



Office of the City Auditor

**Report to the City Council
City of San José**

**TAXI SERVICE AND
REGULATION IN SAN JOSÉ:
AN OPPORTUNITY TO
REEVALUATE CITY
PRIORITIES AND
OVERSIGHT**

**Report 13-05
May 2013**

May 24, 2013

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Taxi Service and Regulation in San José: An Opportunity to Reevaluate City Priorities and Oversight

The City implemented a taxicab service model in 2005 that sought: (1) enhanced taxi driver access to the airport and improved service to the City, (2) improved service to the customer, (3) balanced equity and control between and among companies and drivers; and (4) efficient and effective City regulation.

In September 2012, the City Council asked the City Auditor to determine: whether the taxi service model had yielded the results the City expected; whether Taxi San Jose is performing as expected; and the impact and effectiveness of the current airport permit allocations.

Chapter 1: Airport Taxi Drivers Are in Widespread Non-Compliance with Their Off-Airport Service Obligations. The City issues 300 authorizations to drivers allowing passenger pickups from the on-demand queue at the airport (195 assigned to individual drivers, and 105 assigned to companies). To obtain and maintain an Airport on-demand authorization, the City requires airport taxi drivers to provide a minimum level of service both on- and off-airport. However, we estimate fewer than a quarter of permit holders met the minimum service obligations in 2012 (only 7 permit holders complied 100 percent of the time). In addition, downtown and neighborhood taxi trip volume (per capita) has declined since 2003, indicating that the potential for San José's taxi market to grow has still not been realized. Widespread non-compliance with minimum service obligations undermines a key way with which the City sought to enhance downtown and neighborhood taxi service.

Chapter 2: Reduced Passenger Volume and Oversupply of Taxis at the Airport Have Led to Driver Idle Times far in Excess of the 30-Minute Goal. In 2012, taxis served 304,000 on-demand trips from the airport; this was approximately 23 percent below the pre-recession volume. As a result, drivers faced longer idle times at the airport before it is their turn to pick up an on-demand fare: the 2012 median idle time was 73 minutes for all weekday trips, up from 44 minutes in 2007. The total of all driver idle times presents a huge unused resource—1,000 driver-hours each day that could be spent providing more downtown and neighborhood service.

Chapter 3: The Airport Permit System Allows New Companies and a Limited Number of New Drivers to Enter the Market. In 2012, there were 13 licensed taxi companies with 700 affiliated, permitted taxi drivers working in 600 permitted taxi vehicles in San José. Eight of those companies provided service through the Airport's on-demand queue. Compared to the concession model before 2005, more taxi companies have access to the Airport's on-demand taxi queue. In

addition, individual drivers have the ability to, and in fact have changed their company affiliations, left the industry, or joined as new taxi drivers. However, the lack of enforcement of the service obligation appears unfair not only to drivers and companies who attempt in good faith to comply with minimum service standards, but especially to other drivers who wish to become Airport on-demand-authorized drivers.

Recommendations: To address the current system's issues and ensure fairness and consistency in the allocation of Airport on-demand taxi authorizations, we recommend the City enforce, modify, or eliminate the current minimum daily service obligation (5 days on-airport and 5 days off-airport every 14 days, with a minimum of 4 trips per day); consider whether to adjust annual San José trip volume when calculating *company* authorization reallocations; and consider whether to include annual San José trip volume in decisions whether to issue and renew *individual driver* authorizations.

Additionally, since passenger and taxi trip volumes at the Airport are dynamic, the Airport should consider service needs, driver idle times, and trips per driver per day, when determining whether to renew or issue on-demand authorizations; reduce the number of authorizations through attrition, revocation of conditional authorizations, or enforcement of minimum service obligations; and/or amend the rotation system.

Chapter 4: Taxi San Jose Appears to Perform as Expected, but Due to Reduced Passenger Volume Each Dispatch Effectively Costs More Than in the Past. Taxi San Jose has been the airport's on-demand dispatch operator since 2005. As such, it manages the queue of taxis and places customers into their choice of transportation (it does not own or operate any taxis). Its contract with the City specifies a number of performance standards, including maximum customer wait times, an obligation to provide fair treatment to companies and drivers participating in the on-demand program, and minimum staffing requirements. Taxi San Jose appears to perform as expected and no taxi appeared to enjoy an advantage.

However, due to reduced passenger volume, each Taxi San Jose dispatch effectively costs more than in the past. This is because Taxi San Jose's costs have been mostly related to mandated minimum staffing. *Recommendation:* As part of its upcoming RFP, the Airport should rebalance the regulatory workload between itself and its operator, and address the issues identified.

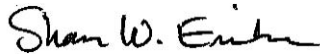
Chapter 5: The City Regulates Taxis From Departmental Silos and Does Not Recover Its Costs. The Police, Airport, and Transportation Departments regulate taxis. All departments have experienced declines in their staffing levels, which has led them to reduce their activities. Currently, the City's taxi activities involve about six fulltime-equivalent staff—amounting to an estimated \$1.3 million in annual costs. Only \$1.0 million in fee revenues supported the City's taxi activities, which means that taxpayers through the General Fund and other Airport fee payers are effectively subsidizing the taxi industry in San José. In contrast, some other airports appear to make money from their taxi operations. *Recommendation:* The Council should determine its cost recovery goal for taxi regulation as a whole, and direct the Administration to propose revenues and cost savings.

Because the City's complaint handling is not coordinated, it lacks the ability to assess current service quality, especially for downtown and neighborhoods. *Recommendation:* We recommend the Administration coordinate complaint handling and feedback about the service quality of taxis City-wide.

Finally, some other jurisdictions regulate taxis at a regional level, but there is a fragmented regulatory landscape for taxis in Santa Clara County. *Recommendation:* Because taxi drivers, companies, and customers often cross local jurisdictional boundaries, the Council should consider a regional approach to regulating taxis.

We would like to thank the Airport, Department of Transportation, Police Department, City Attorney's Office, City Manager's Office, and Taxi San Jose for their time and insight during the audit process. This report includes six recommendations designed to address issues in the current Airport taxi authorization system. We will present this report at the June 3, 2013 meeting of the Transportation and Environment Committee, and recommend that the City Council accept this report. The Administration has reviewed this information and their response is shown on the yellow page.

Respectfully submitted,



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Introduction

In accordance with the City Auditor's fiscal year (FY) 2012-13 Audit Work Plan, we have completed an audit of taxi service and regulation in San José. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the Airport, Department of Transportation (DOT), Police Department, City Attorney's Office, City Manager's Office, and Taxi San Jose for their time, information, insight, and cooperation during the audit process.

Background

San José residents, businesses, and visitors summon taxicabs on the street or by phone or online.¹ Only taxis that are licensed and permitted by the San José Police Department (SJPD) can operate within the boundaries of the City of San José:

- Individual taxi drivers who drive within the geographical boundaries of the City of San José must be **permitted by the SJPD** and, under the terms of their SJPD permit, must affiliate with a taxi company. These drivers are almost all independent contractors, and not employees of the taxi companies.
- Each taxi company that operates within the boundaries of the City of San José must be **licensed by the SJPD**. The SJPD can issue a **restricted license** to companies whose principal place of business is outside San José.

In addition to SJPD permits and licenses, taxis operating at the Mineta San José International Airport (**airport**) must also have Airport permits.

San José has a **uniform rate of fare** (price) that applies to all taxi trips. The City Council or the Director of Transportation can set the rate of fare for San José. The current rate of fare, effective October 2008, in San José is:

¹ A "taxicab" (short: "taxi" or "cab") is defined as: "a passenger vehicle for hire, used to transport passengers on public streets. The charge for the use of a taxicab is determined by a taximeter." (San José Municipal Code Title 6 Chapter 64)

- \$3.50 for the first one tenth of a mile (known as the “flag drop”)
- \$0.30 for each one tenth of a mile thereafter
- \$0.50 per one minute of waiting time.

The City has also established a minimum fare of \$15 for trips originating from the Airport; the regular meter rates apply after the first three miles.² The dollar amount that a passenger pays is computed by a cab’s taximeter, which is to receive an annual inspection by the county’s Department of Weights and Measures.

In 2012, there were 13 licensed taxi companies with 700 affiliated, permitted taxi drivers working in 600 permitted taxi vehicles in San José. The vehicles may be owned by drivers or by companies, which in turn lease them to drivers. Eight of these companies, which provide the City with dispatch records, reported serving:

- 540,000 trips originating in San José during the year,³ which include:
 - **Dispatch trips** where a driver is sent to pick up a customer who had a pre-arranged reservation. These represented 70 percent of trips originating in San José in 2012 per company data.
 - **Walk-up trips** where a customer finds a cab without having a reservation (also known as “flag and hail” trips).
- 304,000 **airport on-demand trips** that are equivalent to walk-up trips but originate at the airport and are managed by an organized queue.
- **Pre-arranged airport trips** where a driver picks up a customer at the airport who had a pre-arranged reservation.⁴

Purposes of Taxi Regulation

The taxi industry has presented regulatory challenges in San José and jurisdictions across the country for decades. Generally, the goals of taxi regulation are safety for passengers and drivers, service to the public, industry economics (e.g., the issuance of new licenses, setting of rates of fare, etc.) and public policy (e.g., environmentally-friendly taxicabs, disability accessible taxicabs, etc.). Airports across the country also regulate taxis, mainly by restricting access, to achieve sufficient supply of cabs to meet customer demand without lengthy customer wait times or driver idle times.

² San José’s rate of fare is relatively high compared to other cities in the nation. Taxi industry literature suggested that high fares may contribute to lower demand for taxi service.

³ The 540,000 trips were served by the following companies: Alpha Cab, California Cab, Checker Cab, City Cab, Green Cab, Milpitas Cab, United Cab, and Yellow Cab. These companies comprised 85 percent of vehicles permitted in San José as of October 2012. The remaining companies were not required to and did not report 2012 trip data to the City.

⁴ Insufficient data on these pre-arranged airport trips precludes presentation of a specific volume of trips, but, according to Airport staff, they have been significantly less frequent than on-demand trips.

Unlike some cities, San José typically does not restrict the total number of taxis allowed to operate in the City; San José also does not issue medallions (i.e., a sellable property right).⁵ Instead, the City issues various licenses and permits, as described below, to taxi companies and drivers.

Several Departments Are Involved in Regulatory Efforts

City departments, primarily the Airport Department (Airport), the Department of Transportation (DOT), and the Police Department (SJPD), have long histories of interacting with and regulating the City's taxi industry. Other departments including the Finance Department, City Attorney's Office, and City Manager's Office provide policy and administrative support of regulatory efforts. Department roles are described in detail in Chapter 5.

SJPD's licensing and permitting of taxis has not changed materially since the 1980s. Taxicab companies and drivers must obtain and periodically renew a license and permit, respectively, from the SJPD to operate in the City. Taxicab vehicles must also receive an annual inspection from the SJPD (for operating condition), and by the Santa Clara County Department of Weights and Measures (for taximeter calibration). Appendix A summarizes license and permit requirements with which taxis must comply. In the event that companies and/or drivers violate the terms of their license/permit, the SJPD may initiate disciplinary action including, but not limited to, the revocation of the license/permit to work in the City. As described later, DOT also has a role in City-wide taxi regulation.

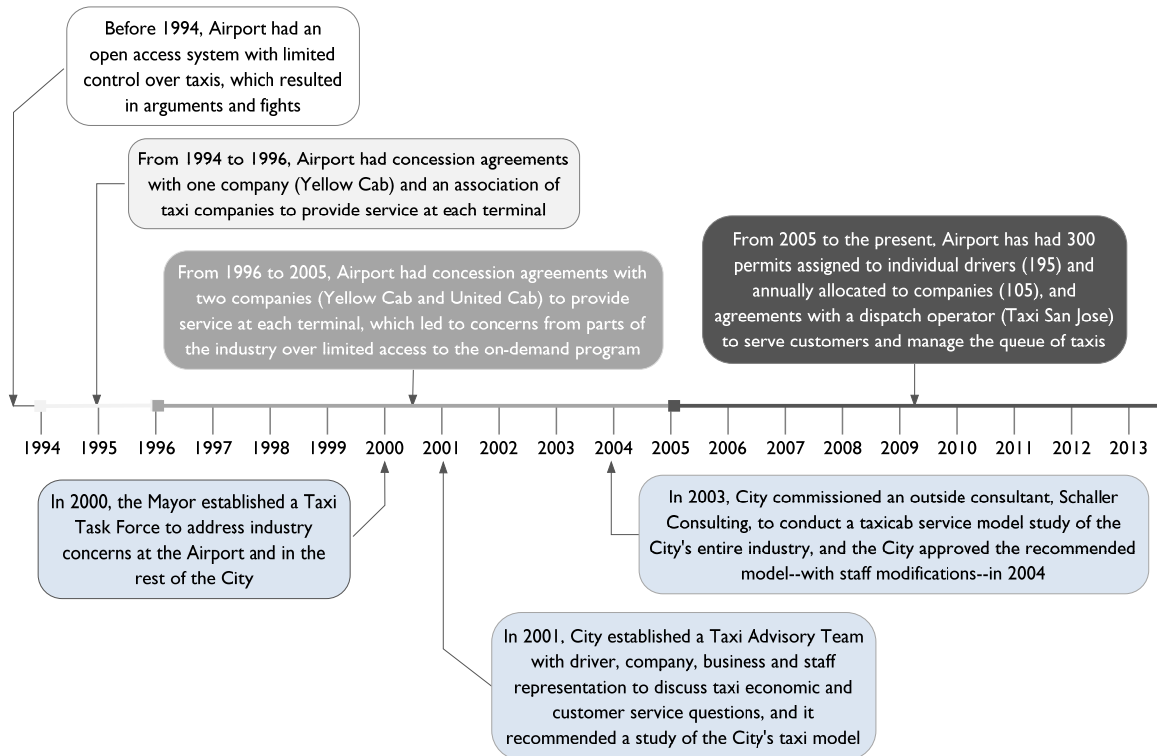
The Airport Has a Long History and Extensive Involvement with Taxis

For at least the last 20 years, the airport has played a prominent role in San José's taxi market. Airport taxis have also required City regulation and management beyond the rules and permits applicable to the rest of the City.

In contrast to the SJPD's regulatory efforts, regulation of taxis working at the airport has undergone several systemic changes over the last two decades. Exhibit I provides a brief timeline of key events and changes in the way the Airport regulates taxis.

⁵ From April to July 2010, the City had a moratorium on the issuance of new driver permits. Staff noted that, in the months leading up to this moratorium, the SJPD issued many new driver permits.

Exhibit I: Key Events and Changes in the Airport's Regulation of Taxis



Sources: Auditor review of staff memoranda and interviews with Airport staff.

Note: Appendix B and Exhibit 2 provide detail on the Taxicab Service Model approved in 2004 and implemented in 2005

The airport has been important to San José's taxi market for several reasons. Firstly, airport on-demand trips have represented about 40 percent of all taxi trips reported to the City since at least 2003. Secondly, the airport provides a steady stream of passengers for which drivers need not rely on their company's dispatch service. Finally, it has been suggested that airport-originating trips may be longer than typical off-airport trips, resulting in larger fares paid.

However, airport taxi service has also been a source of debate for decades. In the early 1990s, the Airport allowed any taxi to pick up on-demand customers, but staff described that situation as the "wild west" because of the lack of order. As a result of the chaos, the Airport moved to a concession system where, until 2005, two concessionaires had exclusive rights to provide on-demand taxicab services, one at each terminal. However, some companies and drivers that did not have access to the airport market, and some drivers affiliated with the companies that held the concessions, were unhappy with that arrangement.

The City Implemented an Integrated Taxicab Service Model in 2005 to Regulate Taxis

In late 2002, after several years of studying taxi issues through a Mayor's Task Force and a Taxi Advisory Team, the City Council directed staff to hire an expert consultant to review the situation facing taxis and the City, and to recommend solutions. The consultant, Schaller Consulting, issued a report titled "Taxicab Regulatory and Service Model Study" in March 2004, that addressed the following basic questions:

- What is the best possible service model for customers, taxicab companies, taxicab drivers and the City?
- Should the City place a moratorium on the number of taxicabs, taxi companies or drivers?
- How should the taxicab rate of fare be determined?
- Are there alternatives that would enable drivers to obtain pooled auto insurance at reasonable rates, without creating additional risk or regulatory burden to the City?
- What should be the roles and responsibilities of City departments (Transportation, Police, Airport) in regulating, managing and facilitating efficient taxicab service?

The consultant's review included a market analysis, data collection, stakeholder input and comment, service model development and evaluation, and a review of recommendations.⁶

The consultant concluded that:

The City of San José and the taxicab industry in the city are facing a series of inter-related issues that will shape the taxi industry and taxicab service in the city for years to come. The core issues concern the framework for taxicab regulation in San José, whether to continue the taxicab concession system at Mineta San José International Airport or adopt an alternative system, and the nature and extent of the City's regulatory responsibilities. Decisions in each of these areas will affect the quality of taxicab service in San José, the place of cabs in the city's transportation network, the relationship between cab companies and taxi drivers, and the financial health of cab companies and drivers.

⁶ The consultant's report can be found here:
http://www3.sanjoseca.gov/clerk/Agenda/05_11_04docs/05_11_04_6.2.attB.pdf.

Since the issues were inter-related, the solutions were as well. Appendix B shows the problems identified during the consultant's study and the ways in which the consultant proposed addressing those problems with a new taxicab service model.

In April 2004, staff recommended the approval of the proposed Taxicab Service Model, and in May 2004 the City Council approved a model with a few modifications from the consultant's original proposal. The result of these City actions was the creation and amendment of a model that outlines staff, and taxi company and driver responsibilities. Generally, the City's goals for the model were:

- Enhanced taxi driver access to the airport and improved service to the City
- Improved service to the customer
- Balanced equity and control within the taxi industry
- An effective and efficient regulatory and oversight system

Exhibit 2 below summarizes key aspects of the approved Taxicab Service Model. As shown, the model modified the way the Airport dealt with taxis, but it also had City-wide ramifications.

Exhibit 2: Key Aspects of the City's Approved Taxicab Service Model

Distribution of Airport permits	<ul style="list-style-type: none">• The City set a new upper limit on the number of airport on-demand taxis: The City created and issued a total of 300 alternate day Airport on-demand authorizations. The alternate day rotation (A and B days) would allow 150 of the 300 permit holders to participate in the Airport's on-demand program daily. This was a reduction compared to the concessionaires' supply that provided 343 vehicles each day in 2003.• 195 of the 300 alternate day on-demand authorizations went directly to drivers ("individual permits" or "driver permits") who primarily served the airport in the 6-12 months preceding the model's approval. After drivers voluntarily surrendered or the Airport revoked some of these individual driver permits, other drivers received these Airport permits through a lottery-based reissuance.• 105 of the 300 alternate day on-demand authorizations were allocated to taxi companies ("company permits"). The City has reallocated these company permits annually since 2008 on the basis of each company's share of off-airport taxi service in San José (and attainment of minimum requirements). (See Chapter 3 for more on the company reallocation.)• The City expected 300 Airport permits to meet existing demand for on-demand taxis, and introduced mechanisms to increase or reduce the number of permits to meet demand. (See Chapter 2 for more on the supply of taxis at the airport.)
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Service to the customer	<ul style="list-style-type: none"> • Drivers were to be required to meet customer service standards, including providing service to the Airport and City on 70 percent of days, or permits were to revert to the City. Drivers were to be accountable for cab availability at the Airport, vehicle appearance and service standards, and annual training requirements. Non-compliance was to result in liquidated damages. (See Chapter 1 for more on downtown and neighborhood taxi service and the service obligation.) • Companies were required to sign Airport service agreements. Requirements included 24-hour customer dispatch service, cab availability, alternative fuel and disabled access vehicles, driver training, and installation of a computer-aided dispatch (CAD) system to track trip data. • Companies had to develop an offer to drivers detailing their business plan, including expected trip volumes for drivers, marketing plans, and Airport customer standards that would be incorporated into independent driver contracts. Non-compliance was to result in liquidated damages.
Equity and control in the taxicab industry	<ul style="list-style-type: none"> • The model was to balance control of the 300 alternate day Airport permits by distributing some directly to drivers and some directly to companies. • Drivers could affiliate with any licensed company that has Airport permits providing flexibility in choosing a company that meets a driver’s business needs. The goal of this balance was active recruitment of drivers and competitive “gate fees” (the weekly amount drivers pay a company to affiliate and receive access to the company’s services such as dispatch).
City regulation and oversight	<ul style="list-style-type: none"> • The City hoped its regulation and oversight of the taxi industry would be balanced by allowing market mechanisms to regulate certain aspects of the model, with direct City intervention and oversight only in areas where the City felt market mechanisms would not work. • Staff concluded that a taxicab commission was not necessary given the size of the City’s taxicab market. Staff further noted that the structure then in place seemed appropriate: DOT was responsible for policy and planning; the Police Department for permitting, enforcement, and inspection; and the Airport for overseeing the on-demand dispatch operator. (See Chapter 5 for more on City regulatory efforts.)

Sources: Auditor analysis of staff memorandum recommending approval of the Taxicab Service Model and subsequent staff and Councilmember memoranda modifying certain elements. See Appendix G for other service models the consultant described, with varying degrees of licensing and accountability among companies and drivers.

It is important to note that the City did not approve of some elements of the consultant’s proposed model, and later added other features. Specifically, it did not set a maximum rate of fare; instead, it retained a uniform rate of fare for all taxis. Additionally, the City established minimum allotments of company Airport permits available to any licensed company that meets the City’s minimum requirements (see Chapter 3 for more on the company permit reallocation process), and a minimum fare of \$15 for on-demand taxi trips (effective October 2008).

Taxi San Jose Is the On-demand Dispatch Operator

Since the City's taxicab service model allowed entry to the Airport's on-demand program by new companies and drivers, the City chose to hire an independent dispatch operator to ensure fair treatment of taxis. In 2004 and 2005, the City issued, re-issued, and then evaluated results from a Request for Proposal (RFP) for an on-demand dispatch operator. The City received four proposals to the re-issued RFP (there were none for the original), and selected Taxi San Jose as the operator after the company had bid almost \$200,000 less than the second best bidder for the cost of dispatch services per year. Taxi San Jose, a California non-profit corporation with board representatives from taxicab companies, drivers, and organized labor, was established specifically to compete for the City's Request for Proposal for an on-demand dispatch provider in FY 2004-05. Taxi San Jose's contract began in July and it took over operations in September 2005.

The on-demand dispatch operator is responsible for greeting deplaned passengers who wish to take a taxi or shuttle to their destination, and placing those customers into their choice of transport vehicle as quickly as possible. Taxi San Jose does not own or operate any taxis. To minimize customer wait times, the operator manages the queue of taxicabs participating in the on-demand program both at a staging lot where drivers first arrive and at both airport terminals. Operator staff at the terminals communicate with staff at the staging lot to send forward taxicabs when demand increases at the terminals (i.e., when passengers arrive).

In September 2012, the City Council directed staff to issue a new RFP for on-demand dispatch services beginning October 2014. See Chapter 4 for more on the current operator, Taxi San Jose.

Audit Objective, Scope, and Methodology

The objectives of our audit were:

- (1) To determine whether the Taxicab Service Model yielded the results the City expected:
 - Enhanced taxi driver access to the Airport and improved service to the City
 - Improved service to the customer
 - Balanced equity and control within the taxi industry
 - An effective and efficient regulatory and oversight system
- (2) To determine whether Taxi San Jose is performing as expected under its contract for airport on-demand dispatch services

- (3) To determine the impact and effectiveness of the current airport permit allocation

We interviewed management and staff from the Airport's ground transportation program, the Department of Transportation (DOT), the Police Department's permits unit, the City Attorney's Office, and the City Manager's Office.

We reviewed previous reports and memoranda, including the consultant study from March 2004, staff reports to the City Council, and Council agendas and memoranda adopting/modifying the Model. We further reviewed Fees and Charges and rate resolutions, and relevant sections from Title 6 and Title 25 of the San José Municipal Code, including taxi license and permit requirements.⁷ We reviewed and validated the reallocation calculations.

We reviewed stakeholder input given at City Council and Airport Commission meetings. We did not interview taxicab companies and drivers.

We obtained and analyzed data from the City's taxicab database, the Airport's Automated Vehicle Identification (AVI) system, and Taxi San Jose's dispatch system. We reviewed the controls in place and performed limited reliability testing to ensure these data were reliable for audit purposes. We reviewed DOT's records concerning its testing and approval of taxicab company computer-aided dispatch (CAD) systems, and did not duplicate DOT's efforts in this area.

We reviewed customer service complaints collected by the Airport and Taxi San Jose. We obtained and reconciled permit holder lists from the Police Department and Airport, and did not audit the accuracy of the Airport's or Police Department's record keeping and files because the only fields used for audit purposes were taxicab permit numbers and permit holder names and affiliations. We sampled several permit files to check the accuracy of expiration dates.

We interviewed Taxi San Jose's chairman, operations manager, and accountant. We reviewed the City's current and previous contracts with Taxi San Jose, and obtained some of their financial documents. We also conducted field observations at the airport, including the taxi stands at the terminals and the taxi staging area (a holding lot north of the terminals). We reviewed Taxi San Jose operating procedures, reports from its secret shopper program, and publicly accessible Internal Revenue Service Form 990 disclosures (as a non-profit corporation, Taxi San Jose is required to submit annual financial disclosures). We did not audit Taxi San Jose's financial statements, but beginning with FY 2013-14, Taxi San Jose will be required to obtain a financial audit as part of its September 2012 contract with the City, and intends to obtain its first such review for its FY ending August 31, 2013.

⁷ The San José Municipal Code can be accessed via the City Clerk's website: www.sanjoseca.gov, choose "City Clerk's Office" from the "Government" tab.

We informally surveyed bell-desk staff at several downtown hotels for taxi customer service concerns.

