

GOVERNMENT OF THE DISTRICT OF COLUMBIA
TAXICAB COMMISSION



Determination and Findings
District of Columbia Taxicab Commission
Modern Taximeter System and Proposed Rulemakings

BACKGROUND

The District of Columbia Taxicab Commission (“DCTC” or “Commission”) has been charged to bring about the modernization of the District of Columbia’s taxicab industry and ensure it becomes a first class system and a standard in the public transportation industry.

As an initial step in this effort, the Taxi Smart Meter System (TSMS) installation began in August, 2012. Subsequently, the installation process was halted due to a protest of the contract award based on legal issues. In the interim, DCTC reviewed alternative methods to introduce a cashless payment system in DC taxis. Marketplace research provided the Commission with valuable information: Public comments made it clear that the implementation of a cashless payment system was a critical step towards enhancing the DC taxi industry. Passengers were consistently demanding the ability to pay by credit cards, but the Commission’s best estimate was that fewer than 1,000 taxis had the capability to accept a non-cash payment. This does not include individual operators that used credit card readers on personal smart phones; no official estimates could be determined for those devices.

While re-issuing the Request For Proposal (RFP) was an option, DCTC found that the needs to be served by the TSMS could be provided more efficiently and promptly utilizing newer, alternative means and various sources, as opposed to a single developer, installer and operator of the system. The competitive marketplace and, therefore, the government's needs, changed. The evolving technology brought a multitude of new companies to the District, each of which had the ability to process non-cash payments. In just over a year, the number of these companies increased from one to six with more expected to enter the DC market.

Finally, the amount of time it could take to go through another RFP process would not assure the timely selection of a provider in this rapidly changing environment and would continue to disadvantage passengers. Under these circumstances, DCTC formally requested a cancellation of the TSMS Solicitation in January 2012 and embarked on the regulatory process to implement a different approach to achieving non-cash payment systems in all DC taxis.

In the judgment of the Commission, the elements developed for TSMS were still needed, but the manner to obtain them justified a modification to promptly respond to demand. While initially it had been determined that a single vendor was the appropriate way to implement the transition to a cashless system, the level of competition in the marketplace made it more practical to allow drivers and owners to have a choice.

The proposed Modern Taximeter System (MTS) became the clear, best alternative to address the foregoing considerations. MTS allows non-cash payments; provides driver verification and directional guidance system; implements a safety mechanism for passengers and drivers; offers advertising and PSA announcements; and transfers the data needed to verify passenger surcharge collection and build a database to better inform future public vehicle-for-hire policies. MTS allows service providers to compete by providing choice to taxi drivers and owners, which in turn, provides taxi drivers and owners with a vested interest in rebuilding their businesses. The concern of the industry regarding the costs associated with equipment installation and transaction fees would be mitigated through revenue sharing of the passenger surcharge and advertising. The District government would not be liable financially for the implementation of MTS.

The statutory requirements involve: drafting and publishing proposed rules in the D.C. Register for public comment and public hearings; the evaluation of comments and consideration of modifications; and final adoption of the rules. The Commission initially hoped to complete the process by March, 2013. The complexity of the issues and volume of comments received from the industry, however, pushed back the date to begin implementation of MTS to June 1, 2013, with full implementation required by August 31, 2013. While the public continues to demand a non-cash payment option, DCTC firmly believes it is best to take the necessary time to get the implementation of the system right.

STATUTORY AUTHORITY

The Commission's enabling statute, the District of Columbia Taxicab Commission Establishment Act of 1985 ("Establishment Act"), effective March 25, 1986 (D.C. Law 6-97), empowers the Commission to establish: reasonable rates for taxicab service; methodologies for the determination of reasonable fares for taxicab service; criteria, standards and requirements for taxicab vehicle licensing and the licensing of taxicab owners, operators, taxicab companies, associations, and fleets to include the setting of reasonable license fees; standards for driver and passenger safety; and standards and requirements relating to equipment and equipment design. D.C. Official Code § 50-307 (2012). The Commission Chairperson has been delegated the Mayor's authority to amend or increase taxi fare rates and charges. Mayor's Order 2011-116, dated July 11, 2011. *See also* D.C. Official Code § 50-305(a) and (d).

