

CITY OF LOS ANGELES
INTER-DEPARTMENTAL MEMORANDUM

Date: October 17, 2019

To: Honorable City Council
c/o City Clerk, Room 395
Attention: Committee Chair

From: Seleta J. Reynolds  General Manager
Department of Transportation

Subject: TAXICAB FRANCHISE AND POLICY REFORM

SUMMARY

The Los Angeles Department of Transportation (LADOT) regulates taxi services through exclusive franchise agreements granted to nine taxi companies - a regulatory model that has been in place since the mid 1990's. Given the recent disruption of the taxi industry by the arrival of the Transportation Network Companies (TNCs) and the need to significantly modernize the taxi service to better meet current customer expectations, LADOT recommends replacing the franchise system with a streamlined permitting system.

RECOMMENDATIONS

That City Council, subject to the approval of the Mayor:

1. APPROVE the elimination of the ordinances related to taxicab franchises.
2. REQUEST the City Attorney to develop ordinances for an open market permitting system to begin January 1, 2020 or whenever practically feasible.
3. DIRECT LADOT to extend the current taxi cab franchises for six months with the ability for Council to revoke or terminate them at any time within that period upon adoption of a new regulatory model, in the event the permitting ordinance is delayed.

BACKGROUND

Nine existing ordinances grant franchises to taxi companies, giving them the exclusive right to provide taxicab service in the City of Los Angeles (City). City Council granted these franchises following a "Public Convenience and Necessity" analysis, using the procedures prescribed in Administrative Code Section 13 and Ordinance No. 58200 that grant franchises, permits, and privileges. The City initially adopted the franchise model in the mid-1990s, and the existing ordinances became effective on January 1, 2001. Following a series of extensions, these ordinances and the subsequent franchise agreements expire on December 31, 2019.

Anticipating franchise expiration, and recognizing the taxi industry's need for modernization, LADOT hired a consultant to review and evaluate current regulatory practices. The principles that guided this effort include:

- Expanding economic opportunities for businesses and drivers and fostering innovation
- Allowing flexibility for new technology to improve rider experience
- Creating a framework that could easily be used for multiple for-hire modes
- Improving transportation equity and accessibility for riders
- Achieving departmental operational improvements to expedite driver on-boarding and remove market barriers

After much research, stakeholder outreach, and industry input, LADOT issued a draft report on August 26, 2019. Based on that report, LADOT determined several recommendations and processes needed to modernize the city's practices. These recommendations include requesting that City Council replace the franchise system with an open permitting model to simplify the current system and lower barriers for new entrants.

DISCUSSION

LADOT regulates all for-hire vehicles for the City of Los Angeles. This includes granting franchises, permitting vehicles and drivers, and enforcing compliance and other issues related to the performance of for-hire service. Under this regulatory authority, LADOT is responsible for:

- Data reporting
- Performance standards and evaluation
- Setting fares
- Vehicle safety standards and inspections
- Enforcing driver requirements
- Adjudicating passenger complaints and incidents
- Equitable service standards including compliance with the Americans with Disabilities Act (ADA) and prohibiting discriminatory practices
- Vehicle and technology requirements to encourage innovation and environmental sustainability

LADOT, with assistance from its consultants, reviewed best practices in other cities, engaged with taxi companies, drivers, Los Angeles World Airports (LAWA), AccessLA Paratransit Service, TNCs, and others to get extensive feedback on how the industry should move forward. LADOT also reviewed public complaints and customer satisfaction surveys to identify what is liked and disliked about current taxicab service quality in Los Angeles. Based on the findings from that research, LADOT recommends a streamlined permitting system to improve the rider experience, update obsolete requirements, provide more driver flexibility, and accommodate new for-hire operators that may enter the Los Angeles market.

Streamlined Permitting System

Other than Salt Lake City, Los Angeles is the only major American city that continues to use the taxi franchise system. While designed to give ample control to the City and ensure equitable service, realities of the industry in Los Angeles led to a system with many unintended consequences. As it currently operates, the franchise system has not encouraged innovation or expanded economic opportunities for the for-hire vehicle industry. It has been nearly 20 years since the City re-bid the taxi franchises, leaving

incumbent companies to operate under fixed rules without competition, which led to a stagnant market lacking incentives or opportunity for innovation.

After reviewing multiple regulatory standards in other jurisdictions, including medallions, public convenience and necessity requirements, and Los Angeles' own franchise methodology, LADOT recommends that riders, drivers, and companies would observe the greatest benefits from moving to a permitting system with entry requirements.

The goal of a streamlined and flexible permit structure is to enable a more open market to allow new businesses to enter the City as long as they meet various qualifications including fleet minimums. This opens the door for a more competitive process among companies and gives the City authority to remove underperforming companies and establish accountability without sacrificing service quality. New market entrants can fill gaps. The open market system works in other jurisdictions to increase competition and incentivize service improvements because the entitlement to operate disappears when the business can be replaced by a better performing company.

Because franchise ordinances are controlled through Council, LADOT recommends that Council replace the current franchise system with a new ordinance to create a streamlined permitting system beginning no later than July 1, 2020.

Additional Regulatory Recommendations

In addition to an open market permitting system, LADOT recommends several key regulatory changes to remove pain points for operators, increase driver pay, and improve the customer experience. These include:

- Removing vehicle caps
- Relaxing trade dress standards for taxicab vehicles
- Providing and managing a centralized dispatching system
- Eliminating the standard taximeter and requiring upfront pricing for taxicab trips
- Requiring all For-Hire vehicles to comply with the Mobility Data Specification (MDS)

These elements follow permitting implementation, with ongoing input from taxi companies and drivers. While Council is responsible for adopting a regulatory scheme, the Taxicab Commission and LADOT are charged with adopting and enforcing rules and regulations governing the taxi industry, including these updates.

Outreach

LADOT and its consultants conducted significant outreach to develop the study and the recommendations mentioned in this report. Below is a schedule of outreach conducted throughout this process:

- July 2018 - Project Framing Workshop
- August 2018 - Interviews with Taxi Company Owners and Management
- October 2018 - Meetings with TNCs, Los Angeles World Airports (LAWA), AccessLA Paratransit, and members of City Council
- Fall 2018 - Briefed Taxi Commission

- June 2019 - Second round of meetings with Taxi Owners and Management
- July 2019 - Taxicab Commission update on study and preliminary findings
- August 2019 - Taxicab Commission update on study and initial recommendations
- August-September 2019 - Driver focus groups and outreach with preliminary recommendations at various companies and locations throughout the City. Released draft report for public comment
- September 2019 - Driver outreach in LAX holding lot to discuss preliminary recommendations. Received initial public comments.
- October 2019 - Received final public comments

FINANCIAL IMPACT

There is no impact to the General Fund. With the proposed switch from the franchise regulatory model to the open market permitting system, the ordinance will include permit fee adjustments to account for full cost recovery.

SJR:JM