We conducted benchmarking comparisons of San José and the airport with several other jurisdictions, including document reviews and interviews with taxi regulators or airport administrators from:

- Fairfax County, Virginia
- Montgomery County, Maryland
- Oakland International Airport (OAK)
- Orange County, California
- Orange County John Wayne Airport (SNA)
- Sacramento International Airport (SMF)
- San Diego County, California
- San Diego International Airport (SAN)
- San Francisco Municipal Transportation Agency
- San Francisco International Airport (SFO)
- Seattle and King County, Washington

We limited our review to taxi service and did not review shuttles/shared-ride vans that also participate in the airport on-demand program.

Chapter I Airport Taxi Drivers Are in Widespread Non-Compliance with Their Off-Airport Service Obligations

Summary

In 2004, staff proposed and the City Council approved an incentive approach to improve service in the apparently under-developed downtown and neighborhood taxi market. Airport permits were highly sought after. So, to obtain and maintain an Airport permit, the City required airport taxi drivers to provide a minimum level of service both on- and off-airport.⁸

However, in 2012, the vast majority of airport taxi drivers were in non-compliance with their minimum service obligations. In fact, only 7 permit holders complied with their service obligations 100 percent of the time in 2012, and fewer than a quarter of permit holders met service obligations 70 percent of the time (the performance level expected if drivers take all vacation days allowed by the permit). Moreover, a quarter of permit holders fulfilled their service obligation less than 10 percent of the time; that is to say, they failed to meet the obligation 90 percent of the time. The primary reason for abysmal compliance rates was permit holders not fulfilling required off-airport trips. Non-compliance with minimum service obligations undermines a key way with which the City sought to enhance downtown and neighborhood taxi service. The City has not enforced the service obligations since 2007, which poses fairness questions, both towards drivers who provide service in good faith, and towards drivers who wish to become airport permit holders.

Meanwhile, the number of trips served by San José taxis has not kept pace with population growth since 2003. Although the volume of taxi trips originating from San José's downtown and neighborhoods has grown moderately since the economic recession ended in 2009, the reported number of trips per capita in 2012 (152 trips per day per 100,000 residents) was actually lower than in 2003 (162 daily trips per day per 100,000 residents). In addition, 2012 trip volume per capita was still significantly below benchmarked taxi markets, though those have also experienced a decline in taxi trips.

Overall, there may still be an unrealized potential for the San José downtown and neighborhood taxi market to grow and improve. However, the City has not enforced downtown and neighborhood service requirements, and so its ability to effectively spur development of this market through the existing incentives and service obligations is unclear. Given widespread non-compliance, the City faces a

⁸ The City further incentivized improvements to off-airport service through the reallocation process described in more detail in Chapter 3.

decision whether to enforce existing minimum trip service obligations, or modify those obligations. The decision will depend on its downtown and neighborhood taxi service goals.

In 2005, the City Took Steps to Improve Downtown and Neighborhood Service

The March 2004 consultant study identified and summarized a number of concerns about taxi service in San José. The consultant noted that a “varied picture of service quality” was painted by surveys of taxi users and downtown business people, and reviews of customer complaints and computer-aided dispatch (CAD) records from a taxi company:

On the positive side, the number of complaints received in San José is quite low both in absolute numbers and when compared with other cities. Also, the large majority of customers who returned the in-cab survey rated taxi service favorably.

Less positively, a substantial proportion of respondents to the survey of downtown business persons expressed unhappiness with key aspects of cab service. Also, the taxi company computerized dispatch data showed a substantial proportion of calls were not picked up within a satisfactory amount of time or were not picked up at all.

Further, the consultant concluded that the volume of downtown and neighborhood taxi trips in San José was low compared to other cities. Possible causes included, but were not limited to, the City’s high rate of fare, perceptions of unreliable service, and the fragmented taxi market with companies lacking the means to field well-organized cab fleets to respond to dispatch calls for service. The consultant emphasized that dispatch (pre-arranged) calls were an important market for San José taxis.

To address these problems, the City Council approved a taxicab service model, based on consultant proposals and staff’s recommendation, and sought to improve off-airport taxi service by:

- Restricting airport on-demand access to 150 taxicabs per day. 300 taxis could serve airport on-demand trips on an alternating-day schedule.⁹ This upper limit was implemented in 2005. See Chapter 2 for more on the supply of on-demand taxis.

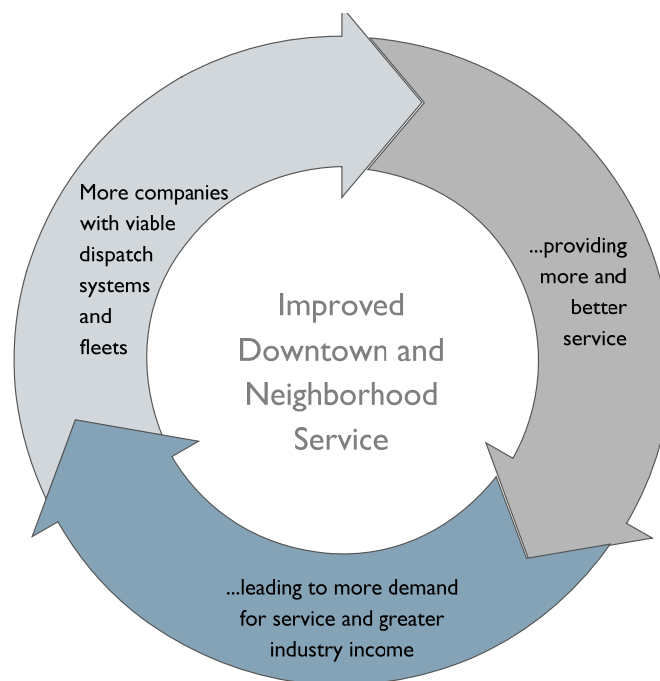
⁹ On-airport days: Permit holders can serve on-demand trips, but are not restricted to the airport. This means they can still serve downtown and neighborhood trips.

Off-airport days: permit holders can serve trips anywhere, including airport pre-arranged pick-ups and drop-offs, but cannot participate in the Airport on-demand program. As discussed below, for off-airport trips to meet the service obligation, they must originate in Santa Clara County.

- Incentivizing downtown and neighborhood service by making each company's share of San José off-airport trips the main determinant of the annual airport company permit reallocation. See Chapter 3 for more on the reallocation process.
- Requiring airport permit holders to service a minimum number of off-airport (downtown and neighborhood) trips in the County on days on which they do not have access to the airport's on-demand program. See below for more on this service obligation.

In simple terms, the City envisioned a positive feedback loop reinforcing better companies, better service, and better demand and industry income, and so on, as shown in Exhibit 3.

Exhibit 3: Feedback Loop for Improved Downtown and Neighborhood Service



Source: Auditor analysis of March 2004 consultant study and staff memoranda

Taxi Permit Holders Are in Widespread Non-Compliance with Their Obligation to Serve Off-Airport Trips

The airport is a desirable location for taxicab drivers to serve. On-demand passengers arrive at regular intervals seeking taxi service, and thus on-demand taxi drivers need not search for fares when working at the airport. Additionally, it has been suggested that airport-originating taxi trips may be longer than other trips, resulting in larger fares.

Thus, when the Airport issues an airport access permit to a driver or company, it confers considerable value. An airport access permit allows an individual driver to pay a lower “gate fee,” which is the weekly amount paid by a taxi driver to the company with which he/she affiliates, because that permit holder is able to switch between companies freely without losing access to the airport. Conversely, an airport access permit allows a company that receives it through the annual company permit re-allocation to charge a higher gate fee to drivers because the company can assign each of its apparently highly sought-after permits as it sees fit.

Permit Holders Are Obligated to Provide On- and Off-Airport Taxi Service

In return for the considerable value conferred and to improve downtown and neighborhood service, the City obligates Airport permit holders to fulfill a minimum service obligation. This service obligation, which applies to holders of all 300 permits, is described in the Airport access permit as follows:

...over any consecutive fourteen (14) day period during the term of this Permit, Permittee must provide on-demand taxicab service at the Airport on a minimum of five (5) of the days designated... and at non-Airport locations in Santa Clara County on a minimum of five (5) days designated as non-Airport days... [on the alternating access system the airport established]. A minimum of four (4) on-demand trips per day from the Airport on Airport days or four (4) trips for non-Airport locations on non-Airport days will satisfy the daily service obligations in this Permit. Failure to meet the service obligation as provided in this Section by the Permittee may result in revocation of the Permittee’s Airport Access Permit...

This service obligation was intended to ensure that airport permit holders work both on- and off-airport. The obligation does not require drivers to work every day; they can maintain a five-day workweek. It also counts trips originating from within Santa Clara County, a more generous provision than counting San José trips only. Exhibit 4 charts this service standard over a two-week period. The service obligation applies to any and all 14-day periods.

Exhibit 4: Minimum Service Obligation Over 14-Day Period

Day in the 14-day period	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Minimum obligation for airport on-demand trips	4	4	4	4	4	day off	4	4	4	4	4	4	4	day off
Minimum obligation for County trips	4	4	4	4	4	day off	4	4	4	4	4	4	day off	4

Source: Auditor analysis of the Airport on-demand access permit language.

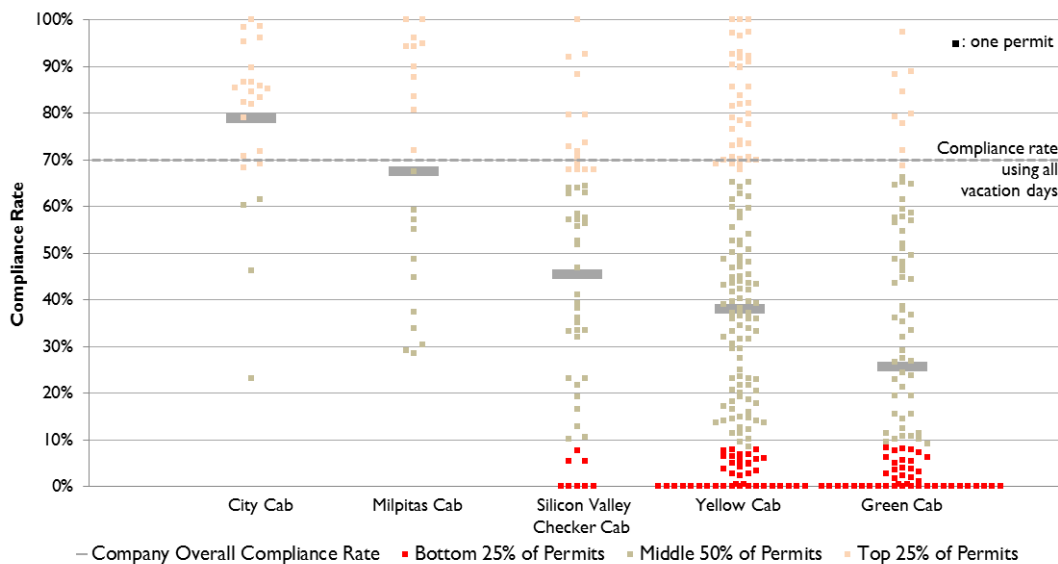
Note: Permit holders may choose on which days within the 14-day period to work or not work, but they have access to the on-demand program on alternating days only.

Permit Holder Compliance Rates Were Generally Abysmal in 2012

By compiling and analyzing on-demand trip data and company dispatch data DOT collected, we evaluated permit holder compliance (i.e., compliant or not compliant) with the obligation in each of the 353 periods within calendar year 2012 (i.e., January 1-14, January 2-15, January 3-16, ... December 18-31). We then determined the percentage of 14-day periods in 2012 in which each permit holder was in compliance with the service obligation (the “2012 compliance rate”).

Less than a quarter of permit holders had a compliance rate equal to or better than 70 percent, which is the approximate compliance rate allowing for driver vacations (the airport access permit allows up to two vacations of no less than two weeks and of no more than three months in total). The worst quarter of permit holders had compliance rates below 10 percent. Exhibit 5 shows compliance rates for permit holders in 2012.

Exhibit 5: Compliance Rates for Permit Holders, by Company, for 2012



Source: Auditor analysis of Taxi San Jose dispatch data (304,000 on-airport trips in 2012) and company self-reported dispatch data queried through the City’s Airport Taxi Database (703,000 off-airport trips originating in Santa Clara County in 2012 from companies that submitted dispatch records)

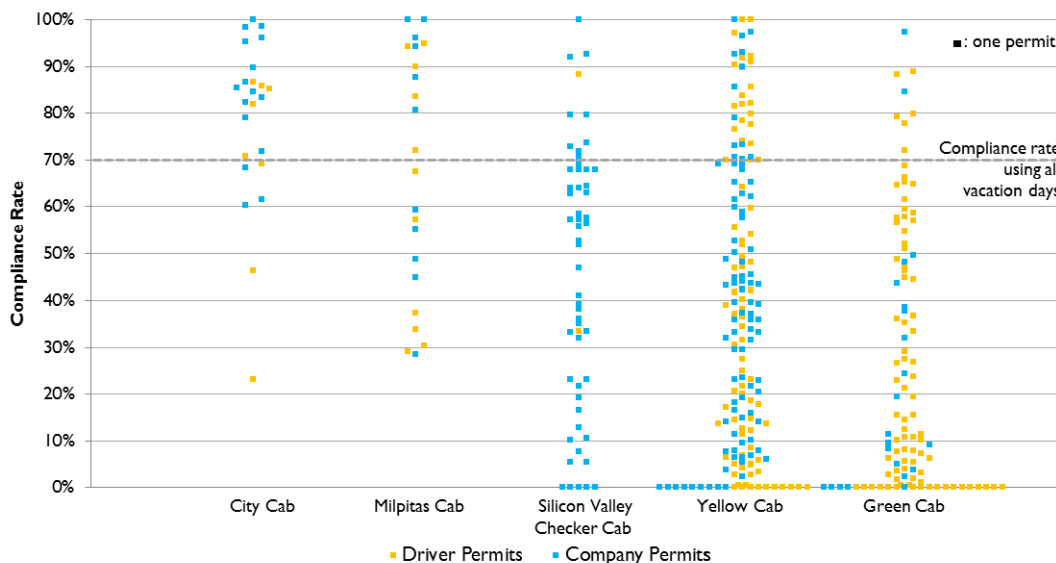
Notes: Due to turnover in individual driver airport permits, and the annual re-allocation of company permits in April 2012, we evaluated more than the 300 airport permits in effect at any given time for compliance with the service obligation. We evaluated permit compliance with the service obligation only during 14-day periods when a permit was active. Additionally, this exhibit excludes permits for which the City lacked sufficient dispatch data to assess compliance and for companies with only one affiliated permit holder.

Further, the City appeared to lack sufficient information on off-airport service to assess compliance for some airport permit holders affiliated with certain companies that do not provide extensive off-airport dispatch records. The City should ensure that it receives sufficient dispatch records to assess compliance for all permit holders.

Both Company and Individual Permit Holders are Non-Compliant

Upon reviewing the results shown above, we also checked whether compliance rates were better or worse for company and individual airport permits. Non-compliance was prevalent among both company and individual driver permits, as shown in Exhibit 6.

Exhibit 6: Compliance Rates for Permit Holders by Type and Company in 2012



Source: Auditor analysis of Taxi San Jose dispatch data (304,000 on-airport trips in 2012) and company self-reported dispatch data queried through the City’s Airport Taxi Database (703,000 off-airport trips originating in Santa Clara County in 2012 from companies with airport permits and/or affiliated permit holders)

Poor Compliance Rates Are Largely the Result of Underservice Off-Airport

Compliance with the minimum service obligation requires permit holders to deliver both on- and off-airport trips. Permit holders fulfilled the on-airport component of the service obligation far more frequently than the off-airport component. This means that, as shown in Exhibit 7, underperformance of the off-airport component was the main reason for poor compliance rates.

Exhibit 7: Performance of On- and Off-Airport Components of the Service Obligation, by Company, in 2012

	Off-Airport days	On-Airport days	Overall compliance rate
Alpha Cab	unknown	45%	unknown
California Cab	unknown	81%	unknown
United Cab	0%	86%	0%
Green Cab	30%	82%	25%
Yellow Cab	55%	71%	39%
Silicon Valley Checker Cab	63%	76%	49%
Milpitas Cab	74%	89%	69%
City Cab	88%	87%	77%

Source: Auditor analysis of Taxi San Jose dispatch data (304,000 on-airport trips in 2012) and company self-reported dispatch data queried through the City's Airport Taxi Database (703,000 off-airport trips originating in Santa Clara County in 2012 from companies with airport permits and/or affiliated permit holders)

Note: Overall compliance in a 14-day period requires fulfillment of both on- and off-airport requirements, which means that overall compliance is not necessarily the minimum of performance with one component of the service obligation. For example, a permit holder could have fulfilled the on-airport requirement in some 14-day periods and the off-airport requirement in other 14-day periods, but still have an overall compliance rate of 0 percent.

Staff Questions the Service Obligation's Feasibility

Staff suggested that the off-airport component may represent an unrealistic goal: 150 airport permit holders providing at least four off-airport trips in the County each day would fulfill a substantial percentage of the total daily demand for taxi services in the area (the eight companies that submitted dispatch records to DOT in 2012 reported serving 700,000 trips originating in the County, or about 1,900 per day). That is to say, there may be insufficient demand, currently, for taxi services in and around the City to allow airport permit holders to fulfill the off-airport requirements when hundreds of other taxi drivers work each day only in the off-airport market.

Driver Effort to Achieve the Service Obligation Appears to Vary

On the positive side, seven permit holders met the obligation in every 14-day period they had an airport permit. And, nearly a quarter of permit holders met the service obligation at least 70 percent of 14-day periods, which is approximately the compliance rate expected for a permit holder who takes all available vacation. These examples demonstrate that the service obligation may be achievable.

However, many cases seem to fit City staff's concern—drivers who appear to have put forth good-faith efforts to work off-airport, but did not fulfill the service obligation's daily trip requirement. For instance, one permit holder had 211 days

with off-airport trips, but compiled only 578 off-airport trips in the year—fewer than three trips per day. Another permit holder worked 251 off-airport days but tallied only 715 trips.

Nonetheless, some permit holders worked off-airport only a few days or had few total trips off-airport in 2012. For example, one permit holder who served nearly 1,400 Airport on-demand trips in 2012 worked only 90 off-airport days and compiled only 132 total off-airport trips in the year. In a more extreme example of negligible effort to meet the service obligation, one driver received more than 1,000 Airport on-demand fares, but worked only 23 days off-airport and accumulated only 37 off-airport trips the entire year. Such cases fit City staff's anecdote that some drivers work in the on-demand program every day by holding both an individual driver airport permit and a company airport permit. This practice effectively ignores service obligations required in return for the Airport permit's benefits.

Finally, as detailed in Chapter 2, taxi drivers with airport access permits generally served fewer off-airport trips per day in 2012 than drivers without an airport permit. This pattern could conceivably be the result of:

- (1) Drivers without airport permits needing to serve more off-airport fares because they lack access to airport on-demand fares; and/or
- (2) Airport permit holders not needing to work as much off-airport to achieve the same income level because of their ability to serve on-demand fares.

The City Has Not Enforced the Service Obligation Since 2007

A staff memorandum from 2004 concerning the proposed taxicab service model said “Each company’s performance will be reviewed on a monthly basis to ensure they are meeting standards and any corrective action will be taken as necessary.” In early 2007, after nearly a year of monitoring compliance and issuing warning letters, the Airport issued notices of intent to suspend permits for non-compliance with the service obligation. The notice outlined the progressive disciplinary penalties that could be assessed as follows:

1. *For the first documented violation of the trip service obligations, Liquidated Damages will be assessed to the company the Permit Holder is affiliated with. These liquidated damages may be passed on directly to the Permit holders and/or drivers involved. The Airport may assess Liquidated Damages of \$50 per violation per Permit, including bi-weekly and/or monthly reporting of on-Airport and/or off-Airport trip activity.*
2. *For the second violation of the trip service obligations, Liquidated Damages will be assessed, as in #1 above, and the Permit holder will be suspended from Airport Access for 14 days.*

3. *For the third violation of the trip service obligations, Liquidated Damages will be assessed, as in #1 above, and the Permit holder will be suspended from Airport access for 28 days.*
4. *For the fourth violation of the trip service obligations, Liquidated Damages will be assessed, as in #1 above, and the Airport Access Permit will be revoked.*

However, the Airport did not follow its progressive disciplinary scheme to the point of revoking permits. Further, it has not monitored or enforced compliance since 2007, even though staff identified many instances of non-compliance in 2007.

Despite administrative challenges, the City interest in requiring a service obligation was reaffirmed in 2007 when the City Council accepted a staff status report on taxi regulation. Specifically, the approved Council direction stated that “All airport permit holders are still required to make a minimum of four off airport trips a day (on the days they are not working at the airport) and those trips may originate outside of San José.”

Had the City followed its enforcement procedures in 2012, enforcement of the service obligation could have yielded \$60,000 in liquidated damages revenue to the Airport (\$50 per violation, up to 4 violations before permit revocation) and led to the revocation of nearly three-quarters of airport permits. Such widespread permit revocation is not realistic. If the limit of 4 violations before permit revocation was replaced with of a maximum of 26 assessments of liquidated damages (one for every 14-day period in the year that does not overlap), the Airport could have assessed upwards of \$375,000 in liquidated damages in 2012.

Even if staff had sought to monitor and enforce service obligations, its ability to do so simply was made more complicated by inaccurate results produced by a standard report in the City’s Airport Taxi Database. Should it enforce standards in the future, staff will need to revise the reporting tool to simplify the monitoring process.

Not Enforcing Service Obligations Has Consequences

Not enforcing service obligations can have many negative consequences. Non-enforcement undermines the carefully crafted link between on- and off-airport taxi service that the City Council adopted in 2005. Additionally, it may create an expectation among drivers that the off-airport obligation does not matter. Further, non-enforcement appears to be unfair to those permit holders who did meet the obligation and effectively returned more services to the City than some of their peers with airport permits.

And, it appears especially unfair to other taxi drivers who wished to become airport permit holders but were prevented by the permit cap. As described in Title 25 of the Municipal Code, a “driver airport access permit shall have a one-

year term, but may renew upon expiration, unless suspended or revoked... [and] shall not be renewed unless the holder is in compliance with all terms and conditions of the permit..." The service obligation is one of these terms.

With permit holder performance to service obligations presently unchecked, renewals of individual airport permits become perfunctory and individual airport permits effectively become medallion-like permanent assignments. This means that the 200 taxi drivers on the Airport's waiting list for airport permits have a lesser opportunity to join the airport's on-demand program now and in the future. See Chapter 3 for more on individual driver Airport permits.

Enforcing Service Obligations Would Reinforce the City's Intention to Strengthen Taxi Dispatch

City staff noted that one challenge of enforcing the minimum service obligation is that enforcement would pressure individual driver permit holders to affiliate with companies with stronger dispatch operations (typically the larger companies). The consultant noted this exactly:

... [the taxicab service model] creates a strong incentive for cab companies to develop a viable dispatch business because drivers will not want to work for a company that provides them with few dispatch trips on drivers' non-airport days. Drivers will be more attracted to companies that provide a consistent flow of both dispatch and airport trips.

In other words, the City's adopted model sought the opposite of a fragmented taxi industry because such an industry could not optimally serve dispatch trips downtown and in the neighborhoods.

Options for Revising the Service Obligation and Monitoring Compliance

As noted earlier, one of the steps the City took to enhance downtown and neighborhood taxi service was requiring airport permit holders to provide a level of service off-airport.

Abysmal compliance rates by airport permit holders undermine the standard and its purpose. Nonetheless, staff can amend the minimum service obligation to create a new service obligation that benefits the City's residents and satisfies the City's policy interests, which may include airport on-demand taxi service, off-airport taxi service, and equitable permit allocations.

In potentially altering the service standard, staff can adjust a number of levers, including:

- The required number of days within a time frame (currently 10 in 14)
- The required number of off-airport trips per day (currently 4)

- The time frame used for evaluation (currently each and every 14-day period)
- The use of a daily minimum, average, or total trips for the time period
- The frequency of its monitoring and enforcement activities.

Additionally, staff can consider delegating the responsibility to monitor service obligation fulfillment to its on-demand dispatch provider. The consultant study recommended that the Airport's on-demand dispatch manager monitor compliance with service obligation, and the first on-demand dispatch management contract in 2005 included a requirement for the City's contractor to provide a "Bi-monthly report of driver and company Permits not in compliance with usage requirements, including the alternate day and working 70 percent of available days requirements." However, the operator never monitored compliance and this requirement was taken out of the 2012 renewal to that agreement.

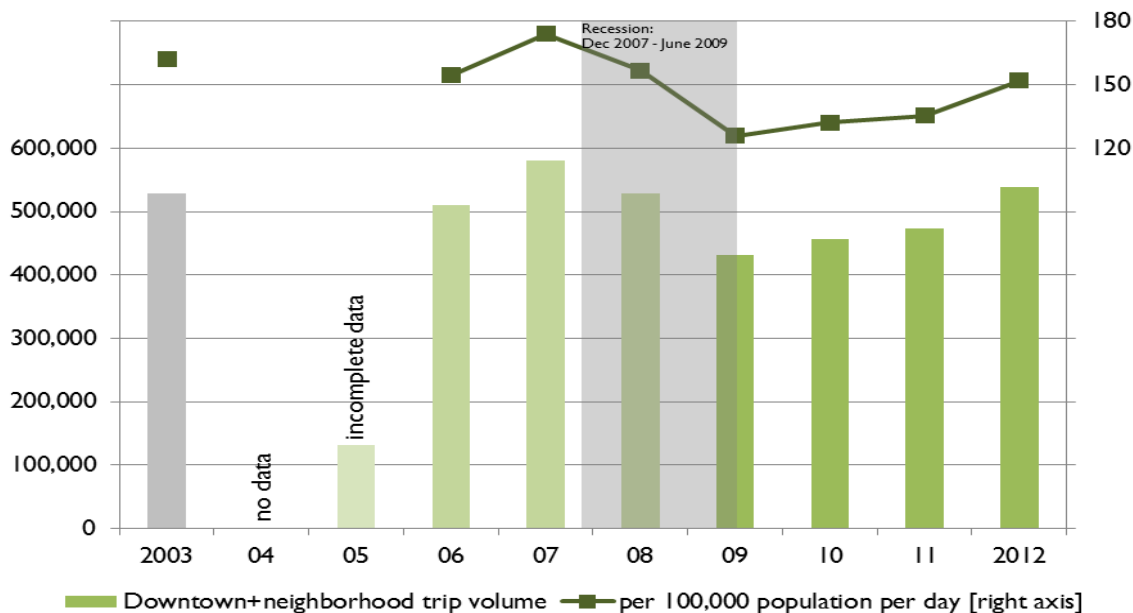
Although Downtown and Neighborhood Trip Volume Has Grown Moderately Since 2009, Taxi Services Have Not Kept Pace with Population Growth Since 2003

The volume of taxi trips originating from San José downtown and neighborhoods has grown moderately since the economic recession ended in 2009.¹⁰ In 2009, companies reported 430,000 trips, which grew to 540,000 in 2012, even though fewer companies submitted data in the last few years (companies are required to submit data only if they participate in the airport on-demand program).

