



Leveling the Playing Field

The Need for Taxi Reform in the Commonwealth

by Matt Blackbourn and Gregory W. Sullivan

The debate over future regulation of transportation network companies (TNCs) like Uber and Lyft has been one of the most contentious on Beacon Hill in 2016. It has polarized the legislature and pressured lawmakers to take sides in the larger fight between popular international tech companies and traditional, more localized enterprises. While TNCs have lobbied aggressively against specific proposed restrictions, taxi and livery service providers have fought back with claims that their business is dying due to what has become an uneven playing field.

Taxi drivers, the principal for-hire legacy actors of the transportation industry, are not wrong. Any market in which some providers must conform to onerous restrictions while others don't equates to unfair competition.

They're not alone in this view: earlier this year, U.S. District Court Judge Nathaniel Gorton ruled that taxis and TNCs in essence offer the same type of service and ordered the city of Boston to overhaul its hackney regulations to ensure taxis can better compete with TNCs.

Along the same lines, representatives for Cambridge taxi drivers recently filed a lawsuit against the city late last month arguing that their right to equal protection in the transportation industry had been violated.

As taxi drivers take their fight to the courts after disappointment with the legislature and Governor's office, lawmakers face a number of critical questions regarding the future of the transportation industry.

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What regulatory framework would best reconcile establishing an environment friendly to innovation with ensuring a fair and equal marketplace for all transportation industry actors? To what degree must existing regulatory frameworks be revised to ensure a level playing field for taxis? Perhaps the most difficult question is what—if any—measures should be taken to provide relief to medallion owners.

Problematic and outdated taxi restrictions

A central priority for legislators must be eliminating unfair red tape that prevents cabbies from being able to compete. A great place to start is revising the regional restrictions on hail pick-ups outside of their licensing communities.

Boston cabbies, who are legally required to operate a vehicle that's been licensed by the Hackney Carriage Division, can drop passengers outside city limits but are not permitted to pick-up any passenger by street hail while outside Boston. This issue is well-illustrated by the example of a Boston taxi driver who picks up a passenger at Logan Airport for a trip to another municipality, such as Cambridge, Somerville, Brookline or suburban communities. Once the drop-off is made, the driver is prohibited from picking up a passenger on his return to Boston. This restriction forces cab operators to incur unreimbursed operating costs and ultimately results in higher fares for paying customers. The municipal licensing model—like many other aspects of the Greater Boston taxi industry—has been made obsolete by the rise of ridesharing carriers that are not subject to any municipal pick-up restrictions.

Another patently unfair regulatory restriction confronting cab operators is the municipal fare-setting system—one of the largest obstacles to cabbies in their fight to compete with TNCs on price. Under current Massachusetts taxi regulations, maximum meter rates for operators with government-issued cab medallions are set by municipalities that govern all licensees in their jurisdiction. For instance, the Boston Hackney Carriage Unit sets the per mile rate for all Boston taxis at \$2.60 for the first 1/7 mile, and \$0.40 thereafter.¹ The City of Cambridge's Hackney Carriage Division sets similar pricing: \$1.95 as the

initial charge, plus \$0.45 for each additional 1/8 of a mile.²

Meter-based fare systems are designed to ensure a standardized measure—based on distance and time—in order to determine fares in a way that protects both driver and passenger from price gouging. The utility of municipal fare-setting systems in today's transportation market, however, has declined dramatically with the rise of mobile-based hailing mechanisms. Consumers have shifted away from taxis with antiquated meter systems and more towards TNCs, who offer a simpler user experience involving use of a smart phone application that is synced with a user's bank account, to which charges can be made automatically.

Municipal fare-setting systems, as they are employed in Greater Boston, are especially problematic because they prevent cabs from charging less than the prices fixed by municipal government regulators. Since Uber and Lyft are not subject to minimum municipal rates, their charges are usually far less than those of cabs, which makes them the preferred options for consumers. If cab companies wish to reduce charges in order to compete with Uber and Lyft on price, they cannot do so. This gives ridesharing companies a government-imposed competitive advantage.

Examples of trips plugged into the web-based fare calculation tool whatsthefare.com demonstrate this differential. A trip from Harvard Square to Logan Airport, for instance, would cost between \$17-18 if you opt for a ridesharing company—a taxi would cost you \$41 (assuming a standard 15% tip), which is more than twice as much. A trip to Downtown Crossing with Uber or Lyft would cost \$10, while a taxi would run you \$17 (assuming, again, a standard 15% tip). It's important to note that these calculations do not factor in dynamic—or “surge”—pricing. But assuming Uber or Lyft apply dynamic pricing based on a multiplier of 1.5, the pricing for both scenarios (\$25-27 and \$15, respectively) would still be less than a taxi.