Additionally, the pending Taxicab Service Improvement Amendment Act of 2012 ("Improvement Act") specifically empowers the Commission to collect a passenger surcharge, defined as "a fee assessed to passengers for each public vehicle for hire ride in an amount not to exceed 50 cents." D.C. Law 19-0184, Sec. 4(16). The Improvement Act also requires that the Commission modernize the taxicab fleet by specifically providing that it require the following:

- (a) a meter system that facilitates non-cash payment of a taxicab fare, including credit cards, debit cards, and other generally acceptable means of purchasing goods and services as defined by the Commission, prints

receipts to passengers automatically, and allows non-cash payment to be made in the rear compartment of the taxicab without handling by the taxicab operator. This system shall contain an authenticated login unique to each individual taxicab operator, and shall electronically collect trip-sheet data through the use of GPS technology. GPS data shall not be collected unless a taxicab operator is currently logged into the meter system. The meter system shall consist of an information monitor for the taxicab operator that is able to send and receive text messages, and shall allow for integration with web, tablet, or cellular phone dispatch applications that can transmit the location of potential passengers to the taxicab operator information monitor. The Commission may elect to certify the technology that can integrate with the meter system. The system shall also include an information monitor for passengers that, at a minimum, shall provide audio-visual content, including advertising, and is capable of being muted or turned off by the passenger for the duration of the ride[.]

PROPOSED ACTION

- The implementation of the passenger surcharge would enable the administration of the local taxi industry to be financially supported on a user fee basis. Thus, District residents who do not use taxis would not have their tax dollars used to oversee the industry; while those residents and out-of-towners who use taxis would bear a portion of the financial burden.
- Obtaining reliable data collection is a critical aspect to assist with determining service demands, routes, fares and fleet allocation. Without MTS, the Commission has been unable to collect real-time data.
- Technology is also rapidly evolving and the advancements have had a tremendous impact on the industry. The number of the digital dispatch service providers that can also process non-cash payments has increased from a limited number of companies to at least six companies in less than a calendar year. Thus, the level of competition has changed the landscape to provide a greater number of choices for non-cash payments.

It is the Commission's responsibility and objective to come to a decision that is fair to all parties - the taxicab industry, consumers and District residents – while considering the

various factors and perceptions that confront the industry such as costs, the urgency to modernize the fleet, safety and security, fulfilling the requirements of the Americans with Disabilities Act (ADA) and the quality of service.

A. Modern Taximeter System

The Commission developed TSMS to fulfill the legislative mandate to implement a non-cash payment system. However, given the contract disruption, it became necessary to design an alternative method to achieve this objective. Thus, the Modern Taximeter System (MTS) was created to replace TSMS. The task faced by DCTC involved ensuring passengers had a safe and reliable system that would not force a greater financial burden upon them while also not shifting the costs for implementation to taxi drivers. The public had come to understand that an improved quality of service would be provided and would include the cost of these improvements as well as others and would not exceed the fifty cent (\$0.50) surcharge. In addition, vehicle owners had been informed that they would not bear the cost for equipment or installation. MTS would have similar features as TSMS to offer passengers: driver verification capability; a directional guidance system; a safety mechanism; and a Passenger Information Monitor. MTS would also meet the standards set forth in the Americans with Disabilities Act.

B. Financial Impact

The average annual cost for MTS is projected to be approximately \$970 per vehicle; of this amount it is estimated that transaction fees will be about approximately \$460. This calculation is based on an expectation of an average transaction fee of 3.5 % with 30% of all fares being non-cash payments. Other cities including New York, Boston and Philadelphia that have cashless payment systems in place have usage in the range of 40% of fares after several years of growth. The MTS costs for equipment, installation, maintenance and fees should be offset by the increased revenue that is expected to be generated. The source of this increased income is produced in several ways: increasing the flag drop rate; implementing the additional passenger charge and sharing advertising revenue.

