

Robert M. McClay  
Brian D. Alton\*

951 Grand Avenue  
St. Paul, MN 55105  
Fax: 651/290-2502  
651/290-0301

\*Also Licensed in Wisconsin

Council President Kathy Lantry  
City Council Members  
City of Saint Paul  
15 West Kellogg Blvd.  
Saint Paul, MN 55102

RE: Ordinance 12-70

## I. INTRODUCTION

St. Paul Yellow Taxi is a local taxi company with its headquarters at 1463 Marshall Ave., near Snelling. The company has been in business for over 75 years. Michael Breckman has been the owner of the business since 1989. The company operates about 30 cabs in the City. A focus of his business is short fares.

## II. BACKGROUND AND HISTORY

- Taxicab service in the City of St. Paul is highly regulated. Chapter 376 of the Legislative Code governs licensure, insurance and bonding, vehicle safety equipment and inspections, recordkeeping, and fares.

- The number of taxis that be licensed to operate is unlimited. Any company that meets the licensure requirements can offer service. The cap on the number of licenses was removed several years ago.

- The City sets the maximum fares taxi companies can charge customers.

- The City is obligated to review the fares every year. The ordinance states that *“the license inspector shall, each calendar year during the month of May, review the maximum allowable fares and charges for taxicab services to determine whether they should be adjusted.”* The maximum charge of \$5 for a short fare was set in 1999 and not been increased since then. Other fares were last reviewed and adjusted 7 years ago.

- Despite the legal requirement that rates are to be reviewed annually in May by DSI to determine if they should be adjusted, the annual review has not been done over the years.

- It has taken DSI over two years to come up with the rate adjustment as currently proposed.

- A proposal to eliminate the current system of rate setting was reviewed and approved by the Business Review Council.

- Taxis are one part of an integral transportation system, along with buses, LRT, Metro Mobility, bicycles, pedicabs, cars and walking. Taxis are the only means of transit where the City regulates what the private business can earn.

### **III. SAINT PAUL SHOULD STOP REGULATING TAXI FARES.**

The City does not have the ability to properly set rates. It is a complex issue that requires thorough and time consuming analysis.

Rate regulation can mean higher overall rates for consumers. Legal restrictions on prices do not necessarily translate into lower average fares. *Taxicab Regulations in Ohio's Largest Cities*. The Buckeye Institute.

Cab fares are unrestricted in many places. Bloomington, MN, Madison, WI and Duluth, MN are examples. 23% of cities do not regulate fares. *Do Economists Reach a Conclusion on Taxi Deregulation?* EconJournalWatch.

If the cab companies lose business because they raise the rates too much, they will respond and adjust as they need to.

DSI used an automobile insurance inflation index to calculate rate adjustment. DSI did not go back to 1999 in its calculation. Insurance is only one factor in cost of cab service. A national index on auto insurance is not an accurate measure of the cost of taxi insurance in a state that has no-fault insurance.

But, using that insurance index from 1999 to 2012, the percentage increase in the index is the same as going from \$5 to \$8 (Exhibit B). Using other indices of the Bureau of Labor Statistics from 1999 to 2012 results in an increase of a like amount.

A draft of the amendment to the ordinance to eliminate fare regulation is attached.

### **IV. A RATE ADJUSTMENT IS LONG OVERDUE.**

**The Council does not have enough – or the correct – information to properly set fares.**

The fare comparisons with other cities done by DSI is outdated and incorrect. Since the work was done, 5 of the 7 cities used by DSI for comparison have raised rates (Exhibit A).

When the city establishes rates, it cannot factor in the costs unique to this industry or individual companies who are operating in the industry.

- Partially in response to the recent murder in Minneapolis of a cab driver, Yellow Taxi is in the process of installing new cameras in all of its cars at an expense that could be \$30,000.
- The FCC is mandating all taxis have new communications equipment. Another \$15,000.

- Insurance is a huge fixed cost for cab companies. There are very few insurance companies that sell that type of insurance. The rates are very high and subject to great fluctuation.
- St. Paul Yellow Taxi has a goal of having all of its cabs model year 2010 or newer.

“Because of insufficient data, regulators are often unable to anticipate how their policies will affect taxi revenues and cab availability.” *Elasticities For Taxicab Fares And Service Availability*. Klewer.

There is a strong relationship between taxicab crash rates and driver incomes. Higher driver incomes are related to lower crash rates. *Higher Pay, Safer Cabbies*. Transportation Alternatives.

Marketing and regulation about filing and displaying rates can overcome the fear of lack of knowledge by consumers. There are Internet resources to find fares (e.g. taxifarefinder.com). The City can post rates of different companies on its website (e.g. Duluth). The City could impose a requirement that the cab company estimate the fare when a customer calls for a cab.

