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Driving Poor:

Taxi Drivers and the Regulation of the
Taxi Industry in Los Angeles

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Driving Poor:

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Gary Blasi¹ and Jacqueline Leavitt²

I. EXECUTIVE SUMMARY

Six years ago, the City of Los Angeles granted new taxi franchises for the first time in a quarter century. At the time, the *Los Angeles Business Journal* estimated that more than \$3 billion dollars in business was at stake.³ A lobbyist for the taxi industry was quoted as saying, “Millions upon millions of dollars are at take for these companies. And what is decided in the next few weeks will also determine the livelihoods of thousands of taxicab drivers.”⁴ In this report we examine what has happened to the livelihoods of those drivers since 2000, as well as how the structure of the taxicab industry has evolved. What we have found is troubling. We briefly summarize here a few of our most significant findings:

¹ Professor of Law and Associate Director, Institute of Industrial Relations, UCLA. I gratefully acknowledge the extraordinary work of the 12 students in my 2006 Fact Investigation Clinic, whose work served as the foundation for my contributions to this work: Vivian Anaya, Angela Chung, Antionette Dozier, Anita Garcia, Holly Gilbert, Michael Heinrichs, Jennifer Mockerman, Angelica Morales, Roberto Ortiz, Sara Richland, Deborah Splansky and Luke Vanderdrift. Phyllis Chen provided excellent additional research and editing help. We are both grateful to the UCLA Institute of Industrial Relations for material support and encouragement. My personal thanks to the UCLA Law School Dean’s Fund for summer funding to allow completion of this research and the writing of this report.

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³ Howard Fine, *L.A. Aims to Improve Spotty Taxi Service with New Franchise Contracts*, LOS ANGELES BUSINESS JOURNAL, Oct. 2, 2000.

⁴ *Id.* attributing the quote to Howard Sunkin, a lobbyist with Cerrell Associates.

- **Long Hours, Low Wages, High Stress, Poor Health**
 - Taxi drivers work an average 72 hours per week, sometimes putting in 18-20 hours per day driving in Los Angeles traffic
 - Drivers report high rates of significant health problems associated with such long hours behind the wheel. More than half have medically diagnosed back and leg problems.
 - Drivers report exceptionally high levels of job stress, with more than half assessed as experiencing severe or extremely severe levels of stress.
 - In addition to the stress of spending on average six days a week, 12 hours a day in Los Angeles traffic, Los Angeles taxi drivers, nearly all of whom are immigrants, face racism and violence. In the past year alone:
 - 36.5% were subjected to racial slurs or hostile comments about their national origin in the past year
 - 25% were physically attacked or threatened with physical harm
 - The livelihood yielded by these long hours and difficult working is meager: Los Angeles taxi drivers earn a median \$8.39 per hour, far less than the “living wage” adopted by the City in other contexts and less than the current California minimum wage with overtime protections..
 - The long working hours of taxi drivers leave very little time to spend with their children leading to de facto single parent households in many important respects.
 - Low earnings have health consequences both for the drivers and their families
 - No taxi company provides health insurance to drivers; 61% of drivers lack any health insurance coverage at all
 - 61% of taxi drivers are fathers of children living at home. Nearly half of their children lack health insurance from any sources
 - *Of those children with health insurance coverage, 42% must rely on Medical or other health care provided by taxpayers.*

- **The “System” in which Taxi Drivers are Trapped**
 - The City of Los Angeles regulates in great detail many aspects of the taxi industry, with detailed regulations and reporting about:
 - How much taxi drivers can charge.
 - What drivers wear on the job, down to the color of their socks (black).
 - Performance by companies in meeting guidelines for response to customer calls and on-time arrival for pickups

 - The most important regulation by the City – setting the maximum fare – is based on a faulty and outdated “taxi cost index” which does not take account of the dramatic increase in fuel prices – all of which are paid directly by taxi drivers themselves.

- The City of Los Angeles takes a “hands-off” policy when it comes to the relations between the taxi companies to which it has awarded franchises and taxi drivers. All but one of these companies is in the legal form of an “owner/driver co-operative,” a form that took shape amid great hope 30 years ago this year.

- **The Current System of Taxi “Co-Operatives” is Rife with Opportunities for Simple Corruption and Sharp Practices that Disadvantage Drivers**

- In some instances, there have been indications that millions of the hard earned dollars of drivers have been siphoned off by a few insiders or simply gone “missing.”
- In other instances, the systems through which fares earned on the streets are diverted to managers and outsiders are of dizzying complexity even if completely legal.
- In many of the co-operatives, the owner/drivers have no meaningful access to the financial records of their organizations, notwithstanding clear state law to the contrary.
- The lack of transparency in the business operations of at least some co-operatives creates many opportunities for self-dealing, kickbacks, and misuse of co-operative funds.
- The harms from these problems also affect lease drivers, because they inflate the costs lease drivers must pay.