Exhibit 8 shows the trip volume by year; Appendix C shows detailed trip volume by month.

¹⁰ Figures exclude airport on-demand trips. For more about on-demand service, see Chapter 2.

Exhibit 8: Downtown and Neighborhood Trip Volume, By Year



Sources: Auditor analysis of the March 2004 consultant study for 2003 data (based on an industry survey), company dispatch records queried through the City’s Airport Taxi Database for subsequent years, California Department of Finance population estimates, and National Bureau of Economic Research recession data¹¹

Trips from downtown and the neighborhoods are mostly pre-arranged trips (70 percent, according to company records) that the customer requested via the company’s dispatch. Less prominent market segments are walk-ups at hotels and taxi stands as well as trips that a customer arranges personally with a driver. The consultant noted that San José was not a strong flag or hail market and was not likely to become one in the foreseeable future.

Exhibit 9 shows a taxi stand at a downtown hotel.

¹¹ 2005 had incomplete data. DOT approved the computer-aided dispatch system of Yellow, Checker, and United in April 2008; of City, Milpitas, and Green in June 2008; of Alpha and California in February 2009; and of USA Express in July 2009. Company records before these CAD approvals may have been based on different reporting methodologies. Not all companies were required to submit data: In December 2009, company records covered 94 percent of drivers; in January 2012, company records covered 83 percent of drivers; in October 2012, company records covered 85 percent of vehicles; and in March 2013, company records covered 91 percent of vehicles. Figures exclude trips that originate at the airport and outside of San José.

Exhibit 9: Picture of a Downtown Taxi Stand (South Market Street)

Source: Auditor photograph

Downtown and Neighborhood Trip Volume Is Still Significantly Below Benchmarks

It is difficult to directly compare taxi service in San José to other taxi markets. However, by using trip volume normalized to population size, such comparisons are possible.

Exhibit 8 above shows trip volume per 100,000 residents per day in San José over the years. The trip volume per 100,000 residents per day was 152 in 2012, for companies reporting dispatch data, and was 6 percent lower than when the consultant studied the San José market in 2004, indicating trip volume has not kept pace with population growth.

The consultant concluded that downtown and neighborhood trip volumes in San José were “quite low” and had “significant growth potential,” compared to suburban counties near Washington, DC; San Diego; and Seattle. The consultant noted taxi markets are generally related to population, employment, visitation, and business activity, and chose those benchmarks accordingly. Those benchmark markets served more than three times as many trips per capita. Furthermore, based on a survey of the downtown business community, the consultant concluded that “a significant proportion of taxi users or potential users [...] would like to see significant improvements to the quality of service.”

As reasons for San José’s unrealized potential, the consultant offered San José’s relatively high rate of fare and a perception about unreliability, yet noted that “significant growth does appear achievable.”

While some may argue that there is insufficient demand downtown to grow the overall market, it is important to distinguish between walk-up and pre-arranged dispatch trips. In creating and approving the taxicab service model in 2004, the City emphasized the growth potential for the pre-arranged dispatch market. Based on the benchmarks, it appears that potential still has not been realized.

Exhibit 10 presents the original benchmarking analysis the consultant provided, and updated data. Clearly, San José is still well below benchmarks, even though these markets also experienced a fall in trip volume per capita. For example, San Diego taxis served nearly four times as many trips per capita than did San José taxis in 2012.

Exhibit 10: Downtown and Neighborhood Taxicab Trip Volume Per 100,000 Residents Per Day in San José and Selected Taxi Markets

	Early 2000s (consultant report)	Early 2010s (auditor analysis)	Percent Change
San José	162	152	-6%
Fairfax County, Virginia	526	422	-20%
Montgomery County, Maryland	607	549	-10%
San Diego	793	591	-25%
Seattle (excludes flag and hail trips)	1,385	744	-46%

Source: March 2004 consultant study (comparing annual taxi trips from 1999 to 2003 for various jurisdictions against 2000 population figures), and auditor analysis of records from the City's Airport Taxi Database and data provided by taxis administrators from the jurisdictions for 2009 to 2012, and recent population estimates

Note: analysis excludes airport on-demand trips.

It is also important to note that San José has seen an increase in the number of taxi drivers, from 580 in December 2009, to 606 in January in 2012. In March 2013, there were 701 permitted drivers. Nevertheless, downtown and neighborhood trip volume *per driver* remained relatively constant over time, as the moderate growth in total trip volume was spread among more drivers.

The City Needs to Revisit Its Priorities for Downtown and Neighborhood Taxi Service

Overall, there still may be an unrealized potential for the San José downtown and neighborhood taxi market to grow. Benchmarked taxi markets served three times or more taxi trips relative to their population. Meanwhile, San Jose's taxi traffic has not even kept pace with population growth. However, the City has not enforced downtown and neighborhood service requirements, and so its ability to effectively spur development of this market through the existing incentives and service obligations is unclear. Given widespread non-compliance, the City faces a decision whether to enforce existing minimum trip service obligations, or modify those obligations. The decision will depend on its downtown and neighborhood taxi service goals.

Chapter 2 Reduced Passenger Volume and Oversupply of Taxis at the Airport Have Led to Driver Idle Times Far in Excess of the 30-Minute Goal

Summary

Airport on-demand trip volume has not recovered from the recession. In 2012, taxis served 304,000 on-demand trips from the airport, which is approximately 23 percent below the pre-recession volume. The cause for this decline is the decrease in air travelers deplaning in San José.

This has led to an oversupply of taxis at the airport. Drivers face longer idle times at the airport before it is their turn to pick up an on-demand trip: the 2012 median wait time was 73 minutes for all weekday trips, up from 44 minutes in 2007. By comparison, the Airport has a goal of a 30-minute idle time for drivers to pick up a fare. The total of all driver idle times presents a huge unused resource—1,073 driver-hours each day on average in 2012. These idle times could be spent, for example, providing more downtown and neighborhood service.

Oversupply has led to customer service problems in the past and gives rise to incidents among drivers. Drivers also have fewer fares each day, hurting their incomes. The City established an upper limit of 300 permits, 150 of which have access to the airport on alternating days, in 2005 based on passenger demand in 2003. Since then, passenger volume has fallen. Although the Airport has a methodology for adjusting the supply of taxis to match the passenger demand, it has not reduced the supply since 2005. Options for reducing the supply of airport taxis include revoking conditional permits, reducing the number of permits through natural attrition or by enforcing the service obligations, and amending the rotation system.

Airport Trip Volume Has Not Recovered From the Recession

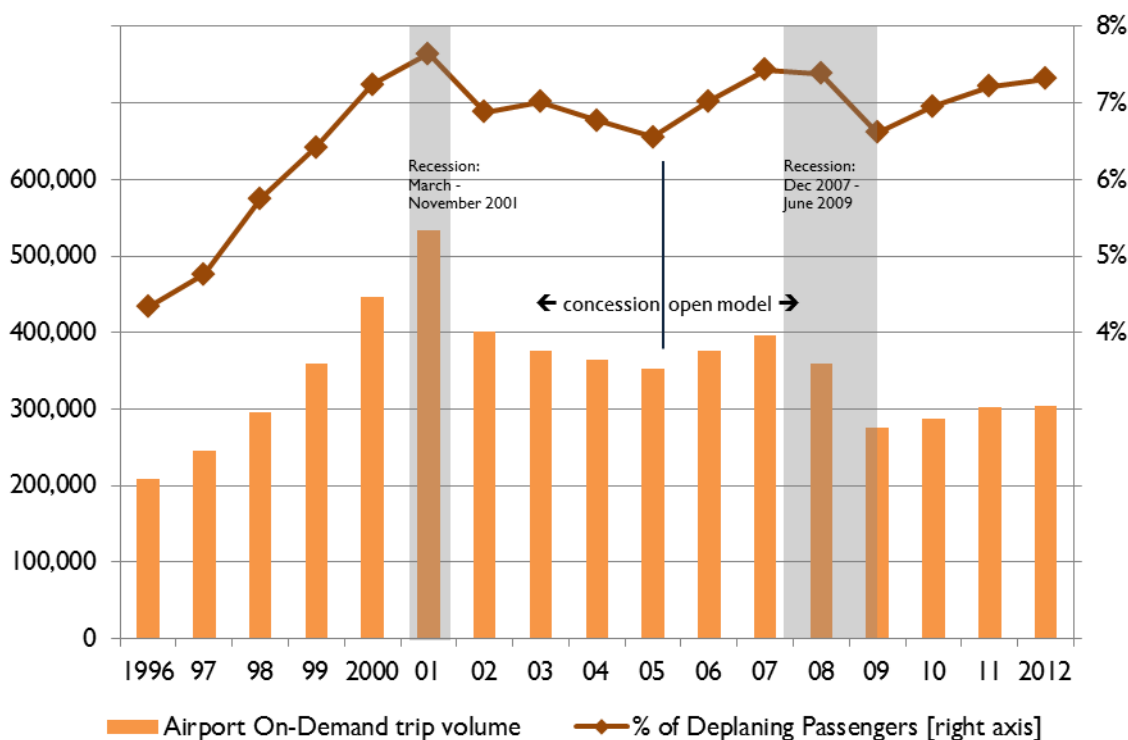
In 2012, taxis served 304,000 on-demand trips from the airport.¹² The fraction of travelers who take on-demand taxis has remained relatively constant at 7 percent of deplaning passengers for the last ten years. Exhibit 11 shows the airport on-demand trip volume over the years; Appendix C shows further monthly and seasonal patterns.

¹² “On-demand passengers” are airport ground transportation passengers who have not requested or made reservation with a specific provider of such services per Title 25 of the San José Municipal Code. Also commonly known as “walk-up,” i.e. not pre-arranged.

The airport has seen a significant decline in air traveler volume: At 5.3 million deplaning passengers in 2007, it lost 21 percent, to 4.2 million in 2012. Appendix D also shows the airport traveler volume by month.

This decline in deplaning passengers has led to a similar decline in taxi on-demand trips. In 2007, taxis served 397,000 on-demand trips, which fell to a low of 276,000 in 2009. The on-demand trip volume has not recovered to pre-recession levels, even as downtown and neighborhood volume has increased moderately. At the end of the dot-com boom in 2001, on-demand volume exceeded 500,000 trips.

Exhibit 11: Airport On-Demand Trip Volume, by Year



Sources: Auditor analysis of deplaning passenger statistics from the Airport; on-demand trip volumes from Taxi San Jose monthly reports from the City’s taxicab database, Airport reports, and the March 2004 consultant study; and National Bureau of Economic Research recession data

Drivers Face Excessively Long Idle Times at the Airport

We analyzed driver idle times at the airport by examining the dispatch records from Taxi San Jose. For each dispatched trip, the system records the time that the driver entered the staging lot and also the time he/she was dispatched with a customer from the terminal (when dispatch operator staff records the taxi’s departure).

Exhibit 12 shows a snapshot of how long the queue of taxis can be.

Exhibit 12: Picture of Idle Taxis at the Staging Lot

Source: Auditor photograph

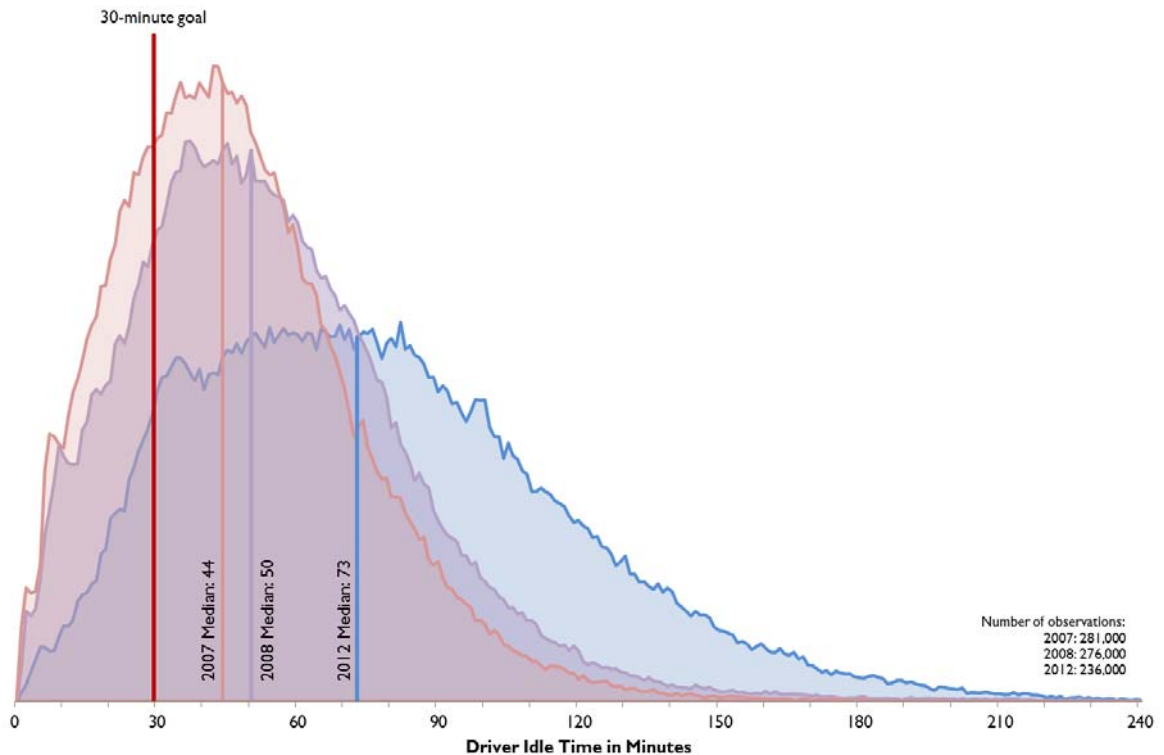
As shown below, idle times have grown substantially longer since 2007 and follow a daily pattern.

Idle Times Are Longer Compared to 2007

As a result of the decline in deplaning passenger volume, idle times for on-demand drivers have increased substantially. Before picking up one on-demand passenger, a driver faced a 73 minute median wait in 2012.¹³ In 2007 it was 44 minutes, as shown in Exhibit 13. Staff's goal, memorialized in the approved Methodology for Adjusting Permits, is 30 minutes.

¹³ Median of all 2012 trips on weekdays, based on 236,000 observations.

Exhibit 13: Distribution of Airport Idle Times for Drivers for all Trips on Weekdays in 2007, 2008, and 2012



Source: Auditor analysis of Taxi San Jose dispatch data

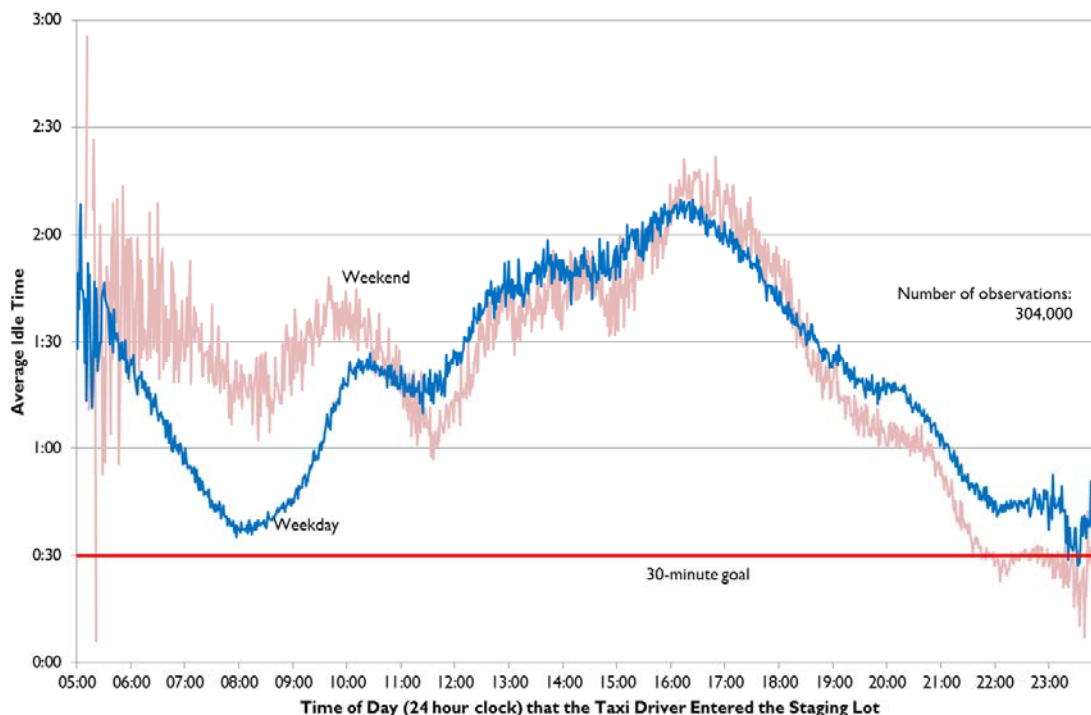
Note: Each year's distribution adds to 100 percent, though there was no data from January 2007.

Idle Times for Drivers Vary by Hour of the Day

The idle times for drivers vary by the hour of the day, depending on the schedule of arriving flights, the drivers' time arriving at the airport staging area, and the number of other drivers already waiting at the airport. They do follow predictable patterns each day. Idle times were rarely below the Airport's goal of 30 minutes in 2012.

Idle times were generally shorter during the morning and during the late evening hours, but generally exceeded two hours for taxis entering staging between 3:30 and 4:30 pm on weekdays. Weekend idle times were generally longer compared to weekdays, due to lower passenger volume and presumably even fewer business travelers. See Exhibit 14 for the average idle time of all 2012 trips, by the hour of day.

Exhibit 14: Average Idle Times for Cabs Entering Dispatch, by Time of Day, in 2012



Source: Auditor analysis of Taxi San Jose dispatch data

Note: Data excludes idle times experienced by drivers who are at the airport until the nightly closing, but do not pick up a customer – that is they leave with “no fare.”

Idle Times Are Longer in San José Than at San Francisco International Airport

Taxi idle times at San Francisco International Airport (SFO) were much shorter than those at Mineta San José International Airport. Specifically, according to an April 2013 draft report posted on the San Francisco Municipal Transportation Agency’s (SFMTA) website, a consultant for the SFMTA observed taxi idle times in the queue at SFO during weekday evening peak and weekend daytime off-peak periods. During the busy period (a weekday from 7:30 pm to 11:20 pm), taxi idle times ranged from less than 10 minutes to a high of 45 minutes. During weekend daytime off-peak hours (a weekend from 10:20 am to 2:30 pm), SFO taxi idle times ranged from about 10 to 70 minutes. The SFMTA’s consultant concluded that “Observing a less-than 15-minute wait in an airport taxi queue is unusual and indicates high demand and a tightness in taxi supply.”

By comparison, average idle times for drivers at Mineta San José International Airport averaged 30 minutes to 80 minutes during weekday evening hours and 60 to 120 minutes during weekend morning hours in 2012. While SFO’s taxi idle times suggested undersupply, the idle times at Mineta San José International Airport suggest an oversupply of taxis at the airport.

Drivers' Airport Idle Times Present a Huge Unused Taxi Resource

Airport on-demand drivers spend staggering amounts of time idle each day, awaiting their turn to pick up an on-demand fare. The total of all driver idle times presents a huge quantity of unused taxi supply, averaging nearly 1,073 idle driver-hours each day. On average, each driver parked more than 7 hours each day in the Airport staging lot.¹⁴ This translated to more than 1,300 hours of idle time at the airport per driver in 2012, on average.

The queue of taxi vehicles can grow as long as 80 cabs. See Appendix F for an analysis of idle times and queue length on Friday, February 1, 2013 – a sample weekday. The City desired companies with viable fleets to serve San José's taxi demand, but likely did not expect roughly a tenth of San José's taxi fleet to be parked at the airport.

While it can be expected that taxis are not fully utilized (for example when a driver goes across the City empty to pick up a dispatched call or when he/she returns from an out-of-County trip), in our opinion taxis awaiting on-demand fares in the staging lot are a particularly inefficient and avoidable form of oversupply. These drivers are close to downtown, but their vehicles are parked and hidden away instead of potentially serving other taxi customers in San José.

The consultant noted long customer wait times in the neighborhoods and perceptions about unreliable service as reasons for San José's underdeveloped taxi market. Given the potential for growth in downtown and neighborhood service (see Chapter 1), we conclude that the oversupply of taxis could better serve San José.

Driver Reliance on the Airport

The on-demand market comprises a significant part of all airport taxi trips: Generally, more than 60 percent of all airport taxi trips are from the on-demand program, as opposed to pre-arranged pick-ups or drop-offs. Some San José taxi drivers continue to rely significantly on the Airport on-demand program as their main business.

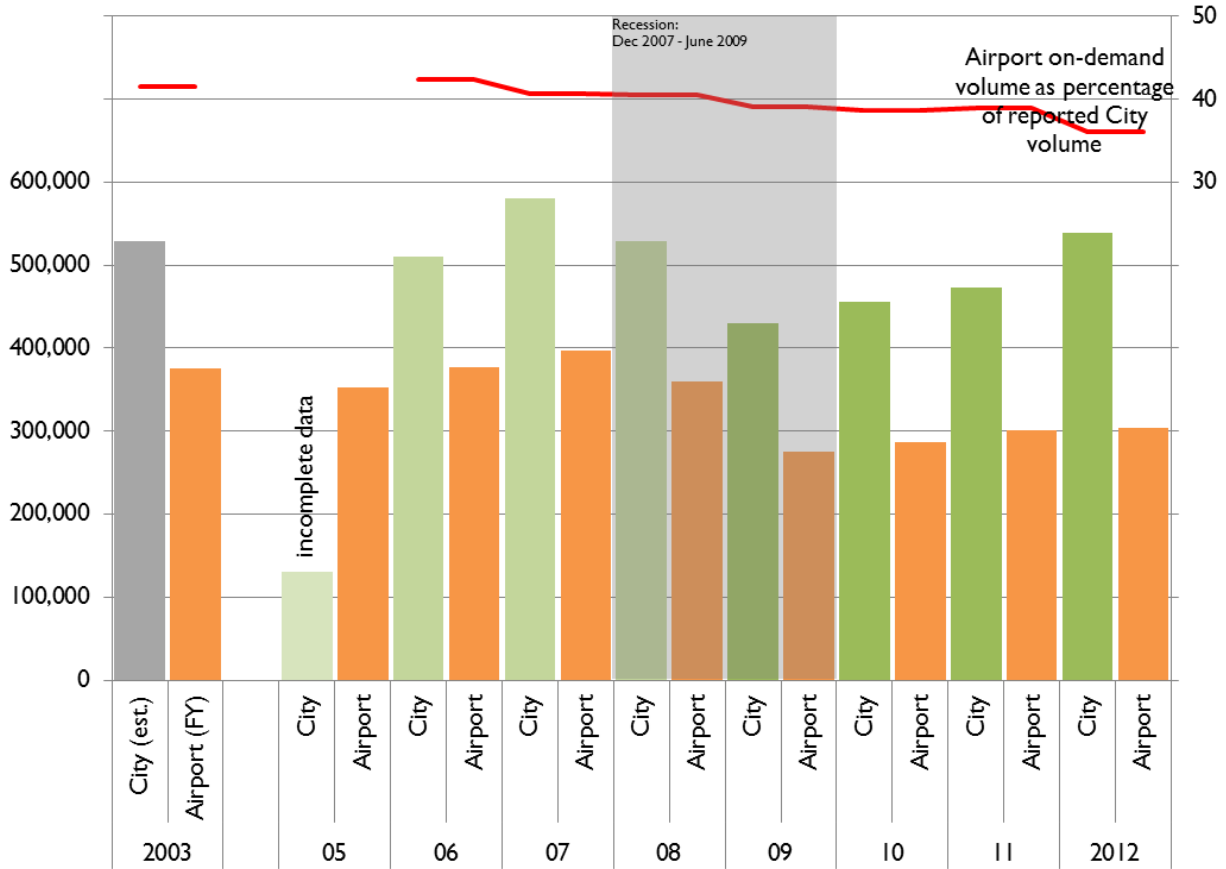
In Aggregate, the Airport Is Still a Significant Part of the San José Taxi Market, as It Was in 2004

In 2004, the consultant estimated that on-demand trips represented 41 percent of total trips originating in San José; in 2012, on-demand trips represented 36 percent of total trips originating in San José (for companies reporting dispatch data to DOT). While the ratio declined slightly, that may be due more to

¹⁴ Average over all 150 drivers who have airport on-demand access on a given day, based on all 2012 trips.

reduced passenger volumes at the Airport than to efforts to increase off-airport trips. Exhibit 15 compares the volume of downtown and neighborhood trips on the one hand, and Airport on-demand trips on the other.

