena, M.W. and P.A. Pautler (1984), "*An Economic Analysis of Taxicab Regulation*," Federal Trade Commission, Washington, D.C.
- FTC (2009), "Competition Counts: How Consumers Win When Businesses Compete." Washington, DC: Federal Trade Commission.
- Grover, Joel and Keith Esparros (2014), "Risky Ride: Who's Behind the Wheel of Uber Cars?" NBC Bay area (May 2, 2014). Retrieved from: <http://www.nbcbayarea.com/investigations/Risky-Ride-Uber-Investigation-256604571.html>.
- Harden, Garrett (1968), "The Tragedy of the Commons", *Science*, 162:3859, 1243-1248.
- Inside HigherEd (2014), "No Airbnb or Uber for U. of California Employees," June 25. Retrieved from <http://www.insidehighered.com/quicktakes/2014/06/25/no-airbnb-or-uber-u-california-employees#sthash.qn1PEDPo.0s1GBrzH.dpbs>.
- Kirchner, Elyce, David Paredes and Scott Pham (2014), "Is Uber Keeping Riders Safe?," NBC Bay Area (April 25). Retrieved from: <http://www.nbcbayarea.com/investigations/Is-Uber-Keeping-Riders-Safe-256438921.html>.
- La Croix, S., J. Mak and W. Miklius (1992) "Evaluation of Alternative Arrangements for the Provision of Airport Taxi Services", *Logistics and Transportation Review* 28(2), pp. 147-166.
- Leisy, Craig (2001), "Taxicab Deregulation and Reregulation in Seattle: Lessons Learned," International Association of Transportation Regulators (IATR) Conference.
- Maly, David (2013), "App Lets Riders Forgo Cabs and Ignites Debate on Dallas Code," retrieved from NY Times archives at: http://www.nytimes.com/2013/11/01/us/app-lets-riders-forgo-cabs-and-ignites-debate-on-dallas-code.html?_r=0
- Moore, Adrian T., and Balaker, Ted. (2006), "Do Economists Reach a Conclusion on Taxi Deregulation?" *Econ Journal Watch*.
- Mundy, Ray A (2010), "Regina Taxi Study," Tennessee Logistics and Transportation Foundation.
- Nelson, K. (2014, June 12). Stricter regulations could close insurance gap for Uber, Lyft, Sidecar. *MercuryNews.com*. Retrieved June 22, 2014, from http://www.mercurynews.com/business/ci_25945774/stricter-regulations-could-close-insurance-gap-uber-lyft.
- PriceWaterhouse (1993), "Analysis of Taxicab Deregulation and Re-Regulation," International Taxicab Foundation, Kensington, MD.
- PRNewswire (2014a), "Statewide Poll Shows Floridians Against Giving Uber "Free Ride"", retrieved from: <http://www.prnewswire.com/news-releases/statewide-poll-shows-floridians-against-giving-uber-free-ride-247043051.html>.