- **The City Has Complete Authority Over Taxicabs Operating in the City but Does a Poor Job of Protecting Franchised Taxicab Companies from Illegal Competition, and a Poor Job of Protecting Taxi Workers from Exploitation by their Companies**

- The lack of effective enforcement against “bandit cabs” means franchised companies and legal drivers face intense competition from illegal “bandit” cabs and limousines operating illegally.
 - In many areas of the City, one need only stand on any street corner to watch “bandit” cabs flagrantly plying their trade – a misdemeanor.
 - The Los Angeles Department of Transportation (LADOT) has only 6 inspectors covering the 466 square miles of the City, and these inspectors lack authority to make traffic stops of “bandits.”
 - Limousines ostensibly regulated by the California Public Utilities Commission routinely violate the restriction that they only pick up passengers by prior arrangement. Limousine drivers, unlike taxi drivers, can legally pay hotel doormen bribes to arrange fares

- The Department of Transportation and LAPD will soon increase the level of anti-bandit enforcement by adding 120 8-hour shifts of patrol cars, but it remains to be seen whether this increase in resources will be effective.
- **The City takes a “hands-off” attitude toward allegations of fraud, corruption, or sharp practices within the taxi companies, while enforcing minutely detailed regulations on drivers**
 - Far from being seen as protecting their rights as workers, taxi drivers’ most common complaints are of mistreatment by LADOT, LAPD, and officials at the LAX taxi holding lot.
 - While claiming that taxi drivers are independent contractors, the City regulates in minute detail aspects of the working lives of taxi drivers like their clothing, while ignoring 18 hour workdays that endanger the health of drivers and the safety of the public.
 - The City has responded promptly to highly publicized allegations of taximeter rigging, but has not responded in the past to similar allegations made by companies and drivers, or taken advantage of the City’s ready and routine access to every taximeter in the City at the LAX holding lot.

This report examines the circumstances of taxi drivers in the City of Los Angeles and how the policies and practices of the City bear on those circumstances. Our initial research revealed that little was known about Los Angeles taxi drivers: who they are, how much they make, how many hours they work, their family status, health, stress levels, access to health insurance, and so on. Our research also found little existing research about the taxi industry in Los Angeles and how it came to be dominated by “co-operatives” of owner/drivers, sometimes controlled by a relatively small number of people. We thus designed a research project to begin to fill these gaps in our collective knowledge. We examined the issues from both a “top down” (company and regulator) as well as a “bottom up” (individual driver) perspective. We sought to understand how the circumstances of drivers are affected by the structure of the industry and City policy and regulation. This Executive Summary provides a quick snapshot of our study and some of our additional findings.

The Bottom Up: Taxi Drivers in Los Angeles

With funding from the UCLA Institute of Industrial Relations, we designed and conducted a sample survey of 302 taxi drivers. These survey interviews were conducted both at taxi stands all over the City and at the taxi holding lot at the Los Angeles International Airport (LAX). From these 302 drivers we selected 21 drivers for in-depth interviews. We also conducted structured interviews with approximately 20 taxi company officials, taxi co-operative presidents, City regulators and industry experts.

In addition to the data reported above our survey revealed that the median taxi driver is 47 years old and an immigrant. Drivers hail from 47 different countries, some of which are no longer on the map; 38% of the drivers are from the Middle East region and Pakistan, 18% from countries of the former Soviet Union region; 18% from Africa, and 12% from Latin America. The median rent or mortgage payment for our sample was \$950 per month. Twenty percent (20%) of drivers report needing to use rooms other than bedrooms for sleeping purposes

We surveyed 157 lease drivers. These drivers lease from the company (43%), another driver who owns more than one cab (33%), or from others, such as owner investors who do not drive (24%). Their median lease payment is \$500 per week.

Our survey sample included 127 owner/operators. Unlike lease drivers, owner/operators are responsible for all expenses, including their share of the expenses of the taxi "co-operative." Most of our sample is still making payments on their cab, most to the taxi company itself. In addition, they must pay fees to the company to cover the operations of the company and for liability insurance that the City requires. The median amount paid to the company is \$1299 per month.

Our in-depth interviews with 21 drivers went beyond statistics to the meaning of such numbers. What we found is simple: Los Angeles taxi drivers and their families are not only among the City's "working poor," they are experiencing exceptional stress, with significant health and other consequences for drivers and their families. Because families of taxi drivers are de facto single parents, their households are one heart attack away from being destitute. The ripple effect on households encompasses the lack of free time that drivers can spend with children and mates to eating and sleeping schedules being out of sync with others in the household to increased stress on mothers from fathers "missing" in work.

Taxi drivers endure long hours being afraid for their safety, a concern shared with family and household members; single drivers' lives are even more isolated from friends and companions.

The Top Down: Taxi Companies and Co-operatives

Beyond looking at the circumstances of drivers, we investigated the structure of the taxi industry and the City's regulatory system. For many years the Yellow Cab Company held a monopoly of the taxicab business in Los Angeles, with employee-drivers represented by the Teamsters Union. In 1976, the Yellow Cab monopoly fell apart amid a national scandal involving C. Arnholt Smith and allegations of banking and insurance fraud and involvement by the Mafia. Smith's interests in Yellow Cab were later acquired by Eugene Maday, another figure with connections to organized crime in Las