There are certain TNC trips, however, that are more expensive than taxi service once dynamic pricing is applied. These tend to be much shorter distances

(1-2 miles), such as Suffolk University to Faneuil Hall, or the Westin Copley Place Hotel to the Boston Convention Center. A similar trend has been observed in New York City, where a study of yellow cab fares versus Uber prices—originally covered in March 2015 by the MIT Technology Review—showed that Uber is only cheaper for rides costing more than \$35.³⁽⁴⁾ Nonetheless, broadly speaking, it is well accepted in Greater Boston and Massachusetts that TNCs offer better prices than standard taxis.

Table 1 shows these comparative fares, in addition to the other example trips mentioned above.

Some have suggested that taxi operators would benefit from employing mobile app technology, especially for customer pick-ups on return trips from areas beyond taxi operators’ licensing communities. Uber has actually incorporated a feature on its app that enables users to connect to licensed cabbies available in their area: Uber Taxi. Though this provides taxis with a channel through which to access more customers, taxi operators who pick-up customers through Uber Taxi are required to charge passengers the municipal-set meter rate. Other companies that provide app-based services that connect customers with taxis—such as Curb and Way2Ride—also set fares on the basis of municipal-mandated rates. This government-imposed restriction makes taxi operators unable to compete on price with Uber X and other ridesharing carriers even in cases when taxi operators use mobile-based hailing systems.

Establishing conditions to make taxis more competitive

There have been a number of notable recent instances of policymakers and city officials across the country advocating for taxi deregulation. The ideas we’re seeing floated in legislative deliberations nationwide should be a part of the Massachusetts discussion.

A California legislator, for instance, recently proposed legislation that would transfer regulatory oversight of all taxis from the local level to the state and, among other reforms, give taxi owners the ability to set prices.⁵ Earlier this year the New York Taxi and Limousine Commission, which oversees all for-hire vehicles in New York City, announced that it would be revising regulations on taxis by eliminating outdated requirements and establishing more flexible policy in licensing and lease arrangements between medallion owners and operators.⁶

Locally, the Boston Police say they will be introducing a number of changes to Boston Police Rule 403—the master document of all regulations governing taxis in Boston—to make the rules more consistent with contemporary industry practices. As the *Boston Herald* reported in March, a court document mentions several changes being considered by the police commissioner, including less rigid restrictions on vehicle type and reducing the rates taxi drivers would be required to pay to lease vehicles from medallion owners.⁷

TABLE 1

Trip	TNC (Uber/Lyft)	TNC with surge pricing (x1.5)	Taxi	Distance
Harvard Square to Logan Airport	\$17-18	\$25-27	\$41	~ 9 mi
Boston University to Downtown Crossing	\$10	\$15	\$17	~ 3 mi
The Westin Copley Place to BCEC	\$9	\$13	\$12	~ 2 mi
Maverick Square to Charles MGH	\$8-\$9	\$13	\$13	~ 3 mi
Sullivan Square to Fenway Park	\$10	\$16	\$21	~ 4 mi
Ashmont Station to State House	\$17	\$25	\$30	~ 7 mi
Coolidge Corner (Brookline) to Seaport District	\$14	\$21	\$30	~ 6 mi
Suffolk University to Faneuil Hall	\$5	\$8	\$6	~ 1 mi

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The Boston Police are moving in the right direction with these proposed policy changes, but more comprehensive reform will be necessary if lawmakers truly hope to establish conditions that will enable the taxi industry to compete.

The most recent version of legislation to regulate TNCs in Massachusetts, which incorporates the Senate's most recent amendment (S.2371), is currently under review by a legislative conference committee.⁸ Some have speculated that the differences between the House and Senate version will not be ironed out before July 31, the last day of the current legislative session. This has put Boston Mayor Marty Walsh in a very tricky political situation by virtue of the federal judge's ruling mentioned above, as *The Boston Globe* reported recently.⁹ While the window for legislative consensus is closing quickly, members of both chambers should consider additional taxi industry reform ideas that help ensure fair competition without alienating firms like Uber and Lyft from doing business in the Commonwealth.