Exhibit 15: Downtown and Neighborhood and Airport On-Demand Trip Volume



Sources: Auditor analysis of off-airport trip volumes in San José as reported by companies and on-demand trip volumes in Taxi San Jose monthly reports from the City’s database, and the March 2004 consultant study.

Note: DOT approved company CAD systems, as noted, from April 2008 to July 2009. Because data from 2005-2008 predates CAD approvals, the figures are less reliable and therefore shown in a lighter shade. Also, those years include data from companies that did not submit data in 2009-2012.

Some Companies Relied More on the Airport Than Others

At a company-level, we find that the various companies serve to varying degrees the downtown and neighborhoods on the one hand, and the airport on-demand passengers on the other hand. While some companies balanced their business to serve both off- and on-airport trips, other companies relied extensively on the airport as a source of customers for their overall business. These companies appear to be reliant on the steady stream of airport on-demand customers, even though it is associated with higher costs for permitting, dispatch, and extraordinarily long idle times for drivers. Conversely, some drivers affiliated with San José companies appear to work predominantly outside of City limits.

Exhibit 16 shows the balance of off-airport to on-airport trips by company, as well as out-of-City trips reported by the companies.

Exhibit 16: Comparison of On- and Off-Airport Trip Volumes in 2012 by Company

	Reported Trips in 2012			Comparison
	Trips originating in San José excluding airport (off-airport) (1)	Airport on-demand trips (2)	Santa Clara County trips, excluding San José (3)	San José off-airport trips per on-demand trips (1) / (2)
City Cab	46,000	17,000	2,000	2.7
Checker Cab	134,000	52,000	71,000	2.6
Yellow Cab	235,000	101,000	57,000	2.3
Milpitas Cab	36,000	22,000	2,000	1.6
Green Cab	71,000	105,000	23,000	0.7
California Cab	2,000	5,000	3,000	0.4
Total	524,000	302,000	158,000	1.7

Source: Auditor analysis of Taxi San Jose dispatch data and company self-reported dispatch data queried through the City's Taxi Database.

Note: Excludes trips reported by Alpha Cab and United Cab which each had only one cab with airport on-demand trips.

Drivers Continue to Rely on Airport Trips

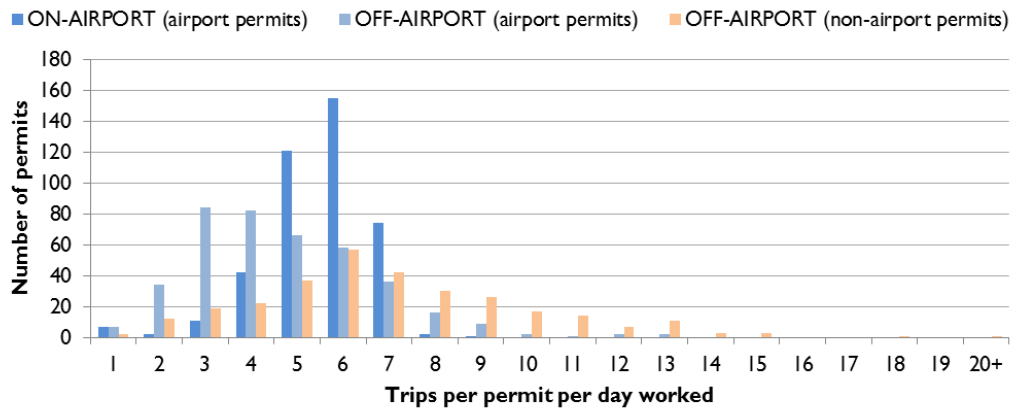
Many different factors contribute to how many trips a driver serves per day, including:

- Driver choices about working hours and the markets to serve,
- The demand on the given day as well as the prevalence of other taxi drivers who compete for fares, and
- The strength of the company's dispatch system and customer base.

The data in Exhibit 17 suggests that airport on-demand trips remain more attractive to drivers, compared to downtown and the neighborhoods: Despite facing extremely long idle times, many drivers chose to work at the airport on their assigned days rather than voluntarily go off the airport and avoid the queue. As long as the airport is perceived to be more attractive by drivers, improvements to the amount of downtown service may remain elusive.

We found that airport drivers served fewer trips on their off-airport days (average 4.9 per driver per day) than on their on-airport days (average 5.5). We further found that Airport permit holders served fewer off-airport trips per day worked, compared to non-Airport drivers (average 7.3). Exhibit 17 shows the 2012 distributions of trips per day worked.

Exhibit 17: Comparison of Trips Per Day Worked Per Permit for Airport Permit Holders and Non-Airport Drivers in 2012



Source: Auditor analysis of Taxi San Jose dispatch data and company self-reported dispatch data queried through the City's Taxi Database

Note: Off-airport trips include all activity originating within Santa Clara County. The total record count is 1 million.

An Oversupply of Taxis at the Airport Is Problematic

An oversupply of taxis at the airport has led to multiple problems, from reduced driver incomes to customer service issues. In the past, oversupply led to drivers refusing to take passengers, especially on short fares, and incidents among drivers.

Drivers Have Fewer Trips Per Day Than Was Expected

The oversupply of taxis at the airport hurts drivers' incomes, as they served fewer trips per cab per day in 2012 than they did in the past. Stakeholder input from the consultant study as well as public comment during Council discussions has highlighted the issue of driver incomes. But when passenger volume fell, so did the average number of on-demand trips per cab per day, as shown in Exhibit 18. The consultant expected drivers to achieve eight airport-originating trips per day, given airport deplaning passenger volume in 2003, however drivers only averaged 5.5 trips per day in 2012.

Exhibit 18: Airport On-Demand Trips Per Taxi Per Day From 2003 to 2012

Mineta San José International Airport	2003	04	05	06	07	08	09	10	11	2012
	3.5	n/a	n/a	6.9	7.3	6.6	5.0	5.2	5.5	5.5

Source: Auditor analysis of Taxi San Jose dispatch records and Airport reports

n/a: In 2004 and 2005, the City approved and implemented the model

Benchmarking other airports' on-demand programs reveals some, but not all, have substantially more trips per day. For example, Exhibit 19 shows that a San Diego driver could expect to pick up 9.5 trips per day in 2012, whereas a San José driver only got 5.5 on average. The other taxi markets may have different rates of fare and vary in their typical trip lengths, but we also see that other airports struggled with declining demand, such as Oakland International Airport.

Exhibit 19: Comparison of On-Demand Trips Per Taxi Per Day in San José to Other Airports

	2002-03	2012	2012 details
Mineta San José International Airport	3.5	5.5	304,000 trips / 150 cabs
Orange County John Wayne Airport	7.4	8.4	339,000 trips / 110 cabs
Oakland International Airport	8.1	4.3	165,000 trips / 105 cabs
San Diego International Airport	9.2	9.5	780,000 trips / 225 cabs (in 2008-09)
Sacramento International Airport	3.6	3.3	110,000 trips / 90 cabs (in 2011)

Sources: Auditor analysis of March 2004 consultant study, Taxi San Jose dispatch records, and information provided by staff at other airports

Oversupply Has Led to Customer Service Problems

San José has previously experienced customer service problems when taxis oversupplied the Airport on-demand program. For example, some drivers refused to service certain passengers, especially when passengers wanted a ride to a close destination. The driver's consideration in those instances was the low payoff from a short fare versus the long idle time to get that fare. Obviously, all things being equal, drivers prefer a more lucrative fare to a less lucrative fare. Current permit language prohibits the refusal of fares.

Staff also documented cases of drivers arguing with each other, even in front of customers, over their place in line or who could take the more lucrative fares. Further, the consultant documented instances of drivers being rude to customers. Such issues are not unique to San José – they occur at other airports, too, which has been one reason for limiting the number of airport taxis through regulation.

According to the Airport, staff still calls on the SJPD to respond to driver incidents in the staging area several times a year. Staff indicated the incident rate has markedly improved since what staff described as “wild west days” before the Airport moved to a concession model for taxi service. Nonetheless, long driver idle times at the airport still appear to result in incidents and strain Airport resources.

Such customer service problems and incidents could paint an unwelcoming picture for San José as a tourist and business destination, and the underlying problem remains the imbalance of demand and supply.

The City Has Not Adjusted the Supply of Airport Taxis Since 2005

In 2005, the City lowered the number of taxis with access to the on-demand queue. Replacing the concessionaires and their 343 vehicles, the City adopted a hybrid system to constrain the supply of on-demand taxis at the airport: Since 2005, only 150 cabs have had access each day (300 on a rotation basis alternating every day).

The City also adopted a procedure for further reducing supply if needed, and in 2005 explicitly designated 60 of the 300 permits as conditional and revocable depending on the needs of passengers and the 30-minute idle time criterion (among other factors). Further, staff's approved Methodology for Adjusting Permits states that one reason for reducing the number of Airport permits is: "Taxicabs are waiting for dispatch to terminal curbs for over thirty (30) minutes during several peak periods of a week consistently for a minimum of one month."

Passenger volume has fallen dramatically. The City, however, has not pulled back the conditional permits. In fact, when Airport staff attempted to slightly reduce the number of permit holders through natural attrition in 2009 and again in 2011, it was rebuked by taxi industry demands that all vacant permits be reissued.

The City Has Options to Reduce the Supply of Airport Taxis

The results of Chapter 1, as well as the above analyses of on- and off-airport trip volumes, show that not all companies and drivers have built their off-airport service levels to respond to falling airport passenger volume. Despite long idle times, many are still at the airport, parked for much of the day.

In March 2004, the consultant described several alternatives to regulate the supply that were in place at other airports. Given current levels of passenger traffic at the airport, the City should consider various additional options to reduce the number of taxis idling at the Airport:

- (1) Reducing the number of permits by revoking conditional permits: The Airport could reduce the overall number of permits by revoking some or all of the conditional permits. The conditional permits were intended specifically for balancing demand and supply; this would disproportionately affect drivers who recently received permits.
- (2) Reducing the number of permits through attrition by enforcing the service obligation (after giving notice to all drivers) and not reissuing permits as drivers leave airport service, an option already available through the Municipal Code.
- (3) Waiting for permit holders to leave by natural attrition: The Airport has attempted to reduce the supply of on-demand taxis previously by waiting

for permit holders to voluntarily give up their airport permit, for example when they found a different job or left San José. In these cases the Airport tried to not reissue the vacant permit to a new driver. Attrition would likely be the slowest method to reduce supply, but would give drivers full choice over whether to leave or not.

- (4) Amending the rotation: The City could modify the A/B day rotation schedule. Los Angeles, for example, has an ABCDE rotation which gives a fifth of the city's taxi fleet airport access on a five-day rotation. By adding more rotation groups, San José can further limit daily supply, without radically changing the system—each driver would have fewer access days, but would likely receive more trips on those days on average. The Airport already has the capability to identify subgroups of drivers, as the Airport permits are numbered in a way that divides the drivers into subgroups of 50. The intent of this permit numbering scheme was to enable the dispatch operator to call in subgroups of permit holders when needed to meet demand.

Accurately forecasting the amount of demand and supply far in advance is not easy, but it is clear that with the reduced passenger deplanement volume, there is now an oversupply of on-demand taxis at the airport.¹⁵

The ultimate solution, all parties will agree, is the development and attraction of more air service and passenger travel to the airport. Meanwhile, to reduce idle times, the City should adjust the supply of on-demand taxis to match customer demand until the number of passenger deplanements increases, and taxi idle times and/or the number of trips per driver per day improve.

¹⁵ Two more alternatives to reduce the oversupply of taxis at certain times of the day or week would be:

Limiting supply by hour of day: Because the schedule of arriving flights and thus the expected demand for on-demand taxis follows predictable daily patterns, with morning and late evening peaks, the Airport can also restrict supply on an as-needed basis. For example, it could close the staging area during certain hours of the day, or when the number of vehicles in the queue exceeds a threshold. With this approach, care needs to be taken to not create unintended consequences, such as a secondary unregulated queue outside the official staging lot.

Congestion pricing: Currently the Airport charges a fixed \$1.50 per-trip fee to taxis, but it can consider making this fee variable. Factors in setting the price could be the relative demand, the number of drivers already parked in the staging lot, and the current idle time. The price can effectively communicate to drivers what the real time conditions are and could incentivize drivers to make their own economic choices: Even if it is a driver's on-airport day, he/she still has a choice of whether to work at the airport or downtown and in the neighborhoods. Drivers who value serving on-demand trips more would self-select and the variable pricing incentivizes drivers that value the airport less to not contribute to oversupply. The Airport can design the variable fee to be revenue-neutral. The Airport already provides a discounted fee to drivers with disability-accessible vehicles and clean fuel vehicles.

Chapter 3 The Airport Permit System Allows New Companies and a Limited Number of New Drivers to Enter the Market

Summary

As of March 2013, 13 taxi companies were licensed to provide taxi service in San José. With varying sizes and business models, the five largest companies comprised more than two thirds of drivers and vehicles and captured more than 95 percent of reported trip volume on-airport and off-airport.

Eight of the 13 companies provide service in the airport on-demand program. Compared to the concession model before 2005, more taxi companies have access to the Airport on-demand taxi queue. In addition, individual airport drivers have the ability, and in fact have changed their company affiliations and also have left the industry or joined as new taxi drivers.

The City has granted 195 Airport on-demand authorizations to individual drivers. As the individual permits can be renewed indefinitely per the Municipal Code, the lack of enforcement appears especially unfair not only to those drivers and companies who attempt in good faith to comply with Airport permit minimum service standards, but also to other drivers who wish to become Airport permit holders.

The City has annually reallocated the 105 Airport on-demand authorizations to companies based on their share of downtown and neighborhood trips. The City has excluded all airport trips from the calculation, as recommended by the consultant, but inconsistent with current Municipal Code provisions which technically call for including pre-arranged trips.

Companies Differ in Their Size, Markets, and Business Models

As of March 2013, 13 taxi companies held licenses to provide taxi service in San José. They were:

- A Orange
- All Star
- Alpha and California, which are under the same ownership
- American
- City and Milpitas, which are under the same ownership
- Green

- Metro
- Rainbow
- Yellow and Checker,¹⁶ which are under the same ownership
- United

These companies differ greatly in their size. Yellow and Checker had a combined 313 vehicles and 366 affiliated drivers, whereas some other companies had drivers and vehicles in the teens. The three largest companies, Yellow, Checker, and Green, together accounted for more than two thirds of taxi drivers, vehicles, and reported trip volume originating in San José and from the airport. The five largest companies, also including City and Milpitas, captured over 95 percent of reported trip volume originating in San José and from the airport.

As shown in Exhibit 20 some companies have grown, shrunk, left San José, or gone out of business since 2004.

Exhibit 20: Comparison of San José Taxi Industry Concentration in 2004 and 2013

2004		2013	
Yellow and Checker Terminal A concessionaire	263 vehicles	Yellow and Checker	313 vehicles
United Terminal C concessionaire	80	Green	95
Rainbow	35	City and Milpitas	39
9 additional companies: Alpha, Computer, Golden Star, Milpitas, Net, Santa Clara, California, USA Express, West Valley	Fewer than 20 each	Rainbow	38
		Alpha and California	23
		American	19
		Metro	12
		A Orange	9
		All Star	9
		United*	4
Total	Approximately 480	Total	561

Sources: March 2004 consultant study and auditor analysis of SJPD records as of March 2013

Note: Includes only vehicles permitted in San José – companies may have additional vehicles that operate in other cities.

* In March 2013, United Cab became non-compliant with the Municipal Code requirement of maintaining a fleet with five vehicles minimum, an issue still unresolved as of May 2013.

Companies Focus on Different Market Segments

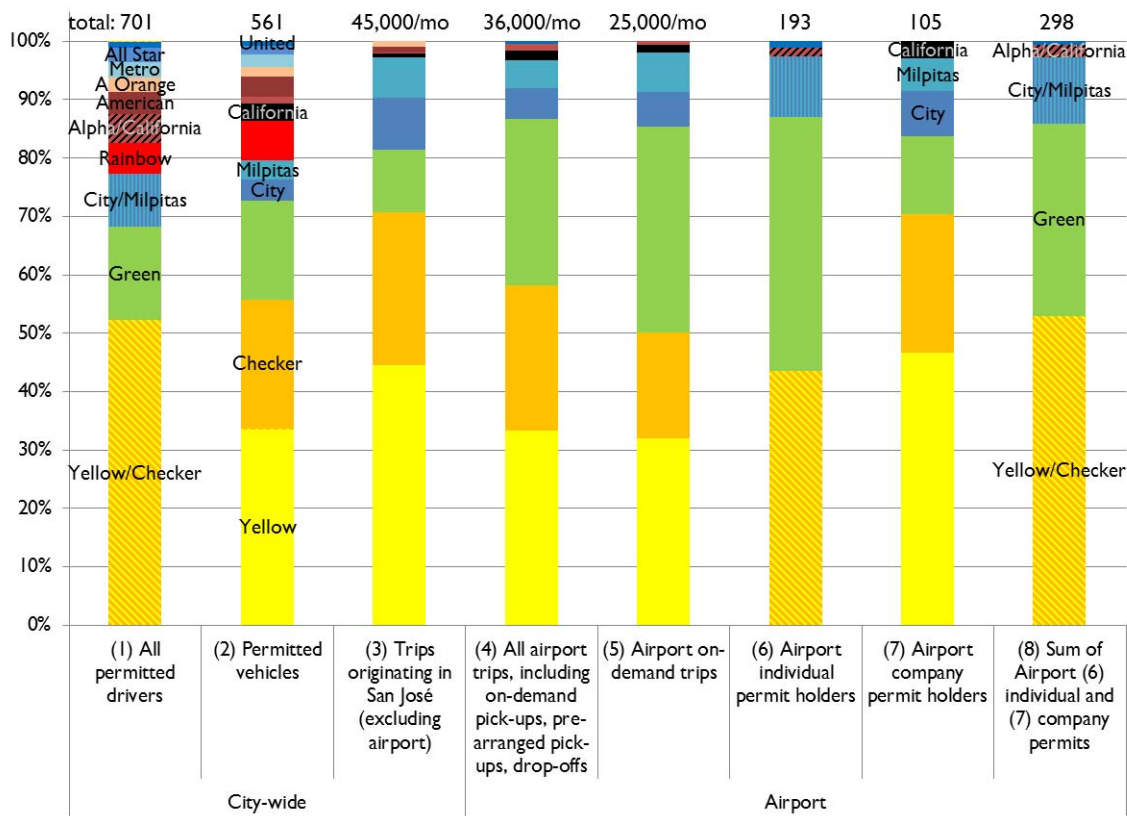
San José’s taxi companies differ in the taxi market segments they serve and their business models. While some companies have long had computer-aided dispatch (CAD) systems before the City even required them for airport on-demand participation, other companies just recently introduced CAD systems. CAD systems generally help a company better serve pre-arranged and dispatch trips, which are distinct from walk-up trips and arrangements a customer makes with a

¹⁶ Checker is also known as Silicon Valley Checker or SV Checker.

specific driver. A company’s marketing, branding, and advertising can also target specific market and customer segments.

The taxi companies also differ in the geographic markets they serve, or aim to serve. We noted earlier already that some companies have a significant balance of their business at the airport, whereas others (notably Rainbow) have withdrawn from the airport on-demand program. Exhibit 21 compares companies’ airport trip shares and permit holder shares (columns 4-8) to their respective City market shares (columns 1-3). Some of the 13 licensed companies, in fact, have their business address listed in Santa Clara or Sunnyvale and may have a business focus on Peninsula cities north of San José.

Exhibit 21: Companies’ Shares of Drivers, Volume, and Permits in Early 2013



Sources: Auditor analysis of SJPD and Airport permit records, Taxi San Jose dispatch records, Airport AVI system data, and company dispatch records in the City’s taxi database

Note: column (3) reflects approximately 90 percent of all vehicles because not all companies were required to report data; columns (6) and (8) exclude 1 vacant permit and 1 unaffiliated permit holder as of March 2013.

More Companies Have Airport Access

As was intended when the reallocation process was established, the City's 2005 regulatory changes have enabled more companies to participate in the on-demand program at the airport. Under the concession system before 2005, two companies had exclusive rights to pick up on-demand passengers, and some drivers and companies voiced concerns about being prevented from changing affiliations or serving the airport. The permit scheme introduced in 2005 allowed, and led to, more companies participating in the on-demand program.

As of April 2013, eight companies participated in the on-demand program through reallocated company permits. This theoretically gives drivers who want to serve airport on-demand trips and also airport taxi customers more choices.¹⁷ Companies can compete with each other for drivers by changing their gate fees or business plans.

Driver Dynamism

Furthermore, as envisioned when the reallocation process was established, drivers have taken advantage of the choice among multiple companies. Our analysis of driver affiliations from 2009 to 2012 reveals that some drivers, although not many, have changed their affiliation from one company to another (see Appendix H).¹⁸ But more so, we found that many drivers left the taxi business altogether, or had no prior affiliation – i.e. they were likely a new San José taxi driver. As drivers left the airport taxi market, they made room for new drivers.

Individual Permits Are Effectively Medallions If Accountability Is Lacking

In 2005, when replacing the on-demand concession system with the taxicab service model, the City introduced 195 Airport on-demand authorizations that were distributed directly to drivers. This was part of the City Council-approved hybrid system in which some permits would be assigned to companies and some to individuals to balance the responsibilities and accountability among companies on the one hand, and drivers on the other.

The individual permits would also provide the drivers who hold them with more leverage over the companies and mobility in choosing with which company to affiliate. The intent was that companies would compete for drivers.

¹⁷ According to staff, on-demand customers usually take the first available taxi from the line regardless of its company affiliation.

¹⁸ Due to limited historical data, we were unable to determine driver affiliations before 2009.

During the same time, the City expressly rejected suggestions to create individual permits that would resemble medallions known from other taxi markets. Medallions are usually a property right conferred by the regulator to taxi companies or drivers, who can rent it out or sell it. Due to limited supply, medallion sales can reach six figures in other jurisdictions. Staff found medallions unsuited for the San José taxi market, recommending instead a focus on companies that have strong dispatch operations and viable fleets. The City thus limited the assignability and transferability of the permits.

According to Airport records, at least 70 of the drivers who were given the initial 195 individual permits in 2005 still hold them; the remainder has either voluntarily surrendered their permits or, in limited instances, had them revoked. Vacant permits have been reassigned by the Airport; before 2013 the Airport used an annual lottery to determine which drivers had first pass; as of May 2013, the Airport intends to use a seniority list based on taxi service in San José.

As the individual permits can be renewed indefinitely, the lack of accountability described in Chapter 1 effectively turns the 195 permit holders into a permanent privileged class. This is unfair not only to drivers and companies who attempt in good faith to comply with Airport permit minimum service standards, but also to other drivers who wish to become Airport permit holders.

Reallocation Results Show Dynamism

In 2005, the City implemented an incentive mechanism that linked downtown and neighborhood service to the allocation of desirable airport access. Following one of the consultant's key recommendations, the City designated 105 Airport On-Demand Authorizations for companies and has reallocated them annually among companies. A company's share of the 105 permits is based on its share of downtown and neighborhood trips among all other participating companies' downtown and neighborhood trips. After an initial allocation and a two-year transition period for companies to adapt to new expectations and build their businesses, the City began reallocating these 105 permits in 2008.

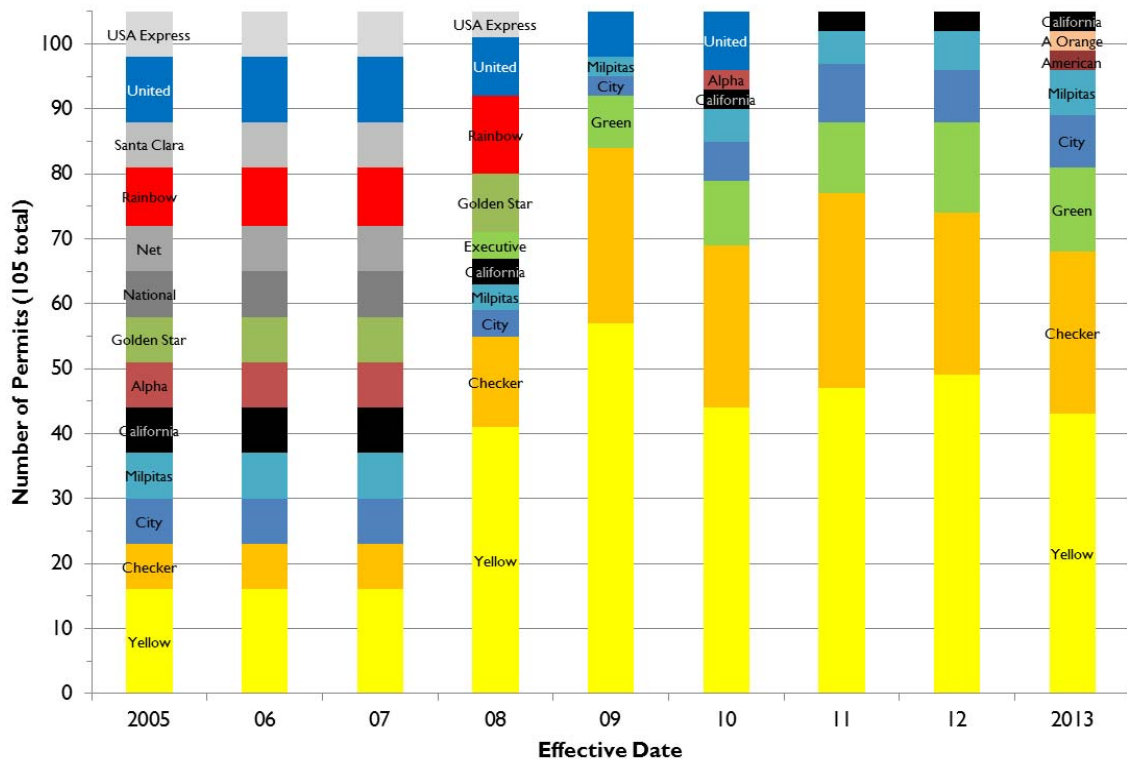
The Reallocation Is Based on Share of Downtown and Neighborhood Trips, Excluding All Airport Trips

The methodology for adjusting airport on-demand authorizations for companies was approved by the San José City Council in November 2004, and includes amendments subsequently approved by the City Council. The Approved Methodology grants each company a fraction of the 105 permits, according to its share of off-airport trip volume of all other companies participating in the reallocation. A company that served a third of all off-airport trips would theoretically receive a third of the 105 permits (see below for a discussion of the minimum allotment). The permit reallocation is effective each April. All 105 permits are taken back by the City and reallocated the following year. DOT uses

company dispatch data from the City’s taxicab database and it counts trips originating in San José, excluding all airport trips, from January through December. Companies that meet the eligibility requirements but do not have sufficient trip volume still receive a minimum allotment of currently three permits.

