

TLC staff has reviewed taxicab fares and lease caps as required by the TLC rules passed in July 2012. Considering the Commission comprehensively reviewed both of these last year, this report mostly serves as an update to the information provided during the rulemaking process last summer. As outlined below, the fare increase that took effect in September 2012 has increased net driver earnings while fares remain comparable to the overall price level for other goods and services. Additionally, medallion prices have continued to rise since last year and owners continue to see a significant rate of return – signaling a healthy and robust taxicab industry in New York City. Therefore, the staff recommends that neither the rate of fare nor industry lease caps be changed at this time.

### **Fare review**

The current rate of fare is set at \$2.50 for the first 1/5 mile; plus \$0.50 for each additional 1/5 mile or each minute stopped or moving slower than 12mph; with a \$1.00 surcharge for trips beginning 4PM-8PM Mon-Fri; and a \$0.50 surcharge for trips beginning 8PM-6AM daily. (In addition, passengers pay a New York State tax of \$0.50 per ride, which amount accrues wholly to the MTA.) As a result, the typical taxi fare today – resulting from an average trip of 2.8 miles and 4.77 minutes of wait time – amounts to approximately \$12.39.

The rate of fare has historically kept pace with inflation and comparable transportation costs. Over the last 11 years, the rate of fare has been increased three times, with the last raise having been implemented less than one year ago.

### *Driver Earnings*

Due to last summer's 17% fare increase, driver income has increased as gas prices have remained mostly steady, credit card costs have been included in the restructured lease caps, and inflation (measured by the New York Metro Area CPI) has risen only very slightly. Overall, following the fare increase, driver income has increased nearly 31%, as illustrated in *Figure 1* below.

Credit cards: In 2008, the TLC began requiring taxis to accept credit cards. This has been a great benefit to passengers, of course, but drivers have had to bear the cost of credit card processing fees. Prior to September 2012, drivers paid a 5% processing fee (which fee also subsidized some fleet administration costs) on all credit card receipts (including that portion of the farebox comprised of tolls and taxes, which receipts do not remain with drivers), and approximately 55% of a taxi's farebox was paid by credit card. (As a historical note, the 2006 fare increase was designed to compensate drivers for the lost revenue due to credit card processing fees, but the rate of credit card usage has exceeded expectations and, as a result, fees have impacted driver income more than expected.) Beginning in September 2012, the 5% processing fee was replaced with a \$10 per-shift lease cap increase to cover the cost of credit card processing to overcome driver resistance to accepting credit cards. Since this rule change took effect, credit card

usage has increased to an average of 59% of a taxi's farebox.<sup>1</sup> In the five months following the rule change, the average taxi shift included \$170.77 in credit card charges. The \$10 flat fee is more than the average \$8.54 that would have been paid by the driver under the previous 5% rule, and will continue to be more until credit card usage rises above a certain level. This means that at current levels of fare revenue and credit card use, drivers are effectively paying (through the new lease cap) slightly more (~\$2) for credit card processing than they were before the change.

Figure 1. Per-Shift Driver Income 2012 vs. 2013

	2012	2013
Fares and tips	\$289	\$332
<b>TOTAL REVENUE</b>	<b>\$289</b>	<b>\$332</b>
Lease	(\$113)	(\$123)
Sales tax	(\$5)	(\$5)
Gas	(\$32)	(\$33)
Credit card fees	(\$8)	\$0
<b>EXPENSES</b>	<b>(\$158)</b>	<b>(\$161)</b>
<b>NET DRIVER INCOME</b>	<b>\$131</b>	<b>\$171</b>
<b>Change from 2012</b>		<b>30.5%</b>

#### Passenger Costs

Fares must be considered in the context of overall consumer economics and the costs of comparable services. Additionally, the nature and type of service provided, including plans for expanded service, must also be considered from the passenger perspective.<sup>2</sup>

- Comparison to MTA fare:** While taxi fares have increased, this increase has been reasonable in light of general price inflation (which increased 15% from 2006 to 2012, similar to the 17% increase provided last year) and specific increases in the price of comparable services. Historically, the taxi fare has generally kept pace with the cost of other mass transit services (namely, the MTA fare). While taxi fares were increased last fall by 17%, MTA fares were also increased at the beginning of 2013 by 11%. The fare increase brought taxi fares more in line with MTA fares historically, but the January 2013 MTA increase has exceeded (relatively) the increase in taxi fares.