Some of the policy measures we've seen nationwide have not required any legislative action. For instance, the San Francisco Municipal Transportation Agency (SFMTA)—the group that oversees San Francisco taxis—waived all taxi medallion renewal fees in 2015 to level the playing field. This initiative saved each medallion owner \$1,000 they would have otherwise had to pay to SFMTA. Medallion owners in Boston must pay \$290 for renewal, according to the Hackney Carriage Unit. In other districts, regulatory bodies have proposed eliminating restrictions on the ability of a taxi to pick-up multiple passengers over the course of a ride, analogous to what Uber offers with its 'UberPool' service.

More fundamental changes will necessitate legislative action. The Massachusetts Senate has already made a pragmatic proposal to establish a ride-for-hire task force to "review the current laws, regulations and local ordinances governing licensed hackneys, taxis, livery and transportation network companies in the commonwealth and to make recommendations concerning public safety, consumer protection and the economic fairness and equity of the regulatory

structure governing the ride for hire industry." To advance the 'economic fairness and equity of the regulatory structure' component of this proposal, the legislature should consider assigning the task force a comprehensive review of medallion regulations in the Greater Boston area to identify ways to create a more level-playing field for medallion owners and taxi operators in the region.

In addition to the items the task force would cover per the proposed legislation, it would also be in a good position to determine the feasibility of allowing taxi companies to treat rates established by the licensing municipality as just a ceiling rather than both a ceiling and a floor, so long as the rates are clearly disclosed in advance to the customer. It would make sense to consider new policies that would allow for cabs to charge less, but not more, than municipal rates so long as customers know the terms in advance.

The ride-for-hire task force should also consider easing regional restrictions on taxi service through changes to street hail pick-up restrictions by licensing municipality. A more significant policy shift that the task force should consider to achieve this would be to transfer regulatory oversight of all taxis to a regional, metropolitan authority that would consolidate municipalities into districts based on ridership between them. Boston, Cambridge, Somerville and Brookline, for instance, are communities with a high volume of taxi-based inter-travel. Identifying the routes, service areas and pick-up locations between these areas with the highest volume of customer requests could provide the task force a more accurate picture of where there is highest demand. These areas could serve as a basis for the delineation of the regional authority's jurisdiction. Such a regional authority might help to eliminate the inefficiencies of restrictions that prevent a Boston cabbie from picking up in a high demand area in Brookline and a Cambridge cabbie from making a pick-up in a high volume service area in Boston.

An important additional consideration is what restrictions should be in place for service involving street hail-based pick-ups and drop-offs between the metropolitan authority and districts outside of it. To

ensure that the Greater Boston area is not inundated with taxi drivers from all over the state, it would make sense to keep in place street hail-based pick-up restrictions to and from the metropolitan authority area. In other words, cab drivers from municipalities outside of the metropolitan authority district would be restricted from making street hail pick-ups within the metropolitan authority district, and cabbies servicing the metropolitan authority would likewise be restricted from making street hail pick-ups outside of the district. This move, which focuses more on reforming rules for street hail-initiated rides, would complement the shift towards mobile app-based hailing in the taxi industry that many taxi companies are in the process of adopting. As taxis gradually incorporate mobile-based hailing as a business practice, the lifting of municipal-set minimum rates will help ensure they can compete on price with companies like Uber and Lyft.

Transitioning the taxi industry to a regulatory framework that employs a more contemporary model is long overdue. Senator Eric Lesser (D – Longmeadow) commented in a recent *Masslive.com* article that “making a carbon copy of a 60, 70-year-old regulatory scheme and papering it on top of a 21st century innovation is a recipe for bad results.”¹⁰ Pioneer Institute has long been a champion of innovative ridesharing companies like Uber and Lyft and has consistently opposed efforts to strangle them with misguided regulations. At the same time, the archaic regulations that currently governs taxis, particularly those that prevent regional street hail-based pick-ups and enforce minimum pricing, create an unfair business environment for cabs, making competition with innovative new firms impossible.

Leveling the Playing Field: The Need for Taxi Reform in the Commonwealth

Endnotes

1. For more information on Boston taxi meter rates, see: <http://bpdnews.com/taxi-rates/>.
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9. Jim O’Sullivan, “Uber-Lyft debate putting Mayor Walsh in a bind.” *The Boston Globe*, 15 July 2016. Available at: <https://www.bostonglobe.com/metro/2016/07/15/uber-debate-puts-walsh-bind/Ypmhr2no3hIq4ZDWe92dDP/story.html>.
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