- PRNewswire (2014b), "Florida Taxicab Association Assails Uber's Rating of Passengers – Cites Safety, Privacy and Discrimination," Yahoo Finance. Retrieved from: <http://finance.yahoo.com/news/florida-taxicab-association-assails-ubers-112600262.html>
- Ray, Daniel and Yasmine Ghahremani (2014), "Credit card statistics, industry facts, debt statistics," retrieved from: <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php>.
- Reyes, Jeannette and Kris Van Cleaves (2014), "Lyft, Uber pledge to continue operations in Va. despite cease-and-desist order," retrieved from <http://www.wjla.com/articles/2014/06/virginia-dmv-issues-cess-and-desist-orders-to-lyft-uber-103833.html>.
- Roose, Keven (2013) "Here's How Uber Should Fix Its Surge Pricing Problem," New York Magazine. Retrieved from <http://nymag.com/daily/intelligencer/2013/12/ubers-surge-pricing-problem.html>.
- Sadlak, Kristina (2004), "Taxicab Deregulation," retrieved from <http://www.cga.ct.gov/2004/rpt/2004-R-0380.htm>.
- Schaller, Bruce (2007), "Entry Controls in Taxi Regulation: Implications of US and Canadian experience for taxi regulation and deregulation," *Transport Policy*, 14, 490-506.
- Scholarly Research Bureau: Advantages and Disadvantages of different Market Structures. (2012, November 1). *Scholarly Research Bureau: Advantages and Disadvantages of different Market Structures*. Retrieved June 22, 2014, from <http://scholarlyresearchbureau.blogspot.com/2012/11/advantages-and-disadvantages-of.html>.
- Smythe, Terry (1990), "Service Excellence," Manitoba, The Taxicab Board. Retrieved from: <http://www.taxi-l.org/service02.htm>.
- Staley, Samuel, Amy Kirlin, Derrick Johnson, Melissa Seckora, Doug Hyne, and Brandon Lynaugh (1996), "Taxicab Regulation in Ohio's Largest Cities," Buckeye Institute for Policy Solutions.
- The Economist (March 29, 2014), "Pricing the Surge: The microeconomics of Uber's attempt to revolutionize the taxi market," retrieved from <http://www.economist.com/news/finance-and-economics/21599766-microeconomics-ubers-attempt-revolutionise-taxi-markets-pricing-surge>.
- Trudel, Michael (1996), "The future of taxi regulation," First European annual conference of the IATR (International association of Transportation Regulators), Stratsborg, France retrieved from <http://www.taxi-l.org/future.htm> .
- Vuong, Andy (2014), "Colorado first to authorize Lyft and Uber's ridesharing services," retrieved from Denver Post online, http://www.denverpost.com/business/ci_25907057/colorado-first-authorize-lyft-and-ubers-ridesharing-services.
- Zerbe, Jr., Richard O. (1983), "Seattle Taxis: Deregulation Hits a Pothole," *Regulation*, Nov/Dec, 43-48.

Appendix A: Letter from California to Uber



PUBLIC UTILITIES COMMISSION

STATE OF CALIFORNIA
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA 94105

MICHAEL F. PEPPER
PRESIDENT

TEL: (415) 703-3700
FAX: (415) 702-5091

June 10, 2014

Travis Kalanick
UberX
182 Howard Street #8
San Francisco, CA 94105

RE: Transportation Network Companies Operating in California

Dear Mr. Kalanick:

On September 19, 2013, the California Public Utilities Commission (CPUC) approved a decision to allow Transportation Network Companies to operate in California provided that certain requirements were adopted to ensure the safety of passengers, drivers, and pedestrians. We adopted a criminal background check, a driver training program, a car inspection, insurance, and having a driver's license, among other protections. These safety requirements should not hinder your creativity nor should they impede your innovation. These are safety measures to protect the very customers you are trying to serve, as well as drivers. However, since the issuance of the CPUC's decision we have heard numerous complaints that these safety rules are being ignored.

On June 4, 2014, seven members of the CPUC's staff, including our Executive Director, met with law enforcement personnel from five major California airports: Los Angeles International, Oakland International, San Diego International, San Francisco International, and San Jose International. Airport personnel described numerous contacts that airport police have had with your drivers over the past year at these airports. The airports have strong documentary evidence that your drivers have been operating at airports without an airport permit. In the CPUC's September decision we made clear that each TNC must abide by the airports rules.

Specifically we adopted this explicit rule:

Operations at Airports: TNCs shall not conduct any operations on the property of or into any airport unless such operations are authorized by the airport authority involved.

San Francisco International Airport reported that out of approximately 300 contacts it has had with drivers for TNCs (the majority of whom were UberX drivers), 70 percent of the cars did not display proper "trade dress" on their vehicles. Moreover, none of your firms have obtained a permit from the airports to transport passengers to or from airport facilities. Decision 13-09-045 specifically requires TNCs to obtain such permits. In addition, numerous TNC drivers did not have proof of insurance on their persons, and TNC drivers have been repeatedly observed picking up passengers at various airports even though doing so violates local ordinances.

Officers at various airports have also observed individual TNC drivers transferring their "app" from one driver to another—both of whom are using the same vehicle. Further, two of the drivers that San Francisco airport officers had contact with did not have valid driver's licenses. Asked for an explanation of their behavior, many of the drivers stated they did not know what they were doing was illegal, or that a permit was required before a TNC could pick up a passenger at an airport.