<sup>1</sup> Source: October, 2012 - February, 2013 TLC TPEP Tripsheet Data, April 2013 analysis.

<sup>2</sup> When the planned sale of 2,000 additional wheelchair-accessible medallions is permitted to proceed (a 15% expansion of the existing taxi fleet) and when Boro Taxi service is established, passengers would benefit from increased taxi availability (and the resulting lower wait times).

- **Comparison to taxi fares in other cities:** Following last year's fare increase, the taxi fare remains reasonable compared to other large cities. A sample trip (2.8 miles traveled and 4.77 minutes waiting time on a weekday at 5pm) in New York would cost \$12.39; this is more than a comparable trip would be in Chicago (\$9.88), Philadelphia (\$10.66), Washington, DC (\$10.77), Austin (\$11.12) or Boston (\$12.27), but lower than Los Angeles (\$12.43), Las Vegas (\$12.77) and San Francisco (\$13.27) and much lower than London (\$16.67).

### *Recommendation*

The staff recommends that taxi fares not be changed. Fares were recently increased by 17.89% in September 2012, and comparison passenger prices (e.g., the MTA fare) have remained relatively comparable or more expensive than taxi fares. Further, driver earnings have increased due to the last fare increase while driver expenses have remained mostly steady. Therefore, the fare increase continues to provide drivers with reasonable net income, and a fare increase is not warranted.

### **Lease cap review**

The Commission legalized leasing in 1979. Prior to that, drivers were fleet employees and shared (by splitting the fare box) in the earnings and expenses of taxi operation with fleet owners. Following the implementation of the leasing system, fleet drivers were required to pay the fleet a daily (or weekly) lease amount for the lease of a vehicle and medallion and kept all fare revenue.

Lease caps were not promulgated until 1996, and these initial caps only limited operators to the highest lease amounts charged between January 1, 1995 and September 30, 1995. Fixed amount lease caps were begun in December 1996 when specific dollar amounts were set by the Commission. At this time, the Commission also established medallion-only lease caps to regulate the growing DOV sector; these caps were raised in 2004.

In 2008, the Commission increased lease caps in an effort to encourage the purchase of hybrid vehicles and to make lease caps more accurately reflect the cost to fleets of the purchase and maintenance of different vehicles and the cost to drivers of operating different vehicles.

Most recently, lease caps were restructured in 2012 to include credit card processing fees. As noted, since 2008 all taxis and all drivers have been required to accept credit card payments. The processing fees for these transactions are paid by the driver to the merchant of record (the medallion owner or agent). When this requirement was introduced, merchants were permitted to collect a fee (up to 5% of each credit card transaction) to cover processing costs. In 2012, the lease caps were increased by \$10 dollars per shift and the 5% fee (for credit card processing and fleet administration costs) could no longer be passed onto drivers. This was done to reduce driver resistance to accepting credit cards (with a flat fee, drivers should be indifferent to the method of payment), to streamline collection of processing costs and to allow drivers to better estimate their costs of operation. It is worth noting that the \$10 flat fee added to each shift

remains above the average \$8.54 that would be paid by the driver under the previous rule, providing some additional revenue for medallion owners.

The table below summarizes the changes to lease caps since they were first established in 1996.

Figure 2.