Our reviews of the Payment Service Providers (PSPs) via MTS indicate that the total cost to a driver/cab will be approximately \$150 to install plus \$35-\$75 per month including credit card

transaction fees, maintenance and wireless data plan. The Commission reviewed rate charges to ensure that the pledge to drivers that they would not have to assume the costs to transition to a cashless system could be kept. The Commission also vowed that passengers would not have to pay any additional cost beyond the expected passenger surcharge. To this end, the Commission plans to eliminate extra charges except the snow emergency fee and the telephone dispatch fee. Thus, in the judgment of the Commission, the income of drivers would increase by 2% to 4% over the costs associated with MTS.

C. Technical Considerations

When the MTS was conceived and as the proposed rules evolved with the public comment period, there were many technical considerations. A few are summarized below:

- An important consideration was safeguarding driver and consumer privacy. To accomplish this, the Commission decided not to track vehicles in real time unless there was an explicit need related to law enforcement. Additionally, the Commission will aggregate only anonymous electronic trip data from payment service providers for research purposes. In fact, the drop off location of passengers is limited to broad geographic areas defined by census tracts. Furthermore, the technology deployed in cabs must meet security guidelines of the Open Web Application Security Project (OWASP), and comply with current standards of Payment Card Industry (PCI).
- The Commission recognized that mobile technologies were not only becoming more sophisticated but also the cost of implementation was declining. Thus, the Commission allows any reasonable combination of fixed or mobile devices, wired or wireless, open or closed architecture, to serve as components of the MTS and at the same time, prohibit the manual entry of fare information into an application.
- Digital reservation and payment systems have crucial roles in the taxi industry. The selection of PSPs does not place any limits on the ability of taxi operators to choose more than one digital reservation service provider. The MTS operates similar to an ecosystem where balance must be maintained for the survival of all its inhabitants; MTS is comprised of digital reservation systems, taximeters, smart phone apps, credit card

systems, payment service providers, mobile data terminals, driver monitors and passenger information display devices. Each component has a specific purpose designed to ensure fairness and open competition, to meet minimum technological standards and to preserve the freedom of choice by taxi operators and companies. Any attempt to undermine this framework will create chaos, resulting in potentially significant financial losses to payment service providers, and make it virtually impossible for the Commission to aggregate data for policy making.

- A misconception about the MTS technology and/or the proposed policy is that smart phone apps or digital reservation companies cannot co-exist with the MTS. However, a precedent has been set in New York City that indicates the technological compatibility and the proposed rulemaking provides a framework for co-existence by requiring digital payments to be integrated with the MTS. Thus, the digital reservation company has the freedom to integrate with one or all PSPs. With the existing application and database technologies available in the marketplace today a digital reservation company can receive fare and trip data from the MTS without the need for additional hardware. The PSP will be provided with the payment method on file to allow the PSP to process the transaction and submit to the Commission an accurate electronic data sheet.
- The Commission received a recommendation to treat digital payments as cash. But this approach would compromise the quality of research data for rate studies, industry service profiles and driver incomes. As an example, a fare of \$10 would net the driver anywhere from \$9.40 to \$9.65 depending on the transaction fee, possible digital reservation fee assessed to the driver, type of credit or debit card used and other variables. So if this \$10 transaction is recorded as cash and a driver made 20 such trips a day, the data would create the incorrect impression that the driver actually made \$200 in cash. Furthermore, as the frequency and types of payment are studied (cash, credit, digital, other); the Commission will be in a better position to enact appropriately targeted policies for innovation and customer convenience.

- Another critical consideration was making MTS accessible to persons with disabilities. Rather than mandate a single approach to providing the appropriate service capabilities, the Commission provided the flexibility for PSPs to work with disability advocates to customize their systems with mechanisms including but not limited to audio prompting, Braille and input control with tactile feedback.

Finally, it should be noted that the aforementioned technical considerations are a start but not the end. As the technology evolves, the Commission will periodically take a close look at current requirements and contemporary ways of achieving regulatory goals.

