



**Legislative Department
Seattle City Council
Memorandum**

TO: Councilmember Tim Burgess, Chair
Councilmember Nick Licata, Vice Chair
Councilmember Sally Clark, Member
Government Performance and Finance committee

FROM: Michael Jenkins, Council Central staff

DATE: June 27, 2012

RE: Council Bill 117465 – proposed taxi fare increases to offset increased driver-related operating expenses

The Department of Finance and Administrative Services (FAS) has proposed an increase to the City's taxi rates to provide taxi drivers with increased revenue to offset expenses imposed by two state agencies. The proposed fare increase is also designed to provide taxi drivers with additional revenue to meet increases in the region's costs of living. FAS has designed the proposed taxi fare increases to substantially or completely reimburse taxi drivers for these new expenses.

Background and Summary

The City of Seattle (City) and King County taxicab industry is a privately owned for-profit industry comprised of nearly 700 small businesses that own 929 taxicabs and are operated by approximately 2,500 taxicab drivers. The City regulates the industry by setting the number of licenses, controlling the taximeter rates charged to customers and capping the lease rates charged by license owners to taxi drivers

In 2011, the State of Washington passed Engrossed Substitute House Bill 1367, requiring taxi drivers to maintain industrial insurance (worker's compensation) coverage. In addition, the Washington State Department of Revenue began collecting sales tax on the taxi leases required between owners and drivers.

The proposed fare increases are designed to provide taxi drivers with additional revenue to cover most or all of these new expenses. FAS estimates the expenses faced by taxi drivers under the new state regulations include:

- Workers' Compensation Industrial Insurance Premiums = \$261 per quarter
- Taxicab Retail Sales Tax – 9.5% - on a \$75 per shift lease rate = \$7 per shift

The fare increases are also designed to provide a cost of living increase to reflect a 2.7% increase in living expenses¹ between 2008 and June 2011; 2008 was the last year that Council authorized fare increases. The table below summarizes the proposed fare increases. The sections that follow provide a more detailed explanation of the cost increases and the analysis done to justify these proposed rates.

Fare components	Existing rates	Proposed rates
Per trip drop	\$2.50 for 1/10 mile	\$2.50 per 1/9 mile
Distance charge	\$0.25 for 1/10 mile	\$0.30 per 1/9 mile
Time charge	\$0.25 per 30 seconds	\$0.30 per 36 seconds

Detailed Cost and Rate Analysis

In July 2008 the City adopted Ordinance 122734, requiring taxi owners and drivers to negotiate a written lease for the use of a licensed taxi and file those leases with FAS². FAS sets the maximum lease caps that can be charged for periods of a day (or shift), week or month. To align these new expenses to this lease rate structure, FAS has converted these new expenses into a 'per trip' and 'per shift' calculation³. The following are the assumptions used by FAS in developing these calculations:

Worker's compensation premiums

- Insurance Premium: \$261 per Quarter per Driver (Shift) or \$2.87 per Shift [assumes 91 Days or Shifts per Quarter]
- Average Trips per Shift: 10.9 (Reported by Drivers in 2008 Survey)
- \$2.87 per Shift/10.9 Trips per Shift = \$0.26 per Trip

Retail sales tax on leases

- Median Lease Amount: \$75 per Shift⁴
- Retail Sales Tax Rate (Seattle): 9.5% of \$75 = \$7.12 per Shift
- Average Trips per Shift: 10.9 (Reported by Drivers in 2008 Survey)
- \$7.125 per Shift/10.9 Trips per Shift = \$0.65 per Trip

¹ Calculated using the Consumer Price Index for the Seattle-Tacoma- Bremerton area

² SMC 6.310.315 prohibits leases from including items such as vehicle purchase, repairs or maintenance, registration, and insurance.

³ A 2008 survey conducted by FAS documents the average trips that drivers make in a shift (10.9 trips) and the average amount of time in a shift (12 hours).

⁴ Lease caps vary by company, owner and driver. Yellow reports the highest leases at \$75 per shift; Farwest and Orange reports \$60 per shift. Leases are negotiated directly between an owner and driver and can vary based on experience, longevity with an owner or association, safety records, etc.

Cost of living increase

- Change in Consumer Price Index (Urban Areas) for Seattle-Tacoma-Bremerton: +2.7%
- Average Taximeter Fare (2009-2010): \$14.80 per Trip
- Average Costs as Percentage of Fare Revenue: 50% (est.)
- $(\$14.80 \text{ per Trip})(0.027)(0.5) = \0.20 per Trip

Summary of Additional Costs	Per Trip	Per Shift
Worker’s compensation	\$0.26	\$2.87
Taxicab lease retail sales tax	\$0.65	\$7.12
Cost of living	\$0.20	\$2.18
TOTAL	\$1.11	\$12.10

For the first two costs, which are imposed being mandated by the state, the taxi cab owner will act as a pass through agent, collecting and sending these payments to the state agency assessing the fee. To address these increased expenditures for the taxi cab drivers, FAS will authorize an increase in the maximum lease caps of up to \$10.00 per shift; lease caps are determined by Director’s rule. Since lease rates vary and are negotiated between an owner and a driver, it is difficult, if not impossible, to know how the sales tax rate will impact **each** driver equally; FAS based the maximum \$10.00 lease increase on an averaging of all lease rates.