	1996		2004		2012 Credit Card Shift		
	\$ amount	\$ amount	% increase	\$ amount	% increase	\$ amount	% increase
Daily/AM	\$103	\$105	1.9%	\$115	9.5%		
Daily/Sun, Mon and Tue PM	\$103	\$115	11.7%	\$125	8.7%		
Daily/Wed PM	\$103	\$120	16.5%	\$130	8.3%		
Daily/Thurs, Fri and Sat PM	\$112	\$129	15.2%	\$139	7.8%		
Weekly/Car and Medallion	\$617	\$666	7.9%	\$797	19.7%		
Weekly/Medallion Only	\$741	\$800	8.0%	\$1072	34.0%		

Note: A \$3 per shift (\$42 per week) surcharge for alternate-fuel (i.e., hybrid) vehicles was approved in 2008.

The current lease cap structure is outlined below:

Figure 3.

Medallion-and-Vehicle (Fleet) Lease Caps

		Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Weekly
AM	Standard	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$690
	Hybrid	\$118	\$118	\$118	\$118	\$118	\$118	\$118	\$797
PM	Standard	\$125	\$125	\$130	\$139	\$139	\$139	\$125	\$708
	Hybrid	\$128	\$128	\$133	\$142	\$142	\$142	\$128	\$812

Medallion-Only (DOV) Lease Caps

	Medallion-only	All-in
Standard	\$1,072	\$1,347
Hybrid	\$1,114	\$1,389

Note: The hybrid lease cap reflects the higher amounts a fleet or agent can charge for a hybrid vehicle.

### Return on Investment

TLC staff compared the rate of return from medallion operation with other investment opportunities. Figure 4 below compares the return on a medallion purchased at the time of the last across-the-board lease cap increase (in 2004) with comparable investments in the S&P 500 or in a leading corporate bond fund. The purchase price of a corporate medallion in 2004 was \$313,731. As the analysis below demonstrates, an investor who purchased a corporate medallion in 2004 would have realized an annualized return on investment (ROI) equal to 19.9%

each year from 2004 to 2013. This figure includes the annual lease income of \$37,000, as well as appreciation in the value of the medallion, which staff believes is an appropriate consideration in calculating ROI. Excluding medallion value appreciation for the purpose of illustration still yields an annual 8.6% ROI from lease revenue alone. Compared with the S&P 500 (5.9% annual ROI) and the Dow Jones Corporate Bond Index (1.1% annual ROI), the operation of a fleet medallion has provided a more than competitive rate of return.

Figure 4.

	Medallion (w/ cap. app.)	Medallion (w/o cap. app.)	S&P 500	DJI Corporate Bond Index
Principal	\$313,731	\$313,731	\$313,731	\$313,731
Capital Appreciation	\$786,269	\$0	\$119,554	\$29,804
Dividends/Operating Income	\$305,250	\$305,250	\$71,147	\$0
Total Gains	\$1,091,519	\$305,250	\$190,701	\$29,804
Percentage Gain	347.9%	97.3%	60.8%	9.5%
Annualized Gain	19.9%	8.6%	5.9%	1.1%