PUBLIC HEARINGS

Two Public Hearings were held on the proposed MTS rules. The purpose of the Public Hearings was to elicit stakeholder reactions and responses to the proposed rules mandating the acceptance of the cashless payment system. The first hearing on Friday, February 15, 2013, 10:00 am, 441 4th Street, N.W. (Old Council Chambers), generated such feedback regarding the impact on the industry that the Commission decided to significantly modify and re-publish the proposed rules. The first Public Hearing consisted of two phases. The first phase included group presentations from taxicab owners and associations and dispatch service and payment providers. The second phase allowed individual drivers to express their thoughts. Each participant was granted the time they requested to make presentations on the specific subject and engage in questions and answers with the Chairman and Commissioners. A second public hearing on Wednesday, April 17, 2013, 10:00 am, 2000 14th Street, N.W (Reeves Center, Second Floor Community Room) elicited a limited number of public comments.

A. Summary of Owner's Concerns

When the cashless program was initiated in 2012, owners expressed apprehension about having a single vendor provide services and preferred to have the chance to make their own choices. However, they were swayed by the decision of the District government to underwrite the costs associated with installation of the TSMS. But now, when given the opportunity to choose, taxi owners expressed concerns about the cost to obtain the technology. The financial impact to pay

for equipment, installation and monthly fees has the potential to undermine the implementation of the cashless system. In addition, with other upcoming requirements for vehicle modernization – increasing wheelchair accessible vehicles, adopting the uniform color scheme, retirement from service of “older” vehicles – more drivers suggested modifying rulemaking to provide additional revenue to offset their increased operating costs. Specific ideas were offered; among the proposals presented were an automatic gratuity on non-cash payments and/or a technology surcharge. Owners complained of the potential loss of control of their operations due to the reliance on third party vendors to process non-cash payments.

Regulations adopted will mitigate concerns regarding costs and stringent standards have been designed to protect the security of all parties.

B. Summary of Other Stakeholders Concerns

The digital dispatch service providers wanted to discourage the immediate integration of MTS with the taximeter and encouraged drivers to be able to use their personal devices. The digital dispatch providers want to be able to maintain their unregulated status without having to associate with a PSP to process payment and data transfer. There were also written comments received from the National Federation of the Blind proposing that individuals with disabilities should be able to access comparable information from MTS as persons without disabilities. Proposed modifications included adding language to the rule to mandate audio cues and assisted technology such as text-to-speech.

Digital dispatch providers will be able to function in an environment without interference except as it pertains to how data and financial transactions are handled.

C. Summary of Drivers Concerns

The drivers acknowledge passengers’ demands for non-cash payment options while expressing concern about conversion costs, transaction fees, increased competition from digital dispatch providers and illegal cab operators. The primary request from this group was protection from increasing operating costs while offering a seamless transition to MTS.

The projected increase in revenue will address these concerns.

DISCUSSION/JUSTIFICATION

The Commission has a legislative mandate to modernize the District's taxi industry. The changes necessary to achieve this objective must be comprehensive and include vehicles, administration, oversight and services. The customer service feature that passengers most often request is the capability for drivers to accept non-cash payments. Comparable major cities such as New York, Chicago, Philadelphia and Boston allow universal credit card use. With the significant number of taxi passengers in Washington, DC here as well as visitors familiar with using credit card payment in these and other areas, local taxi services appear archaic and obsolete. It is estimated that fewer than one thousand vehicles are equipped to accept non-cash payments.

The Commission is faced with the task of developing a cashless payment system that will protect the privacy of the consumers while ensuring the quality of the service. The system must also adhere to the requirements of the Americans with Disabilities Act and offer security and safety mechanisms. In addition, the installation of a cashless payment system will provide the added value of supplying critically important data to enable the Commission to better determine service levels and marketplace effects. Finally, implementation should include a fair cost for this service convenience.

The creation of a fifty cent (\$0.50) passenger surcharge on all taxi rides in the city was passed by the City Council as a means of shifting the financial support for DCTC operations from District taxpayers to a user fee basis. Thus, funding would be borne by those who use public vehicles for hire and many of the passengers are not residents; so District residents who don't use taxis will no longer be asked to have their tax dollars support DCTC programs and administrative services. However, given the assurances that the transition to a cashless system should not place an additional financial burden on drivers or passengers, the passenger surcharge can be split to

mitigate the impact of costs associated with equipment, installation and monthly fees. The authorization of a one dollar (\$1.00) additional passenger charge will provide more revenue to offset costs without shifting greater financial responsibility to most passengers beyond the passenger surcharge. It is estimated that an average of just 21% of rides have more than one passenger.