The key component of the reallocation has been rewarding companies with airport permits for their share of downtown and neighborhood service. The City adjusted the method and criteria a few times, but essentially followed the consultant’s recommendations. Exhibit 22 shows the reallocation outcomes for each year since the initial allocation in 2005 and the 2006-2007 transition period. Most recently, two new companies joined the airport on-demand program in April 2013 after meeting the City’s minimum requirements, described below, for the first time.

Exhibit 22: Allocation of 105 Company Permits, 2005-2013



Sources: Auditor compilation of Airport memos and DOT calculations

Notes: In 2005, each company received a minimum of 7 permits and no reallocations were made in 2006 and 2007. In 2008, each company received a minimum of 4 permits as long as it met the City’s minimum requirements. From 2009 to 2013, the minimum allotment was 3 permits.

Minimum Allotment for Small Companies

For the pool of 105 company permits, the City also adopted a minimum allotment to benefit small companies. It has changed over time, from seven permits in 2005 to four in 2008. Since 2009, it has been three permits: A company that served less than 2.86 percent of all trips from participating companies would still receive guaranteed 3 of the 105 permits (i.e. 2.86 percent of 105 permits). The minimum allotment reduces the pool of permits that are reallocated *based on trip volume*, so that the total remains 105.

The intent was to provide small companies with airport access while they build their business. A company's receipt of a minimum allotment of company permits is incumbent on that company having:

- Received City approval for its CAD system to ensure reliable and accurate data
- Assembled and maintained a fleet of at least 15 vehicles and affiliation with at least 15 drivers
- Paid all City fees and charges

In subsequent years, after receiving its initial allocation of company permits, a company must also serve at least 25 percent of its on-demand trips in clean fuel vehicles to retain eligibility to participate in the on-demand program.

The Methodology Should be Documented

In the reallocation calculations, the City has some discretion on whether to apply the minimum permit allotment to every company, or whether to apply it only to companies that would not qualify for any permits from the off-airport trips count.

While the difference may sound semantic, it can have real-world consequences. The first alternative, used in 2008, reduced the pool of 105 permits distributed through the off-airport trips incentive, and skewed the reallocation outcome relatively towards companies with low trip volumes. The latter alternative, which has been in effect since 2009, preserves more of the 105 permits for the incentive reallocation, granting only as few as needed under the minimum allotment. This provides a relative advantage to companies with larger trip volumes compared to the first alternative.

The City has not documented which methodology for minimum allotments is the officially approved one. Exhibit 23 shows that, in 2008, the choice of applying the minimum allotment to all or only those companies that needed it made a difference of up to seven permits for companies.

Exhibit 23: Alternative Approaches to Calculating the Minimum Allotment Could Have Resulted in Different Company Permit Allocations in 2008

Company	Minimum allotment	
	Given to all companies	Given to only companies that need it
Yellow Cab	41	48
Silicon Valley Checker Cab	14	13
Rainbow Cab	12	11
Golden Star Cab	9	7
United Cab	9	6
California Cab	4	4
City Cab	4	4
Executive Cab	4	4
Milpitas Cab	4	4
USA Express Cab	4	4
Total	105	105

Source: Auditor analysis based on City’s taxicab database trip data

Note: In 2008, 4 minimum permits were allotted. Subsequently this was 3. Some of the companies listed were no longer in business in San José in 2012. As described above, in 2008 the City allotted the minimum number of permits to all eligible companies, before considering trip volume, as shown in the left column. In subsequent years, the City calculated the allocation based on trip volume first, and then gave the minimum allotment to eligible companies as needed, which in 2008 would have yielded the allocation shown in the right column.

Reallocation Excludes Pre-Arranged Airport Trips

The City’s reallocation calculation excludes all airport trips – pre-arranged and on-demand – as the consultant recommended. The Municipal Code, however, calls for excluding on-demand trips only. DOT advised that company CAD systems and their GPS cannot distinguish between airport pre-arranged trips and airport on-demand trips, which means following the Municipal Code is infeasible.

Reallocation Methodology Details Should Be Documented

Additionally, it should be noted that there are different mathematical ways to distribute the remainders arising in the reallocation calculations. Trip shares are fractional numbers, but permits must be in whole numbers. The City has consistently used the so called “largest remainder” method to distribute remainders, but it has not documented this. Other methods are available and they may affect companies by plus or minus one permit each year. In each of the above cases, the City should document its methodology to ensure consistency from year to year.

Possible Considerations for the Reallocation Methodology

Even though the reallocation methodology principally links downtown and neighborhood service to airport access, the incentives can break down or lead to unintended consequences. The City's intent in creating this link was encouraging growth in the overall level of downtown and neighborhood trip volume, but the current reallocation methodology may not fully incentivize drivers and companies to grow their trip volumes. The City ultimately chose to use a company's share of total Citywide taxi trip volume (excluding airport trip volume) as the primary metric. The consultant had originally outlined several different options like fleet size, mileage, or count of non-airport trips.

First, a lack of enforcement can hamper the incentive's efficacy. The City grants Airport permits to those companies and individuals that agree to provide specified levels of on-airport and off-airport service. As described earlier, the lack of enforcement can effectively grant medallion-like status to individual drivers. Furthermore, the permits require *companies* to deliver on- and off-airport service, even though it is *drivers* who deliver trip volume. Most drivers are independent contractors and only affiliated with the company through a weekly gate fee (the amount a driver pays the company for affiliation, dispatch services, auto liability insurance, and in some cases a vehicle).

Second, although the original reallocation considered the success with which companies delivered off-airport services, no such provision was made for potential reallocations of individual permits. On the one hand, it appears in hindsight that certain drivers were "grandfathered" into the on-demand program. On the other hand, given the lack of enforcement of minimum service standards, the situation can appear "medallion-like." Depending on the City's reassessment of the priority given to off-airport taxi traffic (Chapter 1) and the need to limit the number of taxis at the Airport (Chapter 2), it may be desirable to consider including trip volume in decisions whether to renew individual permits and/or to issue future individual driver permits.

Third, the current mathematical formula may give a relative advantage to companies that have more drivers: Companies with *more* drivers need to serve *fewer* trips *per driver* to gain the same Airport permit allocation as a company with *fewer* drivers. This is due to the reallocation formula that considers a company's trip volume as share of all companies' trip volumes, rather than taking a per-driver approach.

Fourth, the incentive to increase off-airport business seems like it would have worked best if the industry was growing – if the "pie" of all trips was increasing. In such a scenario, companies would have competed for reallocated permits based on their growth relative to each other. In a stagnant or moderately growing market, the reallocation resembles a zero-sum game. An alternative

would be to consider each company's growth relative to its volume from the previous year.

The City Should Reassess Taxi Priorities

In 2005, the City implemented a model with multiple integrated mechanisms to improve downtown and neighborhood service and reduce the supply of airport on-demand taxis. The City linked desirable airport permits to companies' and drivers' downtown and neighborhood service, through the service obligation (Chapter 1) and the reallocation of 105 company permits (Chapter 3). The City sought to balance the supply of taxis at the airport with the demand for taxi services (Chapter 2). Finally, the City also aimed to provide for equity among drivers and companies (Chapter 3).

However, in 2012, airport taxi drivers were in widespread non-compliance with their service obligation, which the City has not enforced since 2007. This lack of service and lack of accountability is problematic and unfair, and necessitates a review of the City's priorities.

Furthermore, the airport is again oversupplied with on-demand taxis, leading to long idle times for drivers. The City has not effectively used its existing and approved mechanisms to adjust the supply of taxis since 2005. To address the oversupply and its associated problems, the City can choose from several options to reduce the number of taxis at the airport.

Recommendation #1: To ensure fairness and consistency in the allocation of Airport on-demand authorizations, the City should:

- a) Enforce, modify, or eliminate the current minimum daily service obligation (5 days on-airport and 5 days off-airport every 14 days, with a minimum of 4 trips per day);**
- b) Document the reallocation methodology for company authorizations and amend the Municipal Code as necessary to reflect the current practices of (1) calculating annual San José trip volume excluding all airport trips, (2) allotting the minimum number of company authorizations only to the companies that need it, and (3) adjusting for rounding;**
- c) Consider whether to adjust annual San José trip volume for the number of drivers, vehicles, or growth from prior year when reallocating company authorizations; and**
- d) Consider whether to include annual San José trip volume in decisions whether to issue and renew individual driver authorizations.**

Recommendation #2: Since passenger and taxi trip volumes at the Airport are dynamic, the Airport should consider service needs, including driver idle times and trips per driver per day, when determining whether to:

- a) Renew or issue on-demand authorizations;
- b) Reduce the number of authorizations through attrition, revocation of conditional authorizations, and/or by enforcing the minimum service obligations; and/or
- c) Amend the rotation system.

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Chapter 4 Taxi San Jose Appears to Perform as Expected, but Due to Reduced Passenger Volume Each Dispatch Effectively Costs More Than in the Past

Summary

Taxi San Jose has been the airport's on-demand dispatch operator since 2005. As such, it manages the queue of taxis and places customers into their choice of transportation, but does not own or operate any taxis. Its contract with the City specifies a number of performance standards, including maximum customer wait times, an obligation to provide fair treatment to companies and drivers participating in the on-demand program, and minimum staffing requirements. Taxi San Jose appears to perform as expected and no taxi appeared to enjoy an advantage. Although many taxis received fares out of sequence in 2012, the added idle time was usually minimal and caused by an Airport requirement to maintain a taxi presence at both terminals.

However, because Taxi San Jose's costs have been mostly related to mandated minimum staffing, it cannot scale its operations when passenger volume falls. This has led to an increase in the effective cost per on-demand dispatch paid by drivers. We also found that Taxi San Jose, like many small organizations, can strengthen internal controls. We recommend that, as part of its upcoming RFP, the Airport rebalance the regulatory workload between itself and its operator, and address the issues identified.

Taxi San Jose Has Been the Airport's On-Demand Dispatch Provider Since 2005

Taxi San Jose, a California non-profit corporation with board representatives from taxi companies, drivers, and organized labor, was established to compete for the City's Request for Proposal (RFP) for an on-demand dispatch provider in FY 2004-05. Prior to the RFP, the airport's on-demand taxi needs were served by two concessionaires. When the City adopted the taxi service model in 2004, it decided to seek a neutral dispatch manager to ensure fair treatment of drivers from multiple taxi companies.

Taxi San Jose bid a first year cost of under \$900,000 to provide on-demand taxi and shuttle dispatch services, which was nearly \$200,000 less than the second best bidder. The City awarded Taxi San Jose with a two-year on-demand dispatch contract in June 2005 that it extended with five one-year options. In September 2012, the City awarded Taxi San Jose a second, two-year contract with the expectation that an RFP would be issued for services beginning October 2014.

The City's Contract with Taxi San Jose Outlines Performance Standards

Taxi San Jose's prior and current contract with the City provide detailed descriptions of the organization's scope of services, contractual obligations, and penalties for various performance problems.¹⁹ As the dispatch manager, Taxi San Jose is responsible for greeting deplaned passengers at designated kiosks and directing them to a taxi or an airport shuttle, at the passenger's discretion. Its staff also manages the queue of on-demand taxis at the staging lot and both airport terminals. It does not own or operate any taxis.

Taxi San Jose's contractual obligations and performance standards are generally related to customer service. For instance, Taxi San Jose is required to ensure that each on-demand passenger waits no more than five minutes for a taxi, a standard that is more rigorous than the 10-minute requirement at John Wayne Airport in Orange County and at San Diego International Airport.

Further, Taxi San Jose is required to provide equal (not preferential) treatment of companies, drivers, and industries, and also provide extensive daily and monthly reports of dispatch operations and complaint logs. The dispatch reports include which permit holders picked up fares, at what times they left the terminals with fares, how long they were idle before receiving the fares, and how many trips were in clean air vehicles.

Additionally, Taxi San Jose is required to maintain minimum staffing at the terminals and the staging lot to ensure that passengers are served, and that the queue of airport permit holders is overseen. These standards are discussed in detail below.

Finally, since December 2012, Taxi San Jose has been responsible for billing and collecting monthly on-demand dispatch fees of \$270 per permit from companies and drivers. Before December 2012, the Airport collected monthly fees from permit holders and remitted a fixed monthly payment in arrears to Taxi San Jose for services rendered. The Airport previously retained \$25 from each monthly permit fee for its administration. Since then, Taxi San Jose has retained the full amount of monthly fees to cover its operations, though the Airport holds a two-month security deposit paid by permit holders to ensure Taxi San Jose's cash flow in the event of permit holder delinquency.

¹⁹ The contract can be obtained from the City Clerk's Office.

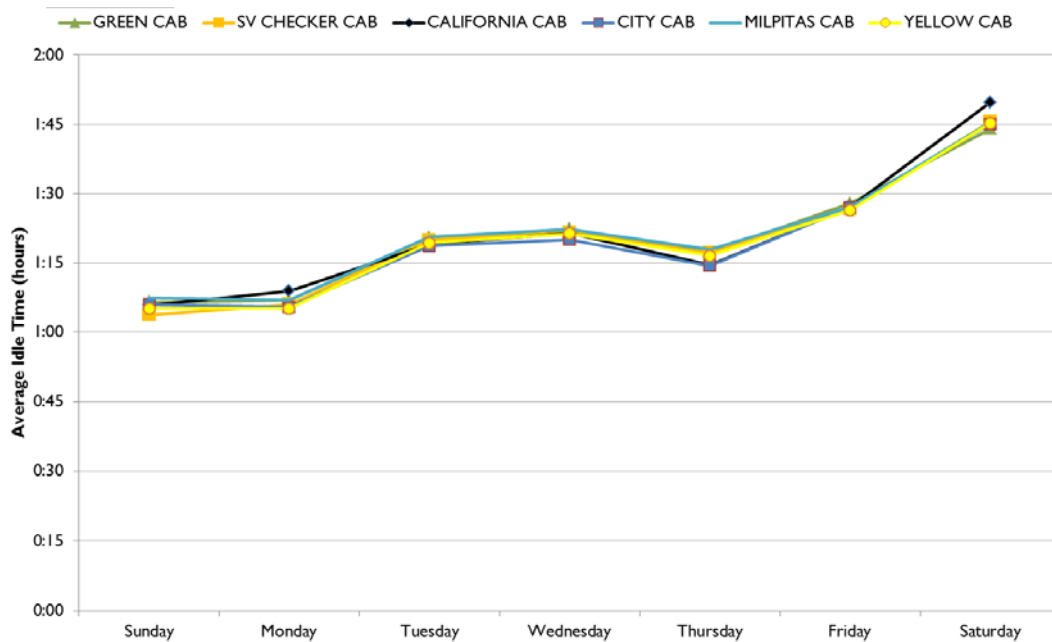
Taxi San Jose Provides Service to Customers and No Taxi Appears to Enjoy an Advantage

Taxi San Jose appears to provide reasonable customer service. During four field observations of Taxi San Jose's operation, we did not observe any violation of the 5-minute maximum passenger wait time. Further, the amount of liquidated damages the Airport charged Taxi San Jose for various violations of its service standards fell from \$33,000 in FY 2005-06, to \$10,000 in FY 2006-07, to zero for FY 2007-08 to 2010-11. In FY 2011-12, the Airport assessed about \$5,000 in liquidated damages that staff said was related to a failure to maintain minimum staffing and timely report the noncompliance. Additionally, Taxi San Jose contracts with a secret shopper that conducts monthly visits to assess the customer service performance of staff; this continual improvement effort is internally driven.

No Taxi Enjoys an Advantage in Idle Times

As shown in Exhibit 24, average idle times by company did not vary greatly in 2012. Although these idle times were excessively long (as described in Chapter 2 of this report), the company averages derived from data for 300,000 on-demand trips were never more than 5 minutes apart on each day of the week. This suggests to us that there is no systematic bias on the part of Taxi San Jose to favor some companies over others.

Exhibit 24: Average Driver Idle Times for On-Demand Trips by Company and Day of the Week in 2012



Source: Auditor analysis of Taxi San Jose monthly dispatch data for 2012

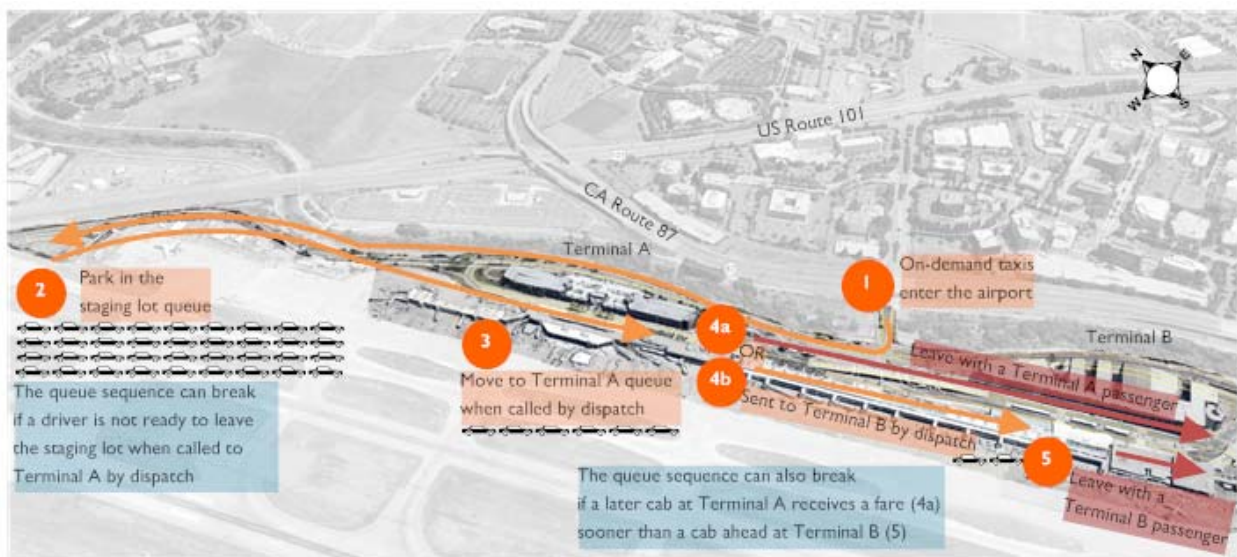
Note: the exhibit excludes Alpha Cab and United Cab because in 2012 these companies had only one permit holder each.

Many Taxis Received Fares Out of Sequence, Mostly Due to an Airport Requirement to Have Taxis at Both Terminals

Taxi San Jose follows a “first-in, first out” rule for the queue of taxis in the on-demand program. This means that the organization dispatches drivers in the on-demand queue from the staging lot to the terminals in the order in which those drivers entered the staging lot to try to help ensure that drivers receive fares in the order they entered the airport’s taxi line.

A comparison of the dispatch time (i.e., the time of day at which each taxi left from the airport with a passenger) for each of the 304,000 on-demand fares in 2012 revealed that more than 25 percent (83,000) appeared to break the “first-in, first-out” rule that governs the taxi queue. That is to say, in 83,000 cases, a cab received a fare after a different cab (or cabs) that entered the queue later. Exhibit 25 shows the flow of on-demand taxis at the airport and highlights some points where the sequence can be broken.

Exhibit 25: On-Demand Dispatch Process



Source: Auditor’s field observations and Google Earth

The Added Idle Time Typically Was Minimal

It is important to note that, while many cabs received fares later than a cab (or cabs) that entered the queue after them, the extra wait was oftentimes insignificant. In fact, more than 50 percent of cases experienced added idle time of 4 or fewer minutes. The added idle time was 30 minutes or more in only 6 percent of cases. For context, 6 percent of cases is roughly 2 percent of all on-demand trips, meaning a driver would experience an extra wait of 30 minutes or more about 16 times per year.

Out of Sequence Trips Affected All Taxis Fairly Equally

Further, while break-downs in the “first-in, first-out” rule were frequent, they appeared to happen relatively equitably.

Exhibit 26 shows the number of on-demand trips by company in 2012, broken down into trips where a company’s cab received a fare “in” sequence (meaning, following the “first-in, first-out” rule) and “out of” sequence (meaning later than a cab (or cabs) that entered the queue after it).

Exhibit 26: Fares Received in and out of Sequence, By Company, in 2012

	In Sequence Trips	Out of Sequence Trips	Total Trips	Out of Sequence as % of Total
Milpitas Cab	15,500	6,250	21,750	28.7%
California Cab	3,750	1,500	5,250	28.6%
Yellow Cab	73,500	27,750	101,250	27.4%
City Cab	12,000	4,500	16,500	27.3%
Green Cab	76,250	28,250	104,500	27.0%
Silicon Valley Checker	38,500	14,000	52,500	26.7%
Grand Total	219,500	82,250	301,750	27.3%

Source: Auditor analysis of Taxi San Jose dispatch data for 2012.

Note: The exhibit excludes Alpha Cab and United Cab because in 2012 these companies had only one permit holder each.

At the driver-level, the average permit holder (who had at least 100 on-demand trips in the year) had out-of-sequence trips 26.9 percent of the time. Nearly all drivers received fares out of sequence between 20 and 35 percent of their total on-demand trips.

An Airport Requirement to Maintain a Taxi Presence at Both Terminals Appears to Cause Most Breaks in the Taxi Queue

There are several causes for apparent break-downs of the “first-in, first out” rule, including:

- The Airport’s requirement for Taxi San Jose to maintain at least one cab at each terminal
- Drivers choosing to give up their place in line to rest longer in the staging area
- The right of any on-demand passenger to refuse to take any given cab even if that cab is next in line
- Special customer requests for vans or disability-accessible vehicles.

To assess possible causes for queue disruptions, we analyzed 42,000 breaks in the “first-in, first out” rule in which a cab received a fare after the cab that immediately followed it into the queue. Of these 42,000 cases, 29,000 were the result of the two cabs in question receiving fares from different terminals. In other words, nearly 70 percent were related to the process of dispatching taxis from Terminal A to Terminal B.

Specifically, 81 percent of these 29,000 queue breaks were cases where a cab went from Terminal A to Terminal B, but the next cab in the Terminal A line stayed and received a fare more quickly. The opposite held true in the remaining 19 percent of these 29,000 cases: a cab stayed at Terminal A but the following vehicle went to Terminal B and received a fare first.

Taxi San Jose staff explained that it dispatches cabs from the staging lot directly to Terminal A, and then transfers some of those vehicles on to Terminal B as necessary in a “daisy chain” process. This “daisy chain” process, staff noted, was introduced because of taxi complaints about a prior practice where Taxi San Jose would dispatch some cabs directly from the staging lot to Terminal B, which could result in cabs already at Terminal A waiting longer to receive a fare than vehicles that entered the queue subsequently.

In making the choice to dispatch all vehicles to Terminal A first, and then some to Terminal B as needed, Taxi San Jose also traded-off some efficiency in the dispatch system. Even though Terminal B is often the busier terminal, Terminal A’s taxi waiting area regularly has eight to ten cabs while Terminal B’s waiting area often has only a couple (though it can hold more). Exhibit 27 shows a line of taxis at the Terminal A taxi stand awaiting deplaning passengers (or the signal to go to Terminal B).

Exhibit 27: Picture of Terminal A Taxi Stand

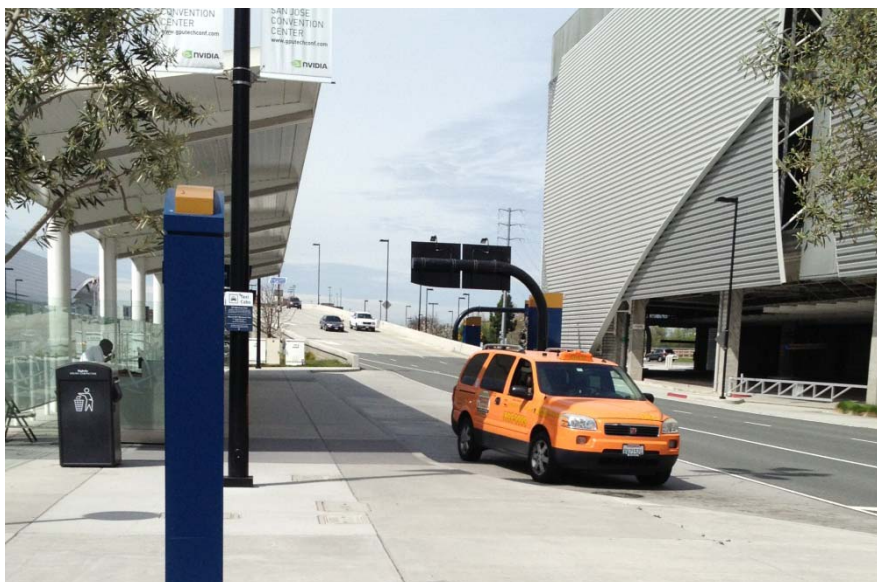


Source: Auditor photograph

This pattern, combined with the “daisy chain” described earlier, leads to periodic, albeit brief, exhaustion of cabs at Terminal B while cabs from Terminal A are transferred by Taxi San Jose and drive over the overpass that bridges the two terminals. While these instances where Terminal B lacks cabs may be violations of Taxi San Jose’s contract, dispatching some cabs directly from the staging lot to Terminal B or simply maintaining more taxis at Terminal B may increase the likelihood of “first-in, first-out” issues.