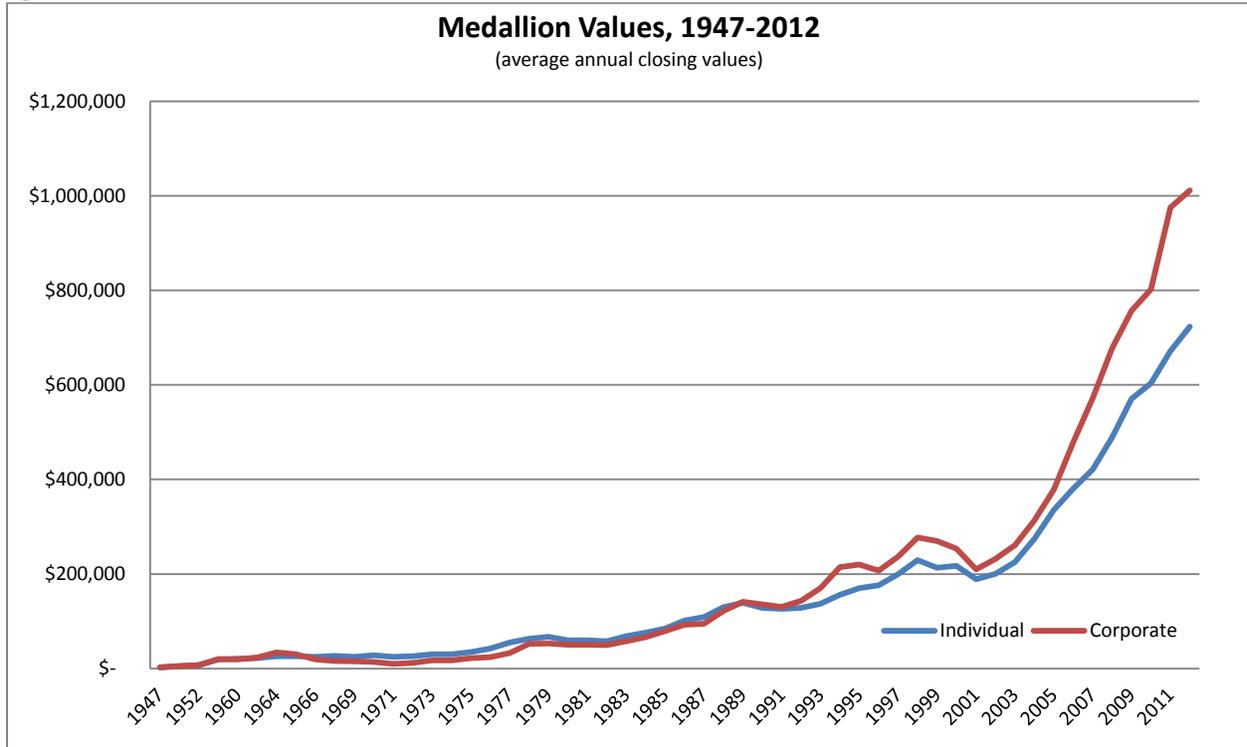
Obviously, the ROI of any individual medallion owner will depend on the price that medallion owner paid for his or her medallion. And given the increase in medallion values (see *Figure 4*), the ROI for recent purchasers is less than the ROI for purchasers in 2006 and before. For example, there are medallion owners who have owned their medallion for decades and paid well under \$50,000 for their medallion, who will have a tremendous ROI (even excluding the appreciation of the medallion itself and accounting for inflation); and there are medallion owners who purchased their medallion just a few weeks ago for more than \$1 million. It is, however, not the purpose of a lease cap review to ensure that purchasers receive a certain ROI regardless of their purchase price. The decision to purchase a medallion must be made by each individual purchaser in the context of the prevailing lease rates (and with information on the total potential revenue and expenses relating to medallion ownership and fleet operation). At some medallion price – and it does not appear from the data that we have been provided that we have reached that point – the income generated by a medallion (including lease income, advertising income and other sources) will be lower than the prevailing market rate of return and that will be reflected in market medallion prices.

#### *Medallion Value*

One particularly telling indicator of the economic health of the medallion economy that we were able to review was the underlying value of the medallion itself. TLC staff evaluated the change in medallion values from 1947 to the present using medallion transfer data, as depicted in *Figure 5* below. Medallion prices have risen dramatically, especially over the last decade. Independent medallions, which cost approximately \$250,000 in 2003 (shortly before the last lease cap raise in 2004), most recently sold for approximately \$900,000 (a 360% increase). Similarly, mini-fleet medallions which sold for approximately \$300,000 in 2003, recently sold for \$1.1 million (a 367% increase). The most recent medallion sale prices can be found on the Commission's website at:

[http://www.nyc.gov/html/tlc/html/about/average\\_medallion\\_price.shtml](http://www.nyc.gov/html/tlc/html/about/average_medallion_price.shtml)

Figure 5.