The intent of the rulemaking is to provide a service enhancement to customers at minimal cost and at no cost to drivers and owners while allowing the marketplace to determine what vendors will be used. Drivers can choose PSPs that meet DCTC requirements; passengers can choose to pay with cash or use a non-cash payment option; and, taxi owners can choose whether or not to accept advertising in their vehicles.

Analytical Summary

- Based upon the overall analysis, the proposal to divide the \$0.50 passenger surcharge between the Commission and drivers and authorize the \$1.00 additional passenger charge will offset costs associated with transitioning to the MTS.
- Driver revenue is projected to increase from between 2% and 4% above the cost to implement MTS.
- Non-cash payments are projected to involve up to 30% of transactions; if non-cash payment usage increases dramatically, the associated transaction fees would not exceed the additional revenue.
- Data will be obtained that will allow DCTC to make more informed, researched-based decisions re: service routes, times, fares and geography.
- Non-cash payment options will fulfill customer service expectations.

- Digital reservation companies can integrate with multiple PSPs.
- The integrity of data would be compromised if digital payments were treated as cash.
- DCTC has the statutory authority and mandate to implement plans for industry modernization.

The Commission is well aware of the concerns pertaining to the cost of transitioning to MTS; however, the analysis of the market indicates those perceptions are inaccurate. The data provided via MTS will allow DCTC to make more efficient decisions to affect the industry. This evaluation acknowledges the impact of technological advancements to allow for flexibility to adjust in the future as warranted.

FINDINGS

Upon reviewing the petitions and comments of the taxicab industry and stakeholders, the summary of the Commission findings are as follow:

- The DC taxicab operators are concerned about the costs associated with conversion to a non-cash payment system.
- Passengers are increasingly expecting non-cash payment options to be available in public vehicles for hire.
- There is a lack of verifiable research data re: taxi operations in D.C.
- Digital dispatch providers are reluctant to establish relationships with Payment Service Providers in order to service taxi drivers and are likely to become PSPs.
- Redistribution of the \$0.50 passenger surcharge and the \$1.00 additional passenger charge could alleviate the financial concerns of taxi operators.
- Additional passenger charge would apply to an average of 21% of all taxi rides.
- Implementing MTS must take into account the needs of disabled passengers to ensure access to the non-cash payment system.
- Technology is rapidly evolving and DCTC must prepare to deal with the impact on the taxi industry.

- Marketplace competition can provide taxi operators with options that may result in lower costs for equipment, installation and transaction fees.
- Taxi driver income is projected to increase with MTS.

COMMISSION DETERMINATION

The Commission has found the feedback from industry stakeholders to be helpful. The input has provided valuable insight and supplied the Commission with useful guidance. Thus, the Commission moved to approve the following adjustments to MTS which should ensure implementation of a fair and transparent structure to fulfill the objective to allow non-cash payments in DC taxis:

- Increase the flag drop rate by \$0.25 from \$3.00 to \$3.25.
- Authorize the \$1.00 additional passenger fare (\$1.00 for two or more passengers; not \$1.00 per additional passenger); and eliminate all other extra charges except the \$15.00 Snow Emergency Charge and telephone dispatch fee.
- Decrease the Passenger Surcharge from \$0.50 to \$0.25.
- Prohibit passing along transaction fees to passengers.
- Allow the competitive marketplace to dictate the selection of Payment Service Providers.
- Require a single PSP for transaction and data management.
- Allow multiple digital dispatch connections to the PSPs.
- Require all digital payments to be made through digital dispatch service providers associated with a PSP.

MODERN TAXIMETER SYSTEM IMPLEMENTATION

The DC Taxicab Commission brings this proposed rulemaking to a vote to adopt the final rules. If approved, the rules will become effective 15 days after publication and all DC taxis would be outfitted with the Modern Taximeter System by August 31, 2013. The Passenger Information Monitors will have an additional 90 days until December 1, 2013 to be installed. The installation of safety mechanisms will be required to be completed by June 1, 2014.

District of Columbia Taxicab Commission

Ron M. Linton, Chairman

Date: May 8, 2013