Taxicab rates will be set to raise revenue needed to provide approximately \$10 in new fare revenue to offset higher lease payments and to generate \$2 more per shift to provide drivers the desired cost of living adjustment. To achieve the full \$12+ per shift increase in revenue, FAS seeks Council approval to increase three elements of the taxi fare structure:

- The initial fee, or “trip drop”
- The rate by which fares are calculated – “distance charge”
- The term in which fares are assessed “time charge”

FAS has designed the fare increases to cover all or a significant portion of these new expenses. The following tables document the fare increases and how these fare increases impact sample trip lengths, including what FAS documents as the average trip length of a taxi ride (4.4 miles); this average trip figure was taken from a study analyzing 2009-2010 taxicab revenue and operating statistics.

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From/To	Distance	Current Rate	Proposed Rate with percentage increase
Average Trip	4.4 miles	\$14.80	\$15.65 (+5.7%)
Benaroya Hall to 5 th and Galer Street	2.2 miles	\$7.75	\$8.20 (+5.8%)
Macy's to Eastlake and Boston Streets	2.4 miles	\$8.25	\$8.80 (+6.7%)
Town Hall to Beacon Hill Library	3.2 miles	\$10.25	\$10.90 (+6.3%)
24th Ave NW and NW Market Street to Northgate Mall	5.6 miles	\$16.25	\$17.50 (+7.7%)
California Ave SW and SW Alaska Street to Harborview Hospital	6.2 miles	\$17.75	\$19.00 (+7.0%)
West Seattle High School to Sea-Tac Airport	13.4 miles	\$35.75	\$38.50 (7.7%)

FAS designed the fare increases to proportionately increase on longer trips. FAS believes this approach will benefit people who take shorter trips, which is of particular importance for individuals on fixed incomes who use taxis for trips to stores, physicians offices or other services.

Discussion

In making this request, FAS relies on their 2008 taxicab survey, along with taxicab statistics collected between 2009-2010, to determine the extent to which these proposed fare increases will completely or substantially reimburse drivers for the increased expenses and the cost of living increase. However, since each driver is in effect an independent business owner that sets their own terms of employment within the confines of the lease agreement, it is not clear to what extent the increased revenue will reimburse **each** driver, cause a short fall or even encourage **each** driver to work in ways that may cause unanticipated revenues.

FAS has developed a rational basis for a fee increase. While it appears that a \$10.00 increase in lease maximums will reimburse the drivers for the new state fees, it is unclear to what extent drivers will also receive a cost of living increase. The additional revenue obtained from the proposed rate increase may help provide the cost of living increase, in particular if a driver is able to secure a series of longer trips. This may also be achieved through the proposed increase (\$32 to \$40) in flat fare rates from downtown Seattle to SeaTac Airport. However rational, the approach has many variables that make it difficult to predict with a level of certainty that its goal (reimbursing drivers for increased operating expenses and cost of living increases) can be reasonably achieved for most if not all drivers.

As documented by FAS in their 2009-2010 report on Seattle taxicab industry revenue and operating statistics, taxi rates are somewhat inelastic (unresponsive to changes in prices). In the short term, rate increases cause a short term drop in revenue from reduced trips; over time, fare revenue increases to prior levels or higher. In 2008 the Council increased the per mile charge by 20% (\$2.00 per mile to \$2.50). As a result, total revenue trips declined by

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7.3% (5,273,527 to 4,890,835) but total fare revenue **increased** 4.8% (\$69,114,856 to \$72,403,101, or \$3,288,245).

The proposed taximeter rate increases are well below the percentage increases adopted by Council in 2008 and should have a minimal impact on revenues in the short term.

Therefore, I am recommending that the Committee pass CB 117465, with a requirement that a new uncodified section be adopted requiring FAS to report back on the extent to which the proposed rate increases have accomplished the goal of providing additional income to drivers for these increased expenses:

Section XX: By December 1, 2013 the Department of Finance and Administrative Services shall present to the City Council a written report indicating whether or not the fare increases authorized under this legislation have accomplished the goal of reducing the burden of increased costs faced by taxi drivers from 1) industrial insurance requirements imposed by the Washington State legislature in Engrossed Substitute House Bill 1367, 2) the collection of retail sales tax on taxi leases, while 3) providing taxi drivers with a minimum 2.7% cost of living increase.

As recommended, a report back by FAS is warranted to examine the extent to which these fare increases have accomplished their goal.