### Operating Costs

TLC Rules also require the Commission to consider operating costs for medallion operators. Operators were asked to provide cost details during last year's review and again this past month. Very limited information was provided during the last review and no additional information has been provided following the TLC's last request. Given this, the TLC has evaluated those indicators that are publicly available, and based upon this review, cannot conclude that taxi operating costs have increased sufficiently to warrant an increase in lease caps at this time (*Appendix A*).

Revenue for driver-owned vehicle (DOV) agents is only affected by operating costs because agents do not own medallions, and therefore do not benefit from medallion appreciation. These operators provided information during the last review which was considered and the Commission increased DOV lease caps 34% in 2012. Based upon the TLC's review, we cannot conclude that those operating costs have increased sufficiently since that lease cap increase to warrant a further increase in DOV lease caps at this time.

### Recommendation

The analysis conducted by TLC staff does not demonstrate that the current lease rates are unreasonable or that a lease cap increase is warranted at this time. Again, Section 2304(e) of the City Charter provides that "the burden of proof to show that existing rates are not

reasonable shall be upon such segment of the business or industry affected by this chapter”, which sets forth clearly who bears the burden, as well as what the standard of proof is – namely “that existing rates are not reasonable”. To the contrary, the rate of return which medallion owners currently enjoy, and the tremendous increase in the value of medallions over the same 8-year period (as highlighted in *Figure 5*) suggests that medallion ownership is a rewarding enterprise and that the underlying economic health of the industry is robust.

Appendix A:  
Industry Operating Costs

<b>Costs for Businesses</b>		
<b>Item</b>	<b>Change in Cost from 2012 to 2013</b>	<b>Source</b>
Prevailing and projected real estate taxes	Class 4 Property Taxes (most commercial and industrial property) increased 0.136% from Fiscal Year 2011/12 to 2012/13	NYC Dept. of Finance
Prevailing and projected sewer and water rates	Sewer and Water Rates (covering "delivery of clean water and removal of waste") increased 7% during FY 2012/13	NYC Dept. of Environmental Protection
Cost of Electricity	On April 1, 2013, Delivery Rates for non-residential uses in the City of New York increased 2.6316% and Commodity Rates and Charges and Other Charges increased 2.4066%.	ConEdison
Cost of Building Fuel	On April 1, 2013 Commodity Rates for non-residential uses increased 2.4066%, and Delivery Rates for non-residential uses increased 2.3683%.	ConEdison
Current and Projected Cost of Living	Regional (NJ-NY-LI) CPI has increased 0.80% between Sept. 2012 and March 2013.	Bureau of Labor Statistics
Social Security Taxes for Employers	The Social Security Tax rate remained unchanged at 6.2%.	US Social Security Administration
<b>Overall Supply of Drivers and Passengers</b>		
Supply of Drivers	Between January 2012 and January 2013, the number of current hack licenses increased by 2% from 50,260 to 51,243.	NYC Taxi and Limousine Commission
Supply of Passengers (Residents)	New York City's population increased from an estimated 8,175,133 in April of 2010 to 8,336,697 in July of 2012.	NYC Dept. of City Planning
Supply of Passengers (Tourists)	The number of visitors to New York City increased by 5% from 48.7 million visitors in 2011 to 50.9 million visitors in 2012.	NYC Economic Development Corporation

Vehicle	2011 MSRP	2013 MSRP	Percent Change
Ford Crown Victoria	\$29,255	N/A	
Ford Escape Hybrid	\$30,570	N/A	
Toyota Sienna	\$25,606	N/A	
Toyota Camry Hybrid	\$27,050	\$26,140	-3.4%
Nissan Altima Hybrid	\$26,800	N/A	
Ford Transit Connect	\$21,290	\$24,200	13.7%
Toyota Prius	\$23,520	\$24,200	2.9%
Ford C-MAX (Hybrid)	N/A	\$28,365	
Toyota Highlander Hybrid	\$38,140	\$46,370	21.6%