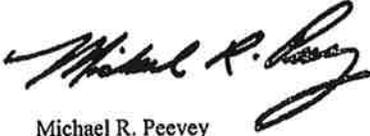
This letter is being sent to put you on notice that all of the above described behaviors violate Decision 13-09-045 and place the permit you have been granted to operate by the CPUC in jeopardy. If the CPUC determines that you have been out of compliance with D.13-09-045, or any of the express provisions of the permit itself, the CPUC may revoke your permit to operate.

I would like to express my personal disappointment and concern about this behavior. California is the first state that created rules for this industry to promote consumer choice, we will not, however, accept consumer choice at the expense of consumer safety.

If you believe these claims are unjust, please inform my office no later than June 17, 2014, in letter form.

If immediate action is not taken to bring your operation (and the actions of your contractors) into compliance with the express provisions of D.13-09-045, the CPUC will begin enforcement actions (including revocation of your permit) in the near future. I have directed the CPUC's investigative unit to begin random audits of your operations. Within two weeks of this letter I expect full compliance with each of the measures adopted in D.13-09-045. A copy of the rules is attached to this letter for your convenience.

Sincerely,



Michael R. Peevey
President

Cc:

Commissioner Michel Peter Florio
Commissioner Catherine J.K. Sandoval
Commissioner Carla J. Peterman
Commissioner Michael Picker
Paul Clanon, CPUC Executive Director
Marzia Zafar, Director, of Policy & Planning Division, CPUC
Denise Tyrrell, Acting Director, Safety & Enforcement Division, CPUC
Jason Zeller, Attorney, CPUC
Selina Shek, Attorney, CPUC
Shanna Foley, Attorney, CPUC
Los Angeles International Airport
Oakland International Airport
San Diego International Airport
San Francisco International Airport
San Jose International Airport

Appendix B: IATR Memo



MEMORANDUM

To: All IATR Members
From: Professor Matthew W. Cole, Esq.
IATR President
Matthew W. Cole
Re: Lyft & Uber Licensing Questions in NYC
Date: July 22, 2014
Cc: Tom Crisovan, IATR Board Chair

I have received several inquiries about the status of the media, litigation and other activities involving Lyft's attempt to enter the New York City market, and the response from Uber as well as government officials, including the local regulator, regarding licensing requirements as they pertain to both companies.

As you know, I was the Commissioner/Chair and General Counsel of the New York City Taxi and Limousine Commission (TLC) for a long time, and I am very familiar with the laws and regulations involved. I will try to shed some light on some of the misinformation floating around to head-off further questions and confusion from our regulator and associate members.

Last week, the City of New York and the New York State Attorney General went to court to seek to prevent Lyft from operating without the required for-hire base licenses required of pre-arranged for-hire transportation service. Uber, and its UberX service in New York City, have been operating as a licensed company with several for-hire business (or "base") licenses (limousine, black car and livery bases). NY City's and NY State's position is that these companies are engaging in for-hire transportation, and must be licensed like everyone else.

Some have questioned why and how UberX has been allowed to operate in New York when across the country its business model is similar to Lyft's operation. The answer is that UberX operates differently in New York City than it does in other jurisdictions because of

{10942571.0}

pressure placed on the company by the TLC back in 2011 when they first began operations. It was not a deal or negotiations that led to new laws, but Uber simply obtained licenses like everyone else.

UberX operates through licensed independent contractor for-hire vehicle drivers (limousine, black car and livery drivers). These independent contractor drivers all have fully licensed vehicles and operators' licenses themselves from the NYC TLC. The drivers are mostly also the owners of their vehicles, and have commercial insurance in excess of what is required of personal automobiles in NY State. In NYC, for example, Uber's several licensed bases must comply with the following relevant requirements, among many others, which contradict their attempts around the country to pass laws less stringent than what they already must adhere to in NYC:

- **Insurance:** 24/7 COMMERCIAL INSURANCE liability limits of \$100,000 per person and \$300,000 per occurrence in liability insurance, and \$200,000 per occurrence in No-Fault or Personal Injury Protection coverage (and coverage applies whether or not the app is on or off, or whether the vehicle is being used for-hire or is off-duty);
- **Drug Testing:** every driver must receive a drug test before being licensed, and once every year thereafter;
- **Workers Compensation:** every base must pay a percentage of gross annual receipts into a fund to compensate drivers for work-related injuries, irrespective of fault;
- **Vehicle Inspections:** every vehicle affiliated with a base must undergo safety and emissions inspections three times per year (where private automobiles are only required to do so once annually); and
- **Criminal Background Checks:** each driver must be fingerprinted and undergo a background check prior to licensure, and the TLC is notified immediately of any arrests by such drivers

All other requirements of for-hire base licensing requirements can be found at the following link http://www.nyc.gov/html/tlc/downloads/pdf/tlc_book_current_chapter_2.pdf. If you have any follow-up questions about this matter I can be reached at 212-237-1106 or at dmu@tlnr.org.

Dianne Perry

From: Ray Middleman <middleman@mlmpclaw.com>
Sent: Wednesday, September 03, 2014 10:51 AM
To: dianne perry
Subject: FW: Briesch Report
Attachments: _Certification_.htm

-----Original Message-----

From: Jamie Campolongo [mailto:jcamp@pghtrans.com]
Sent: Tuesday, August 26, 2014 1:43 PM
To: 'Ray Middleman'; 'PJ Lavelle'; 'John Malady'
Subject: FW: Briesch Report

From: Kines, Dwight [mailto:dwight.kines@transdev.com]
Sent: Monday, August 25, 2014 1:54 PM
To: jcamp@pghtrans.com
Subject: FW: Briesch Report

I'll let you pass it around to attys...they could charge you \$1,000 just to read it...

Dwight Kines | Vice President, Mid Atlantic Region - VTOD

Veolia Transportation | 2100 Huntingdon Ave., Baltimore, Md 21211

Office: 443-573-3416 Mobile: 410-977-0526

Please note that my new email address is : Dwight.kines@transdev.com

From: Steve Harter [mailto:sharter@notrecap.com]
Sent: Wednesday, August 20, 2014 4:04 PM
To: Joe Chernow; Ricky Kamins; Roman Martinez; Edward Kargbo; Daniel D. Gartner; Marty Hill; Jack Bewley; Ray Mundy; Joe Garcia; Alfred LaGasse; Steve Harter; Dan Hedges; Lee Padilla; Victor Harter; John Bouloubasis; William J. Rouse; Michael J. Fogarty; John M. Lazar; Anthony Palmeri; Brian A. McBride; Jonathan Lazar; Matthew W. Daus; Larry Silva; Pat Corrigan; Robert McBride; Roy Spooner; Jim Bell; Joseph, Mark; bill@metrotaxi.com; msrouse@charter.net; mriddle@yellowcabflorida.com; George, Bill; sheri@checkerkc.com; Judy swystun; nnichols@redtopcab.com; otoole, T; devo@acetaxi.com; ellishouston@bellsouth.net; Campolongo, James; Kines, Dwight; rdrenner@dondavisdeal.com; icarconnect.com; lreed@thereedsprc.com; jim@yellowcabsf.com; mmohebbi@itcurves.net; spint@taxiservicesinc.com; sgpirez@ycindy.com; cplunkett@mobile-knowledge.com; John Ferrari; Erich Reindl; Chris Van Dyke; Les Eisenberg; Jasmine Le Veaux; Ed Yellow Philly; Whittle, Brad; Braddock, Brad; Jeff Kates; Roger Andrews; John Moberg; Louie Manorie; JimB@diamonntaxi.com; Bob@wheelchairtransport.com; Taxiguy56@aol.com; Ham Smythe@premierofmemphis.com; GJ@yellowcaboftampa.com; LIBCOMM@aol.com; PRosenberg80@aol.com; kclaypool@atlaslimos.com; Robert Werth; Jordanlimousines; Barry Lefkowitz; Philip Jagiela, (yag-E-ela); Stepanik, Chad; Lauren The Wave; cindilaws@msn.com; marty@selectdfw.com; okcviplimo@yahoo.com; rormsbee@elitelimohouston.com; Duanehk@aol.com; info@momsagainstuber.com; James Rodriguez; rchapin@mearstransportation.com; Durant associates@att.net; middleman@mlmpclaw.com; jmalady@malady-wooten.com; Ricky Kamins; James Cooper
Subject: Fwd: Briesch Report

This report points out importance of ordinances and need for public transportation.