Exhibit 28 shows the taxi stand at Terminal B with one taxi awaiting the arrival of passengers.

Exhibit 28: Picture of Terminal B Taxi Stand



Source: Auditor photograph

Due to Reduced Passenger Volume, Permit Holders Pay More for Each On-Demand Trip Than They Did in the Past

The on-demand dispatch service is cost recovery. This means that the full cost of Taxi San Jose’s management of on-demand dispatch services has been entirely supported by holders of the Airport’s 300 on-demand taxi permits (96 percent of cost) and about 25 shuttle permits (4 percent of cost).²⁰ Taxi San Jose’s operation does not rely on Airport subsidies, though the Airport does spend time overseeing the contract.

²⁰ On-demand fees for shuttles were \$121 per month in 2013.

Drivers Shoulder the Costs for On-Demand Dispatch

The effective per-trip cost for dispatch services in 2007 of \$2.18 was only about 10 percent greater than the \$2.00 per-trip dispatch fee that the consultant expected would be reasonable in the March 2004 study. However, as Exhibit 29 shows, as a result of dramatically reduced passenger volumes, the per-trip cost grew from \$2.18 in 2007 to \$3.22 in 2009, before declining to \$3.10 in 2012. Over the same period, the total dispatch fees paid by taxis grew 9 percent, which was roughly in line with inflation.

Exhibit 29: Effective Per-Trip Cost of On-Demand Dispatch Services From 2006 to 2012

	2006	2007	2008	2009*	2010	2011	2012 [#]
Monthly on-demand taxi fee** x 12 months x 300 permits	\$240.00	\$240.00	\$240.00	\$246.50	\$253.00	\$254.69	\$261.99
Total taxi fees	\$864,000	\$864,000	\$864,000	\$887,400	\$910,800	\$916,884	\$943,164
Total on-demand trips ^{##}	376,000	397,000	360,000	276,000	287,000	302,000	304,000
Effective cost per dispatch	\$2.30	\$2.18	\$2.40	\$3.22	\$3.17	\$3.04	\$3.10

Source: Auditor analysis of permit fees and Taxi San Jose’s dispatch data

Notes: * Amount shown is the average monthly fee because it was raised from \$240 to \$253 in June 2009.

In December 2012, the monthly fee was raised to \$270 per driver, which if applied to all of 2012, results in an effective cost per dispatch of \$3.20.

** Until December 2012, the Airport kept \$25 from each monthly permit fee payment to cover its administrative expenses.

Cabs do not necessarily pick up the same number of fares; the “cost per dispatch” metric is simply the average result of total fee collection and on-demand trips dispatched. In Chapter 2, we describe the decline in airport passenger volume and on-demand trip volume.

Some Other Airports Have Lower Per-Trip Costs

When the Airport’s \$1.50 per trip fee is factored into the above calculations, airport permit holders paid an effective rate of \$4.60 per on-demand trip in 2012. This amount is considerably higher than the \$2.63 and \$2.80 fully-loaded per-trip cost charged by the airport’s concessionaires to drivers before the taxicab service model. Furthermore, the total cost of dispatch services on a per trip basis is a bit higher than the rates charged by local airports:

- San Francisco International Airport charges \$4.00 per on-demand trip
- Oakland International Airport charges \$3.00 per on-demand trip.

Airport staff noted that differences in the way each airport attempts to recover costs complicates direct comparisons of per-trip fees. To this end, it is also important to note that the Airport’s \$1.50 per trip fee is passed on by taxis to their passengers. Nonetheless, taxi drivers may be aware of cost differences and are surely interested in seeing the Airport charge as low a fee—whether it is monthly or per-trip—as possible.

Taxi San Jose's Costs Are Mainly Related to Contractual Staffing Obligations

Although Taxi San Jose's costs have grown more slowly than inflation, they also have not decreased in recent years with the decline in passenger volume. Exhibit 30 shows Taxi San Jose's cost structure since FY 2006-07.

Exhibit 30: Taxi San Jose's Cost From FY 2006-07 to FY 2011-12 (in thousands)

	2006 -07	07- 08	08- 09	09 -10	10 -11	11- 12	% of total
Payroll*	\$590	\$657	\$764	\$569	\$581	\$577	66%
Benefits and other employee expenses	54	88	-	102	125	117	13%
Payroll taxes	51	56	-	52	54	52	6%
Consulting agreement#	-	-	-	-	16	24	3%
Accounting agreement**	12	-	-	13	13	22	3%
Supplies###	23	17	22	17	15	15	2%
Legal fees/reserve	-	-	-	-	12	12	1%
Liability insurance (including directors & officers)	3	8	9	9	8	11	1%
Telephone	11	8	9	9	10	10	1%
Mileage reimbursement (for supervisors)	-	-	-	10	8	9	1%
Repairs and maintenance	-	-	22	19	11	8	1%
Citations, liquidated damages paid to Airport	10	-	-	-	-	5	1%
Utilities (garbage pick-up)	8	8	10	9	9	5	1%
Equipment rental	36	41	27	27	-	-	0%
Outside services**	8	13	28	-	-	-	0%
Other	8	3	0	9	9	10	1%
Total cost	\$814	\$899	\$891	\$845	\$871	\$877	100%
Total revenue	\$881	\$902	\$908	\$863	\$870	\$895	102%
Net revenue or (loss)	\$67	\$2	\$17	\$18	(\$1)	\$18	2%
Total cost increase, 06-07 = 100	100	110	109	104	107	108	
Consumer price index, August 2006 = 100	100	103	107	107	108	111	

Source: Auditor analysis of Taxi San Jose publicly available IRS Form 990s and unaudited income statements for the organization's fiscal years ending August 31, 2007 to 2012, Bureau of Labor Statistics consumer price index for San Francisco-Oakland-San José.

Note: Due to rounding, net revenue may not equal total revenue minus total cost. FY 2005-06 is not shown because the on-demand dispatch operation in that year was largely run by a subcontractor. That year Taxi San Jose incurred liquidated damages of \$33,000 and had a \$27,000 loss.

* The \$764,000 payroll amount in FY 2008-09 includes benefits and payroll taxes.

The company entered into a consulting agreement with its Board Chairman in early 2011.

** Accounting fees were not shown separately in the organization's FY 2007-08 and 2008-09 IRS Form 990s, and may have been included in the "outside services" line item.

Supplies were categorized as "lounge supplies" and "office/computer supplies" in 2011-12 (\$12 and \$3, respectively).

Staffing Requirements Account for Much of Taxi San Jose's Cost

When the airport's passenger volume declined, Taxi San Jose's costs did not fall because they are mainly related to contractual obligations. Specifically, in the above chart, compensation and benefits (payroll, benefits and other employee

expenses, and payroll taxes) accounted for 85 percent of Taxi San Jose cost in FY 2011-12.

Taxi San Jose’s current contract requires one supervisor and two starters (one at each terminal) from 5:00 am to midnight daily, and a dispatcher from 7:00 am to midnight daily at the staging lot.²¹ As shown in Exhibit 31, the City-mandated minimum staffing standards appear to be a significant contributor to Taxi San Jose’s FY 2011-12 payroll cost of \$577,000.

Exhibit 31: Estimate of the Minimum Staffing Standard’s Cost

Minimum staffing requirements	Shift		Assumed shift overlap	Hours per day	Top-step hourly wage	Projected annual cost
	Start	End				
1 starter at Terminal A	5:00 AM	Midnight	0:30	19.5	\$15.50	\$119,000
1 starter at Terminal B	5:00 AM	Midnight	0:30	19.5	\$15.50	\$119,000
1 dispatcher at staging	7:00 AM	Midnight	0:30	17.5	\$15.50	\$107,000
1 supervisor	5:00 AM	Midnight	0:30	19.5	\$19.00	\$146,000
Total						\$491,000

Source: Auditor’s analysis of contract’s minimum staffing standard and Taxi San Jose’s wage rates.

Note: There is an “overtime factor” in the projected annual cost that represents the average amount of overtime Taxi San Jose has paid for each dollar of regular pay, 7.7 cents to one dollar, over the past three years. According to Taxi San Jose, a common reason for overtime, especially in winter months, is flight delays that result in arrivals after midnight because Taxi San Jose must staff on-demand kiosks until all possible on-demand passengers have left the airport.²²

Monthly Permit Fees May Increase in July 2013 for Building Rent

Beginning July 2013, Taxi San Jose will also have to pay rent on the dispatch office and driver rest building recently opened in the staging lot. This will add \$6,571 per month, or \$79,000 per year, in cost to Taxi San Jose. In May 2013, the Airport notified permit holders that on-demand fees would increase \$25 per month due to utility and rent costs associated with the new facility.

Taxi San Jose’s Internal Controls Can Be Improved

In December 2012, Taxi San Jose began billing and collecting on-demand dispatch fees from permit holders. The transition of this responsibility from Airport to Taxi San Jose staff appears to have gone relatively smoothly, and Taxi San Jose appears to have controls in place to ensure that fees are deposited into Taxi San Jose’s bank account, including separation of duties for depositing checks and recording the revenue in the accounting system, and a new process to review and approve Taxi San Jose’s contract accountant’s monthly bank statement reconciliation. The

²¹ Taxi San Jose’s scheduling of staff was not in compliance with minimum staffing standards during the audit. Airport staff was made aware of this discrepancy and learned that Taxi San Jose supervisors covered staff scheduled to leave before midnight. Airport staff reported that Taxi San Jose amended the schedule.

²² The exhibit does not include the salaries of Taxi San Jose’s operations manager and janitor, nor benefits and payroll taxes.

Airport also created controls to ensure sufficient cash flow to the operator in case of delinquent accounts—permit holders were required to provide a two-month security deposit that the Airport holds in case the permit holders become delinquent on their monthly fees.

Taxi San Jose is required to obtain annual financial audits per the contract the City awarded in September 2012. As such, we did not conduct an audit of Taxi San Jose's financial statements. Nonetheless, in our opinion, the company's contract accountant appears to have a great deal of responsibility in the organization, including holding a company credit card, having access to its payment lockbox, budget-setting responsibility, preparing monthly and quarterly reports for company board and committee meetings, and more. In small organizations, it is challenging to spread such responsibilities across multiple people. That being said, the Airport should require in its upcoming RFP that potential on-demand dispatch operators maintain appropriate separation of accounting duties to the extent possible.

The Administration Has Been Directed to Issue a Request for Proposal for On-Demand Dispatch Operations

In September 2012, when the City Council approved a two-year agreement with Taxi San Jose, it also directed the Administration to issue a Request for Proposal (RFP) for on-demand dispatch operations beginning October 2014. The RFP provides an opportunity for the Airport to redefine the balance of regulatory and administrative work between itself and its operator.

Recommendation #3: As part of its upcoming RFP for on-demand dispatch operations, the Airport should solicit proposals that:

- a) **Delegate monitoring and possibly enforcement of the service obligation, if needed, to the dispatch operator;**
- b) **Delegate as many administrative duties as possible to the dispatch operator;**
- c) **Detail how the operator will manage the proper supply of taxis;**
- d) **Reduce the effective cost per dispatch, without compromising customer service, for example with a revised minimum staffing requirement; and**
- e) **Require appropriate separation of accounting duties.**

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Chapter 5 The City Regulates Taxis From Departmental Silos and Does Not Recover Its Costs

Summary

The Police, Airport, and Transportation Departments are all involved in regulating taxis. All departments have experienced declines in their staffing levels, which has led them to reduce their enforcement activities. In their day-to-day operations, each department has emphasized its own permitting and regulating activities, rather than managing and coordinating towards the model's integrated goals. Departments could strengthen their coordination. The City does not have a comprehensive, coordinated understanding of service quality, as it does not share customer complaint data across departments. We recommend the Administration coordinate complaint handling and feedback about the service quality of taxis City-wide.

Additionally, the City is not recovering the costs of regulating taxis. Currently, the City's taxi activities involve about six fulltime-equivalent staff – amounting to an estimated \$1.3 million in annual costs. Only \$1.0 million in taxi fee revenues supported the City's taxi activities, which means that the General Fund and other Airport fee payers are effectively subsidizing the taxi industry in San José. In contrast, some other airports appear to make money from their taxi operations. We recommend the Council determine its cost recovery goal for the City's taxi-related activities as a whole and direct the Administration to propose revenues and cost savings.

Some other jurisdictions regulate taxis at a regional level, but there is a fragmented regulatory landscape for taxis in Santa Clara County. Because taxi drivers, companies, and customers often cross local jurisdictional boundaries, we recommend the Council consider a regional approach to regulating taxis.

Multiple Departments Are Regulating Taxis

The SJPD, Airport, and DOT regulate taxis. The City Attorney's Office is also involved. In addition, the City Council has faced repeated policy questions regarding taxi regulation. The following sections describe departmental efforts in detail.

The SJPD Regulates Taxis City-Wide

The permits unit of the San José Police Department issues licenses to companies, issues permits to drivers, and inspects taxi vehicles, which the Municipal Code requires for taxi companies and drivers.²³ To protect public safety, the SJPD conducts a background check of all applicants for criminal and driver license history. It further requires applicants to pass a drug test and administers a test of traffic laws and knowledge of San José streets. The SJPD reviews proof of insurance and business tax payment before issuing licenses and permits. During vehicle inspections, the SJPD reviews the vehicle registration, a mechanical certification, and checks the interior and exterior of the cab.

The SJPD can suspend or revoke licenses and permits, for example, for unsafe driving or non-compliance with license/permit requirements. This discipline process, with its appeals steps, requires significant staff time from the SJPD and the City Attorney's Office.

With a decrease in staffing in its permits unit, the SJPD rarely spends time on pro-active enforcement, for example citing unlicensed/unpermitted "bandit" cabs on San José streets. SJPD staff explained they last engaged in pro-active enforcement in the summer of 2012, but even then for only a few hours.

The permits unit is currently in the process of transitioning responsibilities from sworn officers to civilian staff, a recommendation from a 2010 audit by the City Auditor.²⁴ This is an opportunity for the permits unit to reduce its administrative costs and review its processes.

The Municipal Code also contains provisions aimed at customer service and company viability, such as minimum operation hours for taxi companies and a minimum 5-vehicle-requirement.²⁵ Additionally, the Municipal Code prohibits new companies from having colors or brand names similar to already licensed companies. Enforcement of these provisions is also a SJPD responsibility. The SJPD also receives customer complaints as its phone number is displayed in each taxi.

²³ San José Municipal Code, Title 6, Chapter 64. Furthermore, the SJPD permits unit regulates a variety of other businesses and industries, including tow trucks, ice-cream trucks, massage parlors, entertainment venues, bingo parlors, and peddlers.

²⁴ Audit of Civilianization Opportunities in the San José Police Department, (<http://www.sanjoseca.gov/DocumentCenter/View/3227>)

²⁵ During the course of our audit, we also noted that one taxi company fell below the 5-vehicle requirement as it did not get one vehicle inspected on time. The issue was still outstanding as of May 2013.

The Airport Regulates Taxis in the Context of Its Ground Transportation Program

Staff from the Airport's ground transportation program regulates taxi service as it pertains to the airport.²⁶ The Airport's main goal is to provide excellent customer service to travelers. It requires Airport ground transportation permits for all taxi activities at the airport (drop-offs and pick-ups), and Airport access permits (also called on-demand authorizations) for on-demand pick-ups.

The Airport's regulatory role expanded significantly in 2005, when the City replaced the on-demand concession with the consultant's recommendation for an open on-demand program, with company and individual permits and a vendor to manage dispatch. Since 2005, the Airport has managed drivers' access to the on-demand program – previously a concessionaire responsibility – by directly issuing permits to drivers, billing monthly dispatch program fees, maintaining waiting lists, and taking permit disciplinary action. These permits were meant to supplement the SJPD license and permits to minimize the inspection and permitting burden on drivers and Airport staff. The Airport also manages the contract with its on-demand dispatch provider (currently Taxi San Jose, see Chapter 4). It is the developer and landlord for the taxi building, a break room for taxi drivers and an office for Taxi San Jose with a kitchen and restrooms.

Companies in the on-demand program face more stringent requirements, in addition to the SJPD license requirements. For example, they need to maintain a minimum fleet of 15 vehicles, serve a quarter of all airport trips with clean fuel vehicles, and record trips with a computer-aided dispatch (CAD) system. They send monthly trip reports to DOT.

The Airport charges per-trip fees to ground transportation providers with its Automated Vehicle Identification (AVI) system and it bills and collects fees monthly from ground transportation companies.

The Airport advised that after staff cuts it scaled back its curb-side enforcement activities, such as citing unpermitted ground transportation providers.

DOT's Policy and Planning Role Is Drastically Reduced

In 2004, staff wrote that DOT would hold a policy and planning role in taxi regulation, but the department has dramatically scaled back its taxi-related activities after cuts to staffing levels. Among its remaining activities are: proposing the rate of fare effective across the City, managing the City's taxicab database of company dispatch records, calculating the annual reallocation of airport company permits including an eligibility check, and regulating downtown taxi stands.

²⁶ The ground transportation program also regulates limousines, courtesy shuttles, shared-ride vans, and buses.

Exhibit 32 summarizes each department’s major activities related to taxis. Appendix A shows the license and permit requirements.

Exhibit 32: Departments’ Major Activities

Police	Airport	Transportation	City Attorney’s Office
<ul style="list-style-type: none"> • Issue licenses to companies • Issue permits to drivers <ul style="list-style-type: none"> ○ Administer test of traffic laws and knowledge of San José streets ○ Background check • Renew licenses and permits • Inspect taxis annually • Discipline: Revoke or suspend permits, with appeal to the Appeals Hearing Board 	<ul style="list-style-type: none"> • Manage contract for on-demand dispatch operator • Issue and renew permits to companies and drivers, including 300 on-demand authorizations • Bill companies for per-trip fees • Bill drivers for dispatch fees (before December 2012; now a Taxi San Jose responsibility) • Curbside enforcement • Maintain security deposit accounts for drivers’ dispatch fees • Discipline: Revoke or suspend permits, with appeal to the Airport Commission • Landlord and developer for the taxi building 	<ul style="list-style-type: none"> • Set rate of fare • Regulate taxi stands • Approve computer-aided dispatch systems • Company permit reallocation <ul style="list-style-type: none"> ○ Receive trip reports from companies ○ Calculate trip volumes for the 105 Airport company permits reallocation ○ Maintenance and IT support for the taxicab database 	<ul style="list-style-type: none"> • Staff to the Appeals Hearing Board and Airport Commission • Represent the Police and Airport for permit discipline appeal hearings • Contract preparations • Ordinance preparations

In addition, the Finance Department bills companies and drivers for their business taxes. Furthermore, we describe the on-demand ground transportation operator’s responsibilities at the airport in Chapter 4.

Source: Auditor’s analysis of the Municipal Code, staff memoranda, and interviews

City Council Sets Policies for Taxis

The Council sets the City’s policies for taxis. For example, it approved the model in 2004, set the division of company/individual permits, and established the reallocation formula. Any change to the Municipal Code and City fees also requires Council action, as do some vendor contracts.

The City Council has been intimately involved in detailed discussions regarding taxi service and regulation. It has also used a variety of bodies for stakeholder input, such as a Mayor’s Taxi Task Force and a Taxi Advisory Team (TAT) from the early 2000s, the Airport Commission, and it also explored the creation of a Taxicab Commission in 2007.

It has continuously grappled with the scope of regulation, as the 2004 consultant report highlighted. A 2007 staff memo also said: “The challenge lies in the fact that certain factions of drivers continually advocate for more regulation of the industry placing themselves at odds with staff, and forcing the City Council to engage in overly detailed discussions about regulatory matters.”

Coordination Among Departments Could Be Strengthened

Regulation activities among the SJPD, Airport, DOT, and City Attorney’s Office could benefit from greater cooperation.

In their day-to-day operations, the departments have emphasized their own activities and communicated their own goals. Staff from the various departments already cooperates, for example on approving companies’ CAD systems, but stronger interdepartmental cooperation would better fulfill the model’s integrated and City-wide goals.

In Chapter I, we noted that the City has not enforced the service obligation for airport drivers since 2007. To enforce this, staff from the Airport and DOT would have had to coordinate and reconcile their data; staff cited as reasons for non-enforcement the intensive burden in compiling data and following up with drivers who did not meet the obligation.²⁷

The Airport and SJPD maintain separate permit files and lists, without reconciliation; and the SJPD does not use the City’s taxicab database. We found two instances in which a driver with an expired SJPD permit appeared to still deliver airport trips (this could have been due to vacation transfers). We also found that one taxi company fell below the 15-vehicle minimum fleet requirement for participation in the airport on-demand program. Despite falling below the eligibility requirement in March, the company conceivably could have received its airport on-demand permits, because DOT calculated permit allocations in January, based on January SJPD permit files, and then transmitted its results to the Airport to issue permits effective April.

Further, when one department requests changes to the Municipal Code, these changes may affect other departments or the industry in unintended ways.

We also encountered some difficulties in reconstructing data for past years, due to the lack of historical SJPD files. As the Airport is establishing a seniority list for future issuances of individual driver permits, the lack of historical data remains a risk.

²⁷ Also Airport and DOT needed to coordinate on the coding of clean fuel trips in their databases.

Feedback on Customer Service Is Inconsistently Sought and Tracked

It appears that the City received a very low number of customer complaints about taxis in recent years, but infrequent complaints to City departments were not necessarily representative nor did they necessarily mean good service was being provided.²⁸ For example, hotel bell desk staff we interviewed mentioned anecdotally that customers still complained that some taxi drivers refused credit cards. Overall, the City has not actively sought or tracked feedback customer service and its only enforcement mechanism is permit revocation – an extreme and thus infrequently pursued action.

Complaints May Be Directed at Various Recipients

The following entities may receive complaints about taxi service from customers, but they did not coordinate their customer service tracking and complaint handling.

Companies

Complainants can call the taxi company directly. The City may have no knowledge of these complaints, unless the taxi company refers the driver to the City for disciplinary actions on the permit. The City currently does not monitor complaints lodged with companies.

Police

The rate sheet posted in each taxi lists the phone number for the SJPD permits unit for customer comments. The SJPD indicated that it has pursued permit suspensions or revocation in egregious cases, such as drivers overcharging customers, if the driver could be identified. However, it does not track the overall level or nature of customer complaints.

Airport and Taxi San Jose

Complainants about taxi service at the airport can approach Taxi San Jose staff directly or call the Airport. Previous complaints were mostly related to drivers refusing on-demand service, especially if the customer needed just a short ride. Drivers may also indirectly refuse service, for example by being rude, suggesting non-taxi transportation, or refusing credit cards. Airport permits prohibit drivers

²⁸ The consultant tallied customer complaints about taxi service received by the Police, Airport, and Convention and Visitors Bureau from the early 2000s and found that complaint levels in San José were relatively low, at two complaints per 100 cabs, or a total of 12 complaints in 2002. The consultant also analyzed customer wait times and found that a substantial proportion of calls were not picked up within a satisfactory amount of time or were not picked up at all. The consultant also analyzed a one-time City survey of cab customers (questionnaires handed mostly to airport on-demand passengers).

from such conduct as it reflects poorly on Airport customer service. Complaints received by the Airport or Taxi San Jose were usually unrelated to taxi service elsewhere in the City.

Taxi San Jose staff records instances of drivers not meeting the customer service requirements, and then reports these records to the Airport. Taxi San Jose wrote up 10 drivers in 2012 for customer-involved complaints. It once had the ability to temporarily prevent misbehaving drivers from participating in the on-demand program, but now only warns drivers and refers them to the Airport in more serious cases. The Airport can suspend or revoke the Airport permit. The Airport and Taxi San Jose try to follow up with the customer if possible.

The City's Complaint Handling Can Be Better Coordinated

Currently, the Airport/Taxi San Jose, the SJPd, and companies do not share complaint data with each other and thus the City lacks a clear picture of a driver's complete complaint and discipline history (although Taxi San Jose provides reports to the Airport). Complaint data regarding City-wide service remains with the companies and has not been not tracked by SJPd or any other City department, which makes it impossible to draw firm conclusions about the quality of City-wide service. Further, the Airport and SJPd explained that permit suspensions and revocations are lengthy and time-intensive processes and not frequently pursued.

Recommendation #4: The Administration should coordinate taxicab complaint handling by sharing data among departments, reviewing complaints received by private taxicab companies, and/or surveying customers.

The City Does Not Recover All Its Costs of Regulating Taxis

The Airport, accounted for as an enterprise fund, is to be financially self-supporting. Additionally, the Council has set 100-percent cost recovery goals for SJPd licenses and permit fees and DOT taxi stand rental fees in recent years. Revenues from the City's taxi-related fees, however, currently do not fully pay for the City's taxi-related activities as a whole. Thus, taxpayers, through the General Fund, and other Airport fee payers are effectively subsidizing the taxi industry in San José. Exhibit 33 shows the estimated cost of the City's taxi-related activities by department. The largest cost item is City staff's time.

Exhibit 33: Estimated City Costs for Its Taxi-Related Activities

	SJPD	Airport	DOT	Total
Staff (full-time equivalents)	1.4	4.5	0.1	6.0
Costs				
Company licensing, driver permitting, vehicle inspecting	\$256,000			
* Other activities (e.g., enforcement, discipline, appeals)	106,000			
Operations		\$599,000		
Public safety		23,000		
Finance and administration, IT		89,000		
City Attorney's Office		30,000		
Capital projects		107,000		
Taxi stands			\$30,000	
* Other activities (e.g., rate of fare, taxi database)			23,000	
Total costs	\$362,000	\$848,000	\$53,000	\$1,263,000
Fee revenues	\$286,000	\$675,000	\$30,000	\$991,000
Net revenue or (shortfall)	(\$76,000)	(\$173,000)	(\$23,000)	(\$272,000)
Cost recovery percentage	79%	80%	57%	78%

Sources: Department records and calculations for FY 2011-12, calendar year 2012, and FY 2012-13, excluding Taxi San Jose dispatch contract costs discussed in Chapter 4.