The experience in Denver Colorado has been that the introduction of Light Rail increases for demand taxis. We want to have a healthy taxi industry when the LRT starts to run in 2014.

Service will improve if rates can be set by companies. Taxis will be more safe, secure and clean.

There are plenty of licensed taxis to serve the customers in St. Paul. And longer runs at the proposed new rates will be attractive for drivers. But Mike Breckman has found that his drivers are not interested in short runs. Therefore, the need of the consumer is not being met.

If the City is not regulating rates, consumers will be able to choose among the cab companies and make choices based on price, service, quality and other factors.

Uniformity of rates is not a goal and will not be achieved by adjusting the rates. The City rate structure sets maximums. Each cab company has different costs of doing business and will set their own rates, up to the maximum.

It will be possible to attract and keep good drivers. Drivers will be able to make more money. In Las Vegas, Nevada, taxi companies can offer competitive wages, health insurance, and retirement benefits.

**V. IF THE COUNCIL DECIDES TO CONTINUE TO REGULATE FARES THE \$5 MAXIMUM MINIMUM RATE SHOULD BE SET AT \$8.**

Mike Breckman estimates that it currently costs about \$12 per hour to operate a cab in St. Paul. A driver can do up to 3 short fares, one that generates the \$5 minimum, in an hour. This results in a \$3/hour income.

Three years ago, gas cost \$1.84 per gallon. It more than doubled before some recent lower prices. But the rates drivers can charge has not changed.

Presently, taxi companies are limited to a \$5 charge for short rides (the so-called “minimum fare”). At \$5, the taxi companies cannot afford to pick up the shorter runs. Drivers do not have enough incentive to serve that segment of the population.

Dispatch trips, many of which are the short fares, are not as visible or attractive as long haul airport trips. Dispatch trips are the most labor and capital intensive. They are vital to residents mobility. *8 Keys To Keeping Taxi Issues From Becoming A Political Hot Potato*. Taxi, Livery and Paratransit Assoc.

Inflation and increases in operating costs justify increases.

From a consumer perspective, an increase to \$7 for the minimum fare is the same as \$5 in 1999. “\$5 in 1999 has the same buying power as \$6.94 in 2012.” CPI Inflation Calculator. US Dept. of Labor, Bureau of Labor Statistics. [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm)

If the cap is raised to \$8, it does not mean all of the rates will be raised to that amount. Each company will make decisions based upon the responses by their customers.

**Driver income has fallen.**

As the number of cabs has increased the income of the drivers has dropped. There is a glut of licenses and plenty of competition.

Taxi drivers should be able to earn an adequate income. Fare regulation should be concerned with that. That is often a “primary concern” of regulators. *Elasticities For Taxicab Fares And Service Availability*. Klewer.

Eliminating the cap on the number of licenses (open entry into the business for all operators) “weakened the financial viability for cab companies and drivers who provide dispatch service.” *Entry Controls in Taxi Regulation*. Transport Policy.

Inflation erodes the real cost of a taxi trip. *Elasticities For Taxicab Fares And Service Availability*. Klewer.

## **VI. RATE REVIEW MUST BE DONE ANNUALLY.**

It would unfair and unwise to only adjust rates every three years. Conditions change too much to require a wait of three years.

Rate regulation needs to be an ongoing process. *Taxicab Regulations in Ohio's Largest Cities*. The Buckeye Institute.

Appropriate action should be taken without undue delay. The passage of time makes issues harder to resolve. *8 Keys To Keeping Taxi Issues From Becoming A Political Hot Potato*. Taxi, Livery and Paratransit Assoc.

The City of Houston, TX did a rate study in 2012 and concluded that there should be annual reviews so that the City meets its obligation to provide for a just and reasonable rate of return by responding to changes in cost conditions with rate increases that are small and easy to manage by the City, operators and consumers. *City of Houston 2012 Taxicab Rate Study*. City of Houston.

If a jump to \$8 is deemed to be too much in one step, it could be done in multiple steps over a year or two.

## **VII. CONCLUSION**

Simply raising the fares is not the right solution. At best, it is a temporary patch to a worn out regulatory structure. Rather than adjust the rates and keep in place the same unworkable system that calls for annual reviews, the regulation of fares should be eliminated. Several other cities do not regulate rates, but do regulate the companies for the safety and welfare of the citizens and customers.

Taxi service in St. Paul became a competitive market in 1998 and does not need price caps to ensure reasonable rates. The ~20 cab companies that serve St. Paul have to compete with each other, and with public transportation, on price.

The city does not have the resources to conduct cost-of-service studies for each company and set rates accordingly.

Very truly yours,  
McClay•Alton, PLLP



Brian D. Alton  
[brian@mcclay-alton.com](mailto:brian@mcclay-alton.com)