Relevant Government Taxes and Fees		
Item	Fee	Source
Air Compressor Permit	\$210.00	FDNY
Certificate of Fitness to Operate Air Compressors	\$25.00	FDNY
Certificate of Fitness for Supervising Spraypainting C-22	\$25.00	FDNY
Certificate of Fitness for Torch Use of Flammable Gases G-60		
Exam Fee	\$25.00	FDNY
Renewal Fee	\$15.00	
Duplicate Certificate	\$5.00	
Permit to Conduct Spraying or Dipping Operations	\$310.00 Annually	FDNY
Repair Garage Permit	\$105 annually	FDNY
Certificate of Occupancy		
Copy of Certificate of Occupancy	\$5.00	NYC Dept. of Buildings
Temporary Certificate of Occupancy	\$100.00	
For New Buildings	\$100.00	
Welding License		
Licensing Fee (for 3 years)	\$50.00	NYC Dept. of Buildings
Renewal	\$45.00	

Tow Truck Driver Licensing Fee		NYC Dept. of Consumer Affairs
Licensing Fee	\$5 to \$20	
Fingerprint Processing Fee	\$75.00	
Parking Lot or Garage License		NYC Dept. of Consumer Affairs
Stormwater Charge for Standalone Parking Lots	\$0.05 per square foot	NYC Dept. of Environmental Protection
Wastewater Quality Control Application	Case by Case Basis	NYC Dept. of Environmental Protection
Commercial Motor Vehicle Tax	\$1,000 annually for medallion taxicabs	NYC Dept. of Finance
Industry Representative "License"		NYC Taxi and Limousine Commission
Fingerprinting Fee	\$75.00	
Medallion Agent		NYC Taxi and Limousine Commission
Licensing Fee	\$500.00	
Fingerprinting Fee	\$75.00	
Medallion Broker		NYC Taxi and Limousine Commission
Licensing Fee	\$500.00	
Fingerprinting Fee	\$75.00	
Taxi Meter Shop License		NYC Taxi and Limousine Commission
Application Fee	\$500.00	
Fingerprinting Fee	\$75.00/person	
Taxicab/Medallion Drivers License		NYC Taxi and Limousine Commission
One Year Licensing Fee	\$60.00	
Fingerprinting Fee	\$75.00	
Drug Test Fee	\$25.50	
Yellow Taxicab School Fee	\$175 to \$325	
Taxicab License Transfer Tax		NYC Taxi and Limousine Commission
Medallion Transfer Tax	5% of Medallion Price (unless a waiver is submitted)	
Transfer Tax	\$50.00	
Administrative Charge	\$160.00	
Vehicle Transfer Fee	\$50.00	
License Plate Replacement	\$25.00	
License Plate Transfer	\$25.00	

Yellow Cab Safety and Emissions Inspections		NYC Taxi and Limousine Commission
Medallion Renewal Fee	\$1,650 every 2 years	
Commercial Drivers License (State)		New York State Dept. of Motor Vehicles
Permit Fee	\$10.00	
Road Skills Test	\$40.00	
Commercial Vehicle Registration (State)	Two-year fee ranges from \$7.00 to \$259.00 for commercial vehicles depending on weight.	New York State Dept. of Motor Vehicles
Motor Vehicle Repair Station (State)		New York State Dept. of Motor Vehicles
Application Fee	\$10.00	
Business Fee	\$150.00	
Motor Vehicle Use Tax (State)	\$80 for 2 years for Commercial Vehicles	New York State Dept. of Motor Vehicles
New York State Body Damage Estimator License (State)		New York State Dept. of Motor Vehicles
Application Fee	\$25	
Three-Year License Fee	\$150	
New York State Vehicle Repair Shop (State)		New York State Dept. of Motor Vehicles
Application Fee	\$10	
Two-Year Registration Fee	\$150	
Passenger Vehicle Registration (State)	Two year fee ranges from \$26.00 to \$140.00 depending on vehicle weight.	New York State Dept. of Motor Vehicles
Permanent Fleet Registration (State)	Means for owners to pay required fees for 200+ vehicles.	New York State Dept. of Motor Vehicles