Note: Costs denoted by * were not considered by departments in their internal cost recovery calculations for licenses and permits, but are included here to show a more complete picture of taxi-related costs.

Costs Are an On-Going Concern

Fee revenues have not fully covered the City costs for regulating taxis for a considerable time. In 2004, the City estimated that its fees were only covering \$700,000 of its \$1.45 million in regulatory costs for SJPD, Airport, and DOT. A staff memorandum discussed adjusting its fee structure for the long-term, and attempting to identify modifications to each department's responsibilities to realize greater efficiencies. For FY 2007-08, staff's internal analysis estimated \$744,000 in revenues for its \$1.55 million in costs (additionally, the on-demand dispatch operator's costs of \$900,000 were fully recovered).

Over the last few years, the City has already raised its SJPD fees and charges to cover the costs of SJPD licensing and permitting. While SJPD fees and charges have risen, Airport fees have remained constant, not even rising with inflation. DOT's taxi stand fees have remained level, but the department advises its fees may be lowered next year because of lower programmatic costs. See Appendix I for a history of fees and charges.

The SJPD's and DOT's internal cost recovery calculations are based on processing times for specific permits and licenses, but do not take into account other officer and staff time needed to respond to other taxi issues. The estimate shown above in Exhibit 33 includes those costs to provide a comprehensive overview of the City's taxi-related costs. One staff suggestion was to begin assessing fines to specific license or permit holders when they are out of compliance, to recover staff expenses associated with following up on citations, and other disciplinary processes.

Balancing Regulation and Fees Is Also an On-Going Concern

While the City has articulated a 100-percent cost recovery goal for each taxi fee, stakeholder input from taxi drivers continuously highlights opposition to higher fees. Staff cited this opposition as a reason for not increasing taxi fees and charges to the extent needed to attain total cost recovery.

However, it is important to note that some airports generate income through concession agreements for on-demand taxi services. For instance, in 2010, the Seattle-Tacoma International Airport awarded a five-year on-demand concession agreement for \$18 million in revenue to the airport. In 2008, Orange County's John Wayne Airport awarded a concession agreement for a minimum annual guarantee of \$800,000 per year in revenue to the airport (or an amount per deplaned passenger, if greater than the minimum) with adjustments for changes in the Consumer Price Index.

Recommendation #5: The City Council should determine its cost recovery goal for the City's taxi-related activities as a whole, and direct the Administration to propose revenues as well as cost savings for these activities.

Some Other Jurisdictions Regulate Taxis at a Regional Level

As noted, the City's taxi regulation is disjointed and brings in less revenue than it costs to perform. Taxi regulation is similarly disjointed across cities in Santa Clara County and is costly for taxi companies and drivers as well.

If a San José-based taxi company wants to operate in Palo Alto or several other County cities, it must apply and pay for a separate company license and submit its vehicles to additional inspection – another expense. This means that a taxi company may have to pay several times to receive background inspections of its owners (and drivers pay for these as well in each jurisdiction) and vehicle inspections of its cabs, or run the risk of receiving citations for illegally operating in a city.

Exhibit 34 presents some of the costs a taxi company or driver would need to pay to operate in select cities in Santa Clara County.

Exhibit 34: Taxi Fees Charged by Select Cities in Santa Clara County in 2012

Fee	San José*	Sunnyvale	Santa Clara	Mountain View	Palo Alto
One-time					
Company	\$11,182	\$678	\$1,275	\$700	\$1,850
Driver	\$443	\$205	\$160	\$180	\$20
Annual					
Company renewal	\$2,696	\$678	n/a	\$700	\$810
Vehicle permit/inspection	\$142	\$464	\$53	\$100	\$61
Driver renewal	\$50	\$144	\$37	\$130	\$20

Source: Auditor analysis of fees and charges in San José and the other listed jurisdictions, and interviews with staff.

Note: All fees were annualized for comparison; jurisdictions also charge drivers for fingerprinting.

* San José’s initial fee for a company license was \$11,182 for companies located in the City, and \$3,076 for out-of-city companies.

Such disparate taxi regulation in Santa Clara County appears duplicative and inefficient: cities in the County essentially subject taxis, companies, and drivers to regulatory oversight at added cost. The Town of Los Gatos allows drivers to pick up fares in town, if they have been permitted by another jurisdiction and the company holds a certificate of public convenience and necessity, which means the town relies on other regulatory efforts.

Some other jurisdictions view taxi regulation as a regional safety issue and therefore have regional regulatory bodies. For instance, the City of Seattle has an agreement with King County wherein the city inspects vehicles while the county backgrounds and licenses drivers.

Additionally, in both San Diego County and Orange County, the transit agency—San Diego Metropolitan Transit System and Orange County Transportation Authority, respectively—has taken on the role of taxi regulator. San Diego County’s transit agency assumed responsibility for regulating the taxicab industry in 2001, and has performed taxi regulation since then (the recently elected Mayor of San Diego initiated the transfer of taxi regulation back to the city). In Orange County, regional taxi regulation began in 1998 as the result of industry concern over duplicative permitting processes and fees charged by cities. In both San Diego and Orange Counties, the regional taxi regulator is entirely cost recovery and does not require subsidies from participating cities.

We believe the City should seek a regional approach to taxi regulation.²⁹

Recommendation #6: The City Council should consider seeking a regional approach to taxicab regulation.

²⁹ We also noted that taxi stakeholders and regulators in several other jurisdictions have experienced conflicts with the arrival of transportation providers that use smartphone apps as dispatch or as matching mechanism for customers and drivers. Concerns revolved around competition with the existing taxi industry, safety and insurance of drivers, and whether they were required to be licensed and regulated or not. A regional approach may be desirable to confront this and similar issues.

Conclusion

The City implemented a taxicab service model in 2005 that sought: (1) enhanced taxi driver access to the airport and improved service to the City; (2) improved service to the customer; (3) greater balance in equity and control in the taxi industry between and among companies and drivers; and (4) efficient and effective City regulation.

However, Airport taxi drivers are in widespread non-compliance with their off-airport service obligations and the City has not held them accountable to these standards since 2007, which raises fairness questions. Trip volume has not kept up with population growth. Further, reduced passenger volume and oversupply of taxis at the Airport has led to driver idle times far in excess of the 30-minute goal, and the City has not reduced the supply of taxis despite establishing a protocol for this process.

The Airport permit system allows new companies and a limited number of new drivers to enter the Airport taxi market. In addition, the City's on-demand dispatch operator, Taxi San Jose, appears to perform as expected, but due to reduced passenger volume each dispatch effectively costs more than in the past. Overall, the City's regulation of taxis has been hampered by departmental silos, including uncoordinated complaint handling, and the City's revenues from taxi fees do not cover all its regulatory costs.

We make the following recommendations to improve taxi service and regulation in San Jose:

RECOMMENDATIONS

Recommendation #1: To ensure fairness and consistency in the allocation of Airport on-demand authorizations, the City should:

- a) Enforce, modify, or eliminate the current minimum daily service obligation (5 days on-airport and 5 days off-airport every 14 days, with a minimum of 4 trips per day);
- b) Document the reallocation methodology for *company* authorizations and amend the Municipal Code as necessary to reflect the current practices of (1) calculating annual San José trip volume excluding all airport trips, (2) allotting the minimum number of *company* authorizations only to the companies that need it, and (3) adjusting for rounding;
- c) Consider whether to adjust annual San José trip volume for the number of drivers, vehicles, or growth from prior year when reallocating *company* authorizations; and
- d) Consider whether to include annual San José trip volume in decisions whether to issue and renew *individual driver* authorizations.

Taxi Service and Regulation

Recommendation #2: Since passenger and taxi trip volumes at the Airport are dynamic, the Airport should consider service needs, including driver idle times and trips per driver per day, when determining whether to:

- a) Renew or issue on-demand authorizations;
- b) Reduce the number of authorizations through attrition, revocation of conditional authorizations, and/or by enforcing the minimum service obligations; and/or
- c) Amend the rotation system.

Recommendation #3: As part of its upcoming RFP for on-demand dispatch operations, the Airport should solicit proposals that:

- a) Delegate monitoring and possibly enforcement of the service obligation, if needed, to the dispatch operator;
- b) Delegate as many administrative duties as possible to the dispatch operator;
- c) Detail how the operator will manage the proper supply of taxis;
- d) Reduce the effective cost per dispatch, without compromising customer service, for example with a revised minimum staffing requirement; and
- e) Require appropriate separation of accounting duties.

Recommendation #4: The Administration should coordinate taxicab complaint handling by sharing data among departments, reviewing complaints received by private taxicab companies, and/or surveying customers.

Recommendation #5: The City Council should determine its cost recovery goal for the City's taxi-related activities as a whole, and direct the Administration to propose revenues as well as cost savings for these activities.

Recommendation #6: The City Council should consider seeking a regional approach to taxicab regulation.

Glossary

Consultant study, study

A report commissioned by the Department of Transportation, authored by Schaller Consulting in March 2004, and titled “Taxicab Regulatory and Service Model Study.” The consultant’s report can be found here: http://www3.sanjoseca.gov/clerk/Agenda/05_11_04docs/05_11_04_6.2.attB.pdf.

Model, service model, taxicab service model

The regulatory program that the City Council adopted in 2004 and implemented in 2005 following the consultant study. It included most parts of the consultant’s recommendations, and additional changes.

Fare

- (1) A passenger who has hired a taxicab. For example a driver can say: “I picked up a *fare* at the Airport.” A taxicab leaving the airport empty has “no fare;” or
- (2) The dollar amount that a passenger pays to hire a taxicab, computed with the *rate of fare* by the taximeter.

Dispatch

- (1) A facility or system to send taxicab vehicles to customers who requested them, for example a phone and radio system at the company headquarters. A **computer-aided dispatch** (CAD) system is one of the requirements for airport on-demand companies.
- (2) The action of sending off a taxicab. For example, a dispatcher sends taxis from the airport staging area to the airport terminal areas.
- (3) The moment a taxi leaves the airport with an on-demand customer.

City volume/service/trips/activity, downtown and the neighborhoods, off-airport activity

When referring to *City* volume, service, trips, or activity, or *off-airport* volume, service, trips, or activity, we usually mean activity originating in San José’s downtown and neighborhoods, excluding Mineta San José International Airport.

On-airport activity

When referring to on-airport activity, we usually mean: (1) pre-arranged pick-ups and/or (2) on-demand pick-ups. We exclude drop-offs.

Off-airport day

A day on which the Airport On-Demand Authorization permit holder may *not* pick up on-demand passengers. The permit holder can still pick up pre-arranged passengers from the airport or drop-off passengers at the airport.

On-airport day

A day on which the Airport On-Demand Authorization permit holder may pick up on-demand passengers. The airport has an alternate (A/B) day system: Half of the permit holders have access each day.

Pre-arranged

Arranging or making a reservation for transportation with a specific provider in advance and thus not using on-demand service.

On-demand

“On-demand passengers”, also known as “walk-ups,” are airport ground transportation passengers who have not requested or made reservation with a specific provider of such services (not pre-arranged).

Flag / hail

A passenger who flags or hails a taxi signals to a cab on the street that he/she wants to be picked up. This is not a pre-arranged trip.

On-demand (ground transportation) dispatch operator, contractor, vendor

The company that manages on-demand dispatch at the airport. Since 2005, the contractor has been Taxi San Jose.

Airport On-Demand Authorization

Authorization issued by the Airport either to individuals or to companies to pick up on-demand passengers at the airport.

Permit

- (1) A San José Police Department permit issued to taxi drivers.
 - (2) An "Airport Ground Transportation Permit" issued to taxi *companies*.
 - (3) An **Airport On-Demand Authorization** issued to individual *drivers*. Currently there are 195 of these. This permit requires the holder to meet the service obligation. Also known as **individual permit** or **driver permit**.
 - (4) An **Airport On-Demand Authorization** issued to companies, which then assign them to *drivers*. Currently there are 105 of these. This permit requires the holder to meet the service obligation. The City **reallocates** these permits annually. Also known as **company permit**.
- (2), (3) and (4) collectively are also known as **Airport permit**.

Service obligation

Each Airport On-Demand Authorization requires the permit holder to provide in each 14-day period:

- 4 or more on-demand trips per day, on 5 or more of 7 on-airport days and
- 4 or more trips originating in the County but not from the airport, on 5 or more of 7 off-airport days.

License

A San José Police Department license issued to taxicab companies. The Police can issue a **restricted license** to companies whose principal place of business is outside San José.

Concessionaires

The two taxicab companies that held Airport concessions for on-demand taxi service before 2005: Yellow Cab and United Cab. Before them, Yellow Cab and an association of taxi companies held Airport concessions.

Airport (uppercase A)

The City department that administers Mineta San José International Airport, led by the City's Director of Aviation.

airport (lowercase a)

The facility of Mineta San José International Airport, a commercial aviation facility near Highways 101, 87, and 880 in San José, also known as "SJC."

APPENDIX A

APPENDIX A

License and Permit Requirements

Companies located in San José: All Star[†], American, City, Green, Metro[†], Milpitas, Rainbow[‡], Silicon Valley Checker, Yellow
 Companies located outside San José: A Orange, Alpha[†], California, United[†]

Activity	Activity outside San José 🏠	Drop-off/Pick-up in San José 🏠	Drop-off at SJC →	Pre-Arranged Pick-up at SJC →	On-Demand Pick-up at SJC →	🔧 Fees as of May 2013	
Requirements for Companies	🇺🇸 Other jurisdiction's licenses						
		♥ SJPD license					\$11,200 new, \$2700 renewal, per year
		or: ♥ SJPD restricted license, only for out-of-town companies					\$3100 new, \$2700 renewal, per year
Requirements for Drivers	🇺🇸 Other jurisdiction's permits		✈ Airport ground transportation (G1) permit			\$200 new, \$200 renewal, per year	
		♥ SJPD permit					\$443 new, \$100 renewal, per 2 years
		Affiliation with a company that holds an ✈ Airport GT permit		🇺🇸 On-Demand Authorization (300 permits)			
🔧 Fees			\$1.50 per trip			\$25 for AVI System Tag	
					\$270 for On-Demand dispatch, per month (Taxi San Jose)		

Only the 13 companies listed above hold ♥ SJPD licenses or ♥ SJPD restricted licenses as of March 2013.

[†] All Star, Alpha, Metro, and United are not holding 🇺🇸 On-Demand Authorizations issued to companies, as of April 2013.

[‡] Rainbow is not holding ✈ Airport permits, as of April 2013.

Drivers and companies may also be required to hold a San José 🇺🇸 business license for a fee of \$150 or more.

All taxicab vehicles require an annual ✂ vehicle inspection by SJPD for a fee of \$142.

Per-trip fees are passed on to taxicab customers, for example the \$1.50 per-trip fee is included in the \$15 minimum fare for airport-originating trips.

The \$1.50 per-trip fee is discounted to \$1.00 for clean fuel vehicles and ♿ Americans with Disabilities Act-approved vehicles.

Out-of-town taxi companies that do not want to obtain an ✈ Airport permit can instead obtain an infrequent operator permit for \$15 per trip, up to 10 trips per year, but they still need to obtain a ♥ SJPD license or ♥ SJPD restricted license and SJPD permit.

Source: Auditor's analysis.

COUNCIL ACTION MARCH 26, 2013: Companies located outside San José that do not want to get ♥ SJPD license and permits
 For example: DeSoto of San Francisco

Activity	Activity outside San José 🏠	Drop-off/Pick-up in San José 🏠	Drop-off at SJC →	Pre-Arranged Pick-up at SJC →	On-Demand Pick-up at SJC →	👤 Fees as of May 2013
Requirements for Companies	📄 Other jurisdiction's licenses	Prohibited	📄 Other jurisdiction's licenses and permits with: 🏠 background check and ✂ vehicle inspection ✂ Waived SJPD license ✂ Airport permit	Prohibited	Prohibited	Waived: \$3100 new, \$2700 renewal, per year \$200 new, \$200 renewal, per year
Requirements for Drivers	📄 Other jurisdiction's permits	Prohibited	📄 Other jurisdiction's licenses and permits with: 🏠 background check and ✂ vehicle inspection ✂ Waived SJPD permit requirement	Prohibited	Prohibited	Waived: \$443 new, \$100 renewal, per 2 years
👤 Fees			\$5 per trip			\$25 for AVI System Tag

Source: Auditor's analysis.

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APPENDIX B

APPENDIX B

2004 Problems, City's Solutions, Intended Outcomes, 2013 Audit Findings

Problems Identified in 2004	City's Approved Solutions	City's Intended Outcomes	Audit Findings in 2013
<p>Poor downtown and neighborhood service:</p> <ul style="list-style-type: none"> • Long customer wait times, no-shows by cabs, perception of unreliability • Trip volume per capita below benchmarked markets • Unrealized potential for market to grow 	<p>Incentivize and require downtown and neighborhood service:</p> <ul style="list-style-type: none"> • Annual reallocation of 105 Airport on-demand company permits based on companies' share of downtown and neighborhood service • Airport on-demand supply limited to 150 cabs each day (alternating day rotation) • Service obligation of at least four trips on 5 of 7 non-access days in each 14-day period required of airport on-demand taxis • Computer-aided dispatch (CAD) required of airport on-demand companies to better serve pre-arranged trips 	<p>Improved downtown and neighborhood service:</p> <ul style="list-style-type: none"> • Increased business for the industry • Improved customer service • Increased driver income 	<p>Chapter 1:</p> <ul style="list-style-type: none"> • Widespread non-compliance with service obligation, which was not enforced since 2007 • Downtown and neighborhood service volume still significantly below benchmarked markets • The City needs to reassess the feasibility and its goals for developing downtown and neighborhood service. <p>Chapter 3:</p> <p>The reallocation is based on each company's share of downtown and neighborhood trips.</p> <p>Chapter 5:</p> <p>The City regulates from silos and does not recover costs for all of its taxi-related activities.</p>
<p>Customers had little choice of taxi companies for airport on-demand taxi trips</p>	<p>Replace concessionaires with open on-demand program</p>	<p>Increased customer choice in selecting a taxi, and competition among companies for customers</p>	<p>Chapter 3:</p> <p>More companies have airport on-demand access. The permitting system allows new companies and a limited number of new drivers to access the airport.</p>
<p>Driver conflicts, fare refusals, and other poor customer service</p>	<p>Require customer service training; contract with independent dispatch operator to oversee on-demand program</p>	<p>Improved customer service</p>	<p>Chapter 2:</p> <p>The airport is still oversupplied with taxis, leading to lengthy driver idle times.</p>

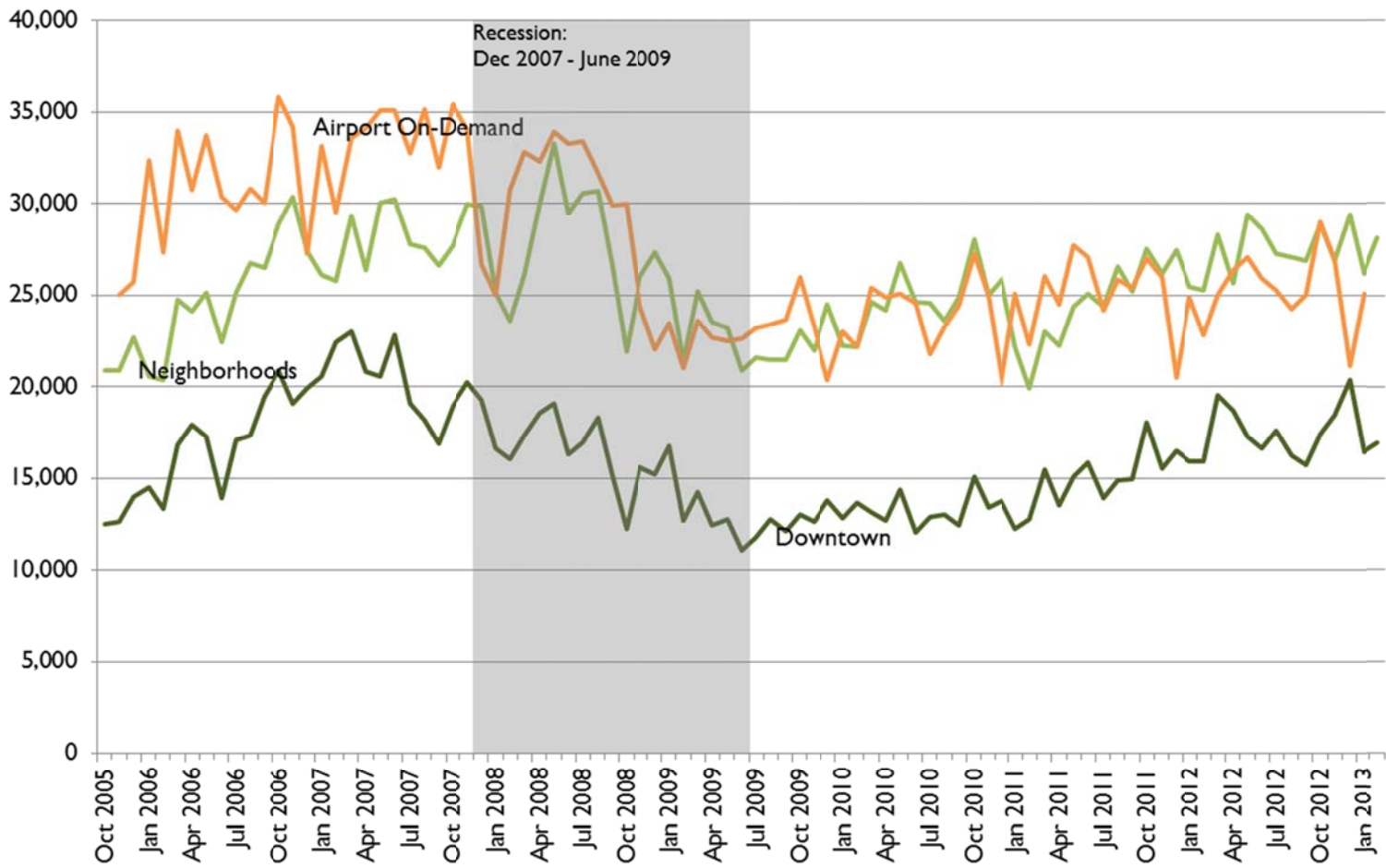
Problems Identified in 2004	City's Approved Solutions	City's Intended Outcomes	Audit Findings in 2013
	Restricting airport on-demand supply		<p>Chapter 3:</p> <p>Feedback on customer service is inconsistently sought and tracked. It is currently not possible to draw firm conclusions about the quality of City-wide service.</p> <p>Chapter 4:</p> <p>The on-demand dispatch operator appears neutral.</p>
Drivers had little choice of companies if they wished to serve airport on-demand taxi trips	<ul style="list-style-type: none"> • Replace concessionaires with open on-demand program • 195 Airport on-demand access permits issued directly to drivers (“individual permits”), who can then switch companies without losing airport access; companies to provide “plan and offer” documents 	Increased driver choice in selecting a company, and competition between companies for drivers	<p>Chapter 3:</p> <ul style="list-style-type: none"> • More companies have airport on-demand access. The permitting system allows new companies and a limited number of new drivers to access the airport. • Drivers have moved between companies • Individual permits are medallion-like without enforcement of the service obligation.
Drivers wanted higher income	<ul style="list-style-type: none"> • Airport on-demand supply limited to 150 cabs each day (alternating day rotation) • Designated 60 permits as conditional and the City would adjust supply based on market conditions • Companies to provide “plan and offer” documents to drivers, detailing their fees • Minimum \$15 fare for airport-originating trips • Downtown and neighborhood service growth would make everyone better off 	Increased driver income	<p>Chapter 2:</p> <ul style="list-style-type: none"> • Oversupply of taxis at the airport led to reduced trips per cab per day • The City has not adjusted the supply since 2005. <p>Chapter 4:</p> <p>Taxis effectively pay more per trip for on-demand dispatch services than before.</p>

Sources: Auditor analysis of “Taxicab Regulatory and Service Model Study” by Schaller Consulting (March 2004), and subsequent staff and Councilmember memoranda

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APPENDIX C

Downtown, Neighborhood, and Airport On-Demand Trip Volumes, by Month

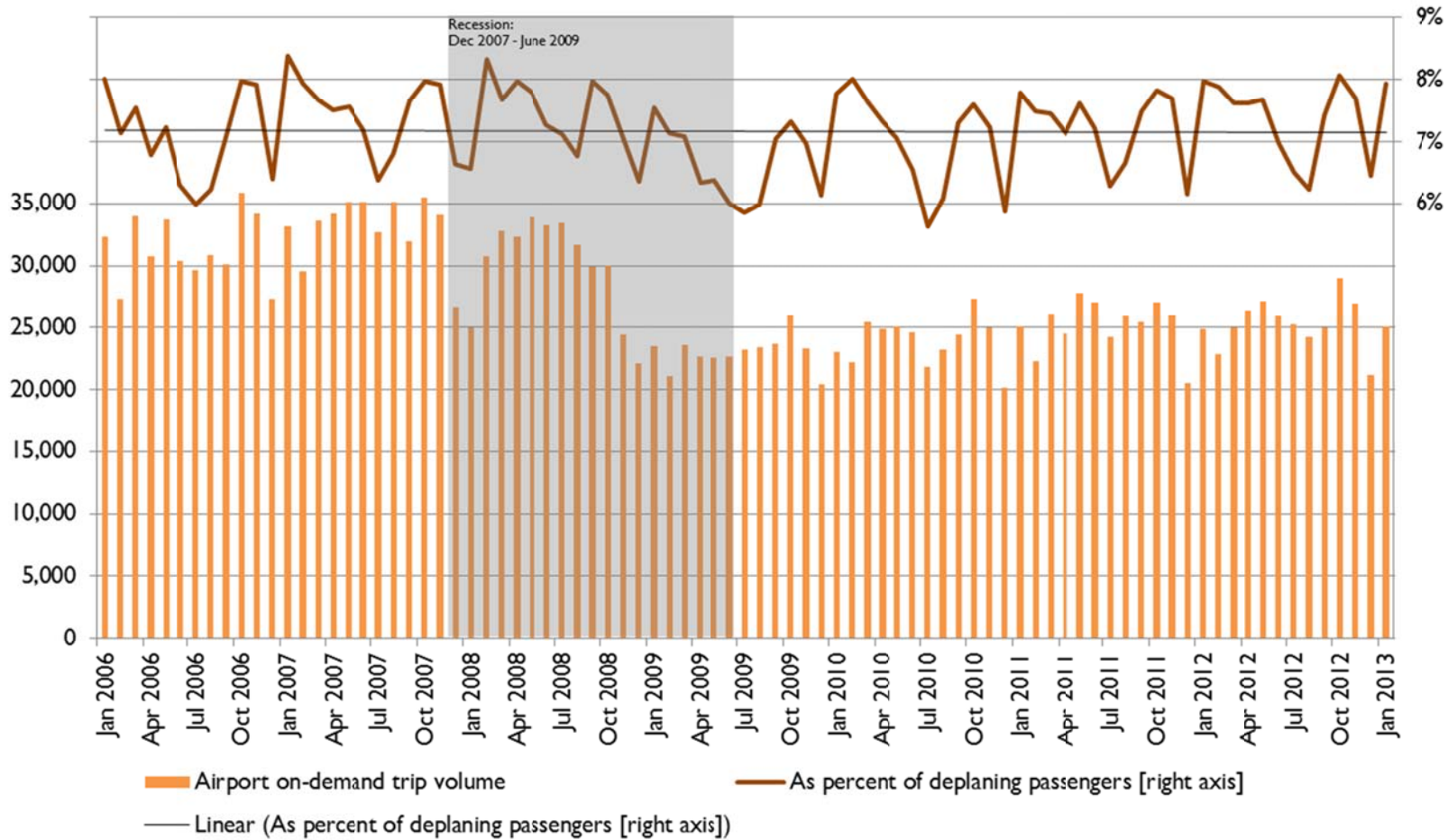


Source: Auditor’s analysis of company and Taxi San Jose dispatch records queried through the City’s Taxicab Database, National Bureau of Economic Research recession data. Not all companies were required to submit data. Also see Exhibit 8 and Exhibit 11 for annual data.

APPENDIX D

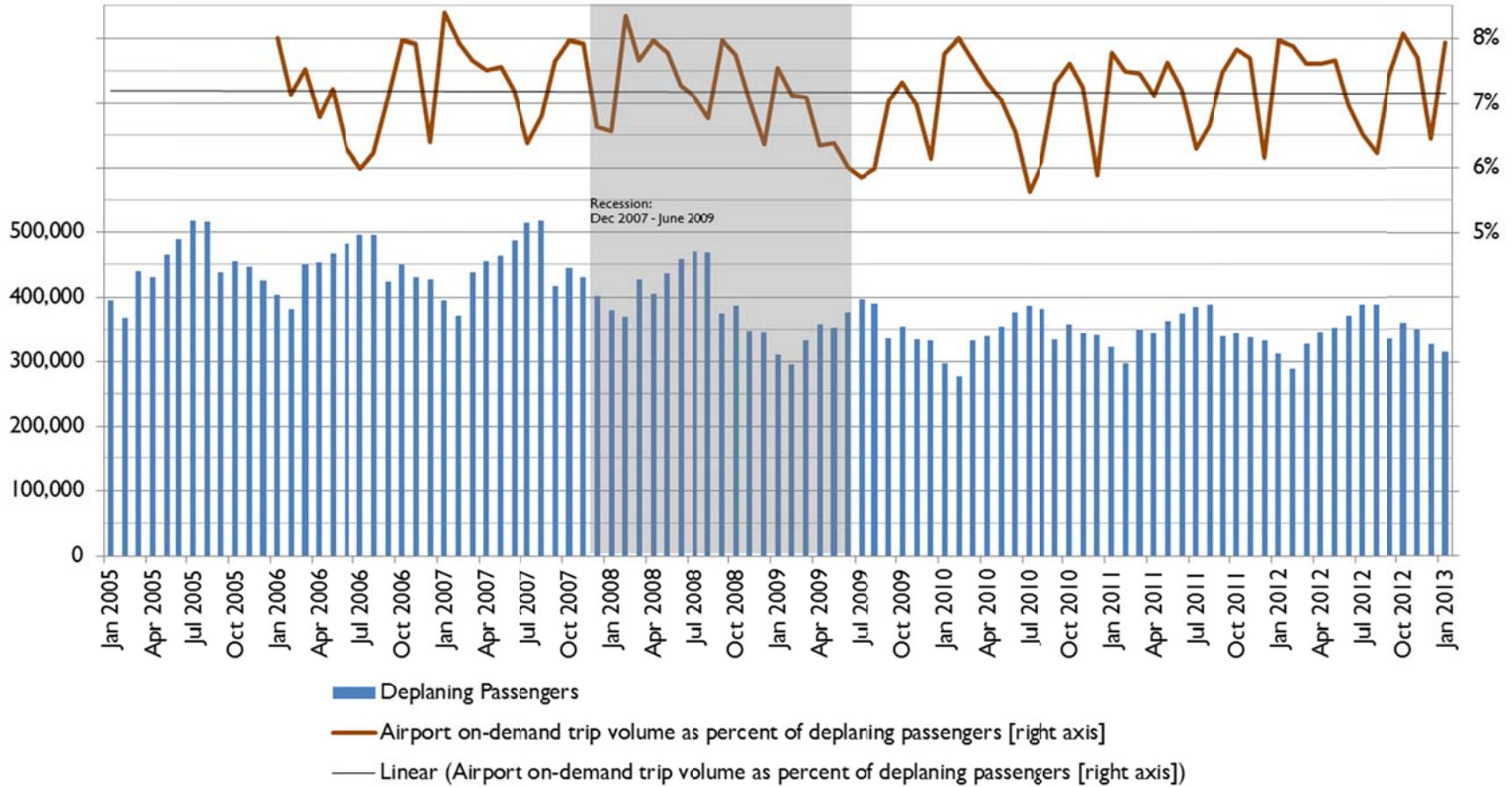
APPENDIX D

Airport On-Demand Trip Volume, by Month



Source: Auditor's analysis of Taxi San Jose dispatch records queried through the City's Taxicab Database, deplaning passenger statistics from the Airport, National Bureau of Economic Research recession data. Also see Exhibit 11 for annual data.

Deplaning Passengers, by Month



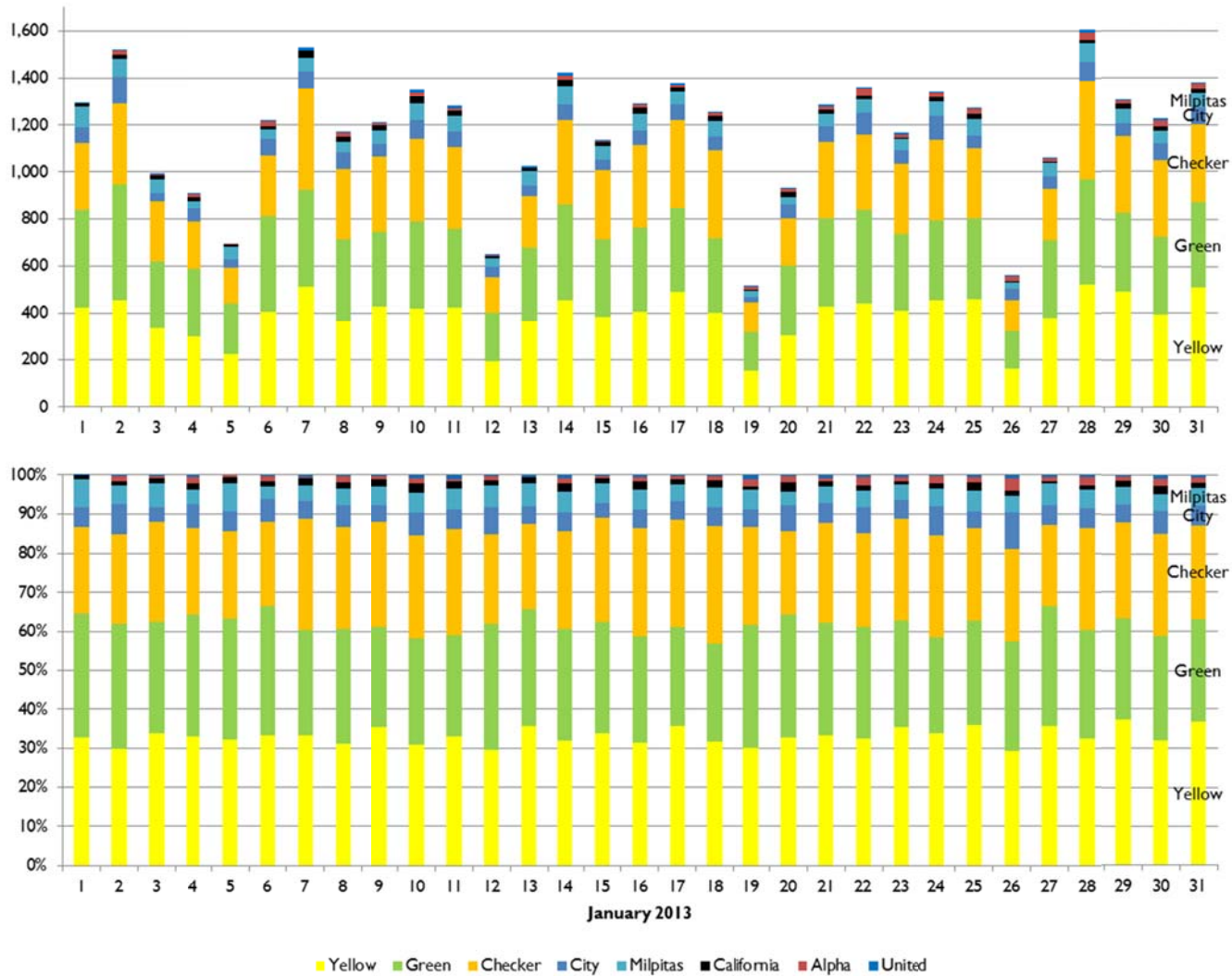
Source: Auditor’s analysis of company and Taxi San Jose dispatch records queried through the City’s Taxicab Database, deplaning passenger statistics from the Airport, National Bureau of Economic Research recession data.

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APPENDIX E

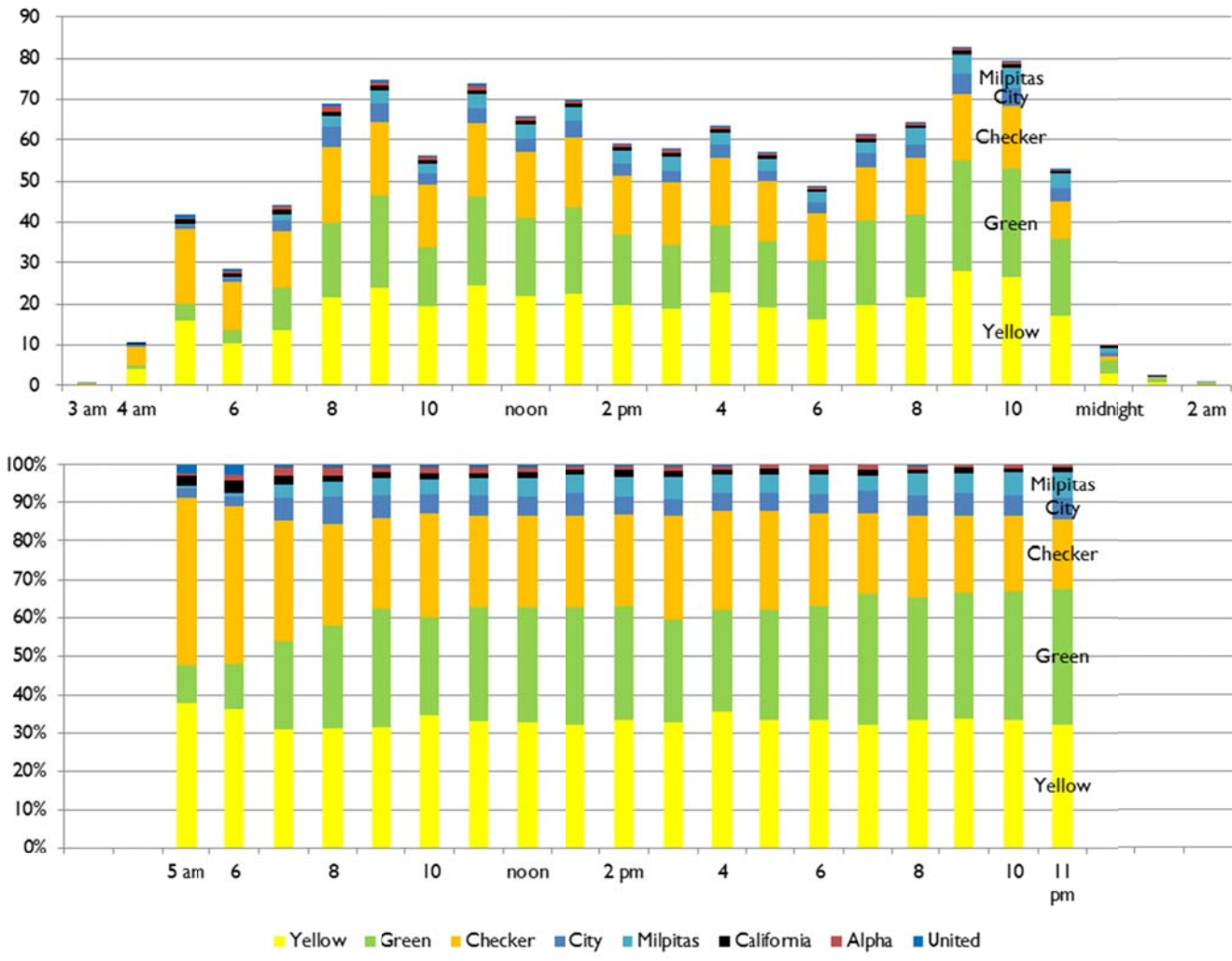
APPENDIX E

Airport Taxi Trip Volume, by Day, January 2013



Source: Auditor's analysis of AVI data from the Airport. Note: Includes pre-arranged pick-ups, on-demand pick-ups, and drop-offs. 36,400 observations.

Airport Taxi Trip Volume, Average by Hour, January 2013

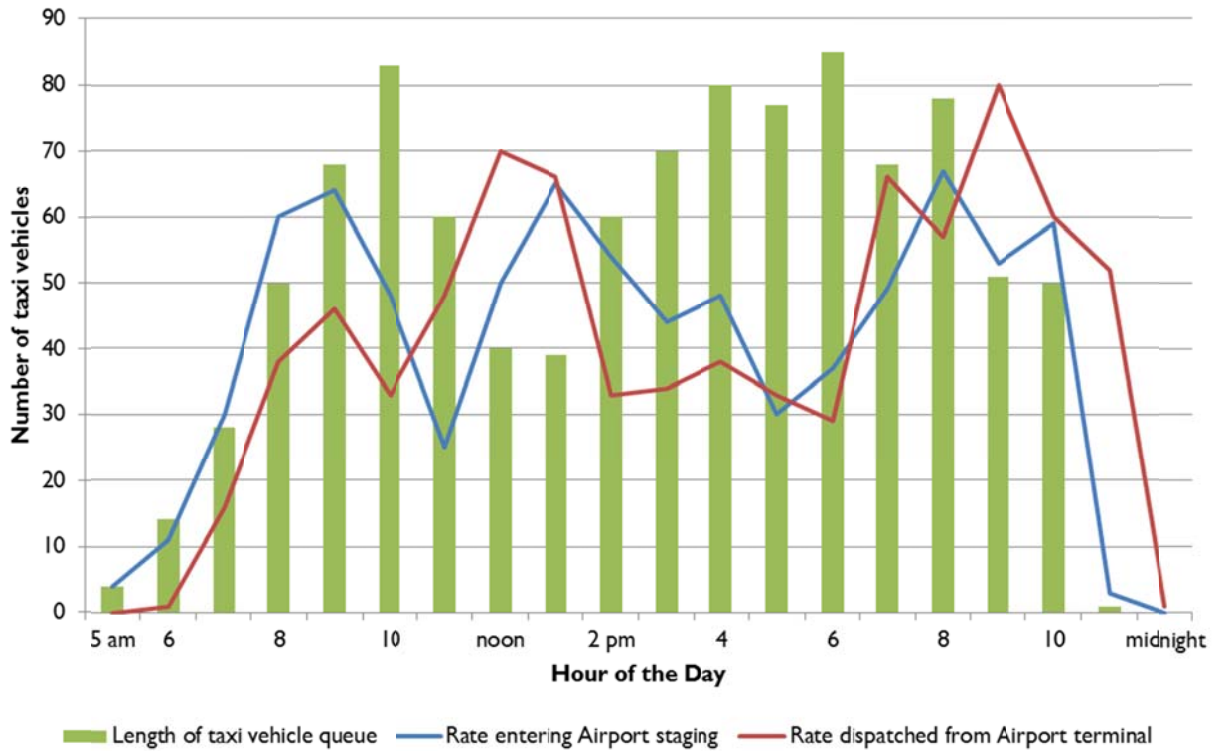


Source: Auditor's analysis of AVI data from the Airport. Note: Includes pre-arranged pick-ups, on-demand pick-ups, and drop-offs. 36,400 observations.

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APPENDIX F

Length of Taxi Vehicle Queue at the Airport Friday, February 1, 2013



Source: Auditor analysis of Taxi San Jose dispatch data
801 observations

APPENDIX G

Service Model Alternatives Considered in 2004

Based on stakeholder input, the consultant developed five service model alternatives to differentiate how airport access might be regulated.

Before 2005, the City followed Model A. In 2005, the City implemented Model C.

Service Model	(1) Airport Access Service to City	(2) Service to the Customer	(3) Equity and Control in Taxicab Industry	(4) City Regulation and Oversight
A Two Company Airport Concession	Limited to two concessionaires. No incentives to serve rest of City	Accountability with two companies. Limited driver accountability	Control with two companies, driver choice very limited to concessionaires	Least amount of regulation and cost to City and Airport
B Airport Permits Distributed to Companies	Open to all licensed companies based upon service to City	Accountability only with companies. Limited driver accountability	Control with companies. Driver choice limited to companies with permits	Open Airport requires independent management of taxi dispatch
C Airport Permits to Drivers, Companies	Permits to drivers and companies. Expands driver choice, retains service incentives	Accountability shared equally between drivers and companies through service contracts	Control shared between drivers and companies. Drivers choose company on business plan	Open Airport requires independent management of taxi dispatch
D Airport Permits to Drivers	Permits to drivers. Full driver choice, eliminates service incentive for companies.	Accountability shifts to drivers to provide customer service guarantees	Control shifts towards drivers. Eliminates service incentives for companies.	Open Airport requires independent management of taxi dispatch
E Medallion System	All operating authority to drivers, eliminates company role	Accountability with drivers. Limited service requirements	Control fully with drivers. Company role limited	Taxicab Commission oversight of medallions

Source: "Taxicab Regulatory and Service Model Study" by Schaller Consulting (March 2004), page 17

APPENDIX H

Taxi Drivers' Movement, 2009-2012

Company	Drivers' movement between December 2009 and July 2012											
	total driver universe 826											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	driver count Dec 2009	left taxi business	% of Dec 2009 (2)/(1)	transferred to different company	% of Dec 2009 (4)/(1)	stayed at same company (1)-(2)-(4)	% of Dec 2009 (6)/(1)	transferred from different company	% of July 2012 (8)/(12)	joined taxi business	% of July 2012 (10)/(12)	driver count July 2012 (6)+(8)+(10)
Yellow/Checker	311	84	27%	13	4%	214	69%	32	10%	88	26%	334
Green	86	12	14%	7	8%	67	78%	20	18%	25	22%	112
City/Milpitas	42	10	24%	9	21%	23	55%	6	10%	29	50%	58
Alpha/California	38	20	53%	12	32%	6	16%	1	3%	27	79%	34
Executive/Rainbow	21	6	29%	15	71%	0	0%					0
United	20	6	30%	8	40%	6	30%	0	0%	3	33%	9
Rainbow	16	7	44%	4	25%	5	31%	19	50%	14	37%	38
All Star	13	7	54%	2	15%	4	31%	1	7%	9	64%	14
American	11	0	0%	4	36%	7	64%	2	7%	21	70%	30
A Orange	10	4	40%	2	20%	4	40%	0	0%	10	71%	14
National	8	4	50%	3	38%	1	13%	0	0%	0	0%	1
USA Express	4	2	50%	2	50%	0	0%					0
Executive	3	1	33%	2	67%	0	0%					0
Checker/American	0							1	100%	0	0%	1
Metro	0							1	6%	17	94%	18
Total	583	163	28%	83	14%	337	58%	83	13%	243	37%	663

Source: Auditor's analysis of Police Department data.

Note: Drivers who left and re-entered the taxi business between December 2009 and July 2012 are not reflected in the data, as are drivers who switched company affiliations multiple times. Some of the companies listed were no longer in business in San José in 2012. Due to limited historical data, we were unable to determine driver affiliations before 2009.

APPENDIX I

Fees and Charges, History

Police	Fiscal Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	1-year change	5-year change
Taxi Company License - New	1 year, per company	\$9,412	\$9,349	\$9,957	\$10,806	\$11,138	\$11,182	0.4%	18.8%
Taxi Company (out-of-town) License - New	1 year, per company	\$2,586	\$2,583	\$2,737	\$2,959	\$3,064	\$3,076	0.4%	18.9%
Taxi Company License - Renewal	1 year, per company	\$1,587	\$1,578	\$1,894	\$2,273	\$2,678	\$2,696	0.7%	69.9%
Taxicab Driver's Permit - New	2 years, per driver	\$208	\$229	\$275	\$330	\$396	\$443	11.9%	113.0%
Taxicab Driver's Permit - Renewal	2 years, per driver	\$208	\$229	\$275	\$330	\$396	\$100	(74.7%)	(51.9%)
Taxicab Vehicle Inspection	1 year, per vehicle	\$83	\$82	\$98	\$118	\$142	\$142	0.0%	71.1%
Cost recovery goal		64%	69%	34%	37%	44%	100%		

Airport	Resolution dated	6/26/2007	9/3/2008	10/24/2008	3/4/2009	4/28/2011	9/5/2012		
Administrative Fee	1 year, per company	\$200	\$200	\$200	\$200	\$200	\$200		
AVI System Tag Fee	one-time, per vehicle				\$25	\$25	\$25		
Trip Fee (pick-up before 2009, pick-up and drop-off since 2009)	per trip	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50		
Trip Fee (Clean Fuel Vehicle)	per trip				\$1.00	\$1.00	\$1.00		
Trip Fee (ADA Approved Vehicle, on-demand only)	per trip						\$1.00		
Infrequent Operator Trip	per trip, maximum 10 trips/year					\$15	\$15		

On-Demand Contractor		Sep 2005	Jun 2009	Dec 2010	Nov 2011	Dec 2012	1-year change	7-year change
Program Fee (incl. up to \$25 Airport admin. fee)	per month, per driver	\$240	\$253	\$254.69	\$261.99	\$270	3.1%	12.5%

Transportation	Fiscal Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	1-year change	5-year change
Taxi Stand Rental	per month, per space	\$65.11	\$61.56	\$67.27	\$57.76	\$56.16	\$57.75	2.8%	(11.3%)
Cost recovery goal		100%	100%	100%	100%	100%	100%		

Consumer Price Index	June of	2008	2009	2010	2011	2012	1-year change	4-year change
June 2008=100, San Francisco-Oakland-San José		100.0	100.2	101.3	103.8	106.5	2.6%	6.5%

Sources: Fees and Charges reports, Airport rate resolutions, Airport, Bureau of Labor Statistics, Auditor calculations

Memorandum

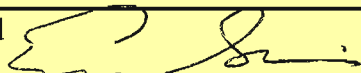
TO: Sharon Erickson

FROM: Kimberly B. Aguirre
Jim Ortbal

**SUBJECT: Audit Response – Taxicab Service
and Regulation in San Jose**

DATE: May 23, 2013

Approved



Date

5/24/13

This memorandum is in response to the recently completed audit of Taxicab Service and Regulation in San Jose. We appreciate the efforts of the City Auditor's Office in the completion and documentation of the audit. We fully understand the complexity of the task and appreciate the time spent by you and your staff to understand the background, processes, challenges and issues associated with effectively regulating the taxicab industry in San Jose and at the Airport.

Overall, staff understands and accepts the findings and recommendations in the audit report. However, as has been learned through years of experience in regulating the taxicab industry, implementing new and modified regulations has impacts on the taxicab industry, City regulatory programs, and the public who use taxicab services. The implications and costs of that process must be considered before the Administration and City Council can effectively move forward in modifying taxicab regulation.

Staff acknowledges and supports the audit findings and recommendations related to cost recovery, expenses and fees. Unfortunately, additional staff work on city-wide taxicab regulations, including cost recovery in all involved Departments, will incur further cost, which the General Fund and Airport funds are currently not in a position to support. In fact, as budgets and staff have been reduced in the recent years, staff has focused on reducing the expense associated with regulating the taxicab industry in a way that retains a focus on quality service to the community and essential regulations that create a level regulatory field for the industry. While work on city-wide regulations is problematic due to funding concerns, a review of the Airport's ground transportation programs, including on-demand taxis, is planned for later this year. This review will provide an opportunity to consider comments from the audit, and the revenue and expense situation, as recommendations for the programs are formulated.

We look forward to continuing our work with the City Auditor's Office and City Council in finding ways to effectively regulate the taxicab industry, but to do so in a way that does not exacerbate the lack of full cost recovery occurring at this time.

/s/

Kimberly B. Aguirre
Assistant Director, Airport Department

/s/

Jim Ortbal
Assistant Director, Transportation