----- Original message -----

From: Jeff Finkel
Date: 08/19/2014 9:05 AM (GMT-06:00)
To: Steve Harter
Subject: RE: Briesch Report

Steve;

Attached is the cover letter and the report done by Dr. Briesch with SMU Cox School of Business. The approach taken was if the City had no interest in the Mundy study done in 2002 by Dallas, the Jacobs Consulting report done for DFW Airport, or the Schaller report done by Ft Worth in 2007, all indicated they could not support the introduction of more vehicles in the marketplace and maintain quality, we would approach it from an economic standpoint on the City of Dallas. Who better than the Cox School of Business at SMU? It is attached. Note, Scott Joslove and the Texas Hotel and Lodging folks were a sponsor of the study.

Jeff

Jeff Finkel
2515 Irving Blvd.
Dallas, TX 75207
972-233-6999 ext. 201/Office
214-215-1234/Mobile
Jeff@dallasyellowcab.com

From: Steve Harter [<mailto:sharter@notrecap.com>]
Sent: Monday, August 18, 2014 6:45 PM
To: Jeff Finkel
Subject: RE: Briesch Report

Can I get a copy of the report?

Thanks

Steve

----- Original message -----

From: Jeff Finkel
Date: 08/18/2014 4:11 PM (GMT-06:00)
To: Scott Joslove
Cc: Steve Harter
Subject: Re: Briesch Report

I talked with Steve and he will be giving you a call to discuss.
Jeff

Sent from my iPhone

On Aug 18, 2014, at 1:37 PM, Scott Joslove <sjoslove@texaslodging.com> wrote:

Jeff:

Have you talked to Steve Harter yet; we have Uber that has agreed to participate and wanted to see if Steve would cover the other side of the issue at our September 25th board meeting and I would extend the reduced \$1,500 sponsorship cost to him as I did to you.

Scott

Scott Joslove
President & CEO | **Texas Hotel & Lodging Association**
1701 West Ave | Austin, TX 78701
Office: 512.474.2996 | Cell: 512.565.5292
www.texaslodging.com | sjoslove@texaslodging.com

From: Jeff Finkel [<mailto:jeff@dallasyellowcab.com>]
Sent: Monday, August 11, 2014 9:08 AM
To: Scott Joslove
Subject: Briesch Report

-Scott;

Here is the Briesch report from SMU Cox School of Business. The Dallas City Council today I believe has 10 votes to terminate the taxi, shuttle and limousine ordinance and change everything to a "for Hire" ordinance. The battle we were hoping to fight in Dallas is over and now we must evolve to succeed in the new model being put forth, with the understanding this City Council will only enforce parts of the ordinance to fit their needs. We must compete in a world where our competition has been allowed to operate for two years with no insurance supplied to the City of Dallas, and no fees paid to the regulatory authorities. Dumping assets is a must in a world where the biggest competitor has no assets and has used the cost of regulatory fees and insurance to offer the marketplace free rides for signing up for their app. Scott, I appreciate the opportunity, but after discussing the situation with my shareholders we have been tasked to cut every possible expense. It makes no sense for us to come to Austin when the battle is lost. Cutting salaries is hard, and I can't justify the expense of the meeting when the cows have left the barn and we are making tough decisions on people's livelihoods. It is my hope to continue to support the HATC and HANTX at the levels we have done in the past. You might see if Steve Harter would have interest in participating as he is fighting the battle in Austin and San Antonio. I have a mobile at 713-598-4683, sharter@notrecap.com.

Thank you

Jeff

Jeff Finkel
2515 Irving Blvd.
Dallas, TX 75207
972-233-6999 ext. 201/Office
214-215-1234/Mobile
Jeff@dallasyellowcab.com

This e-mail is intended only for use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. Any use, distribution or copying of this e-mail communication is strictly prohibited if you are not the addressee. If so, please notify us immediately by e-mail, and destroy the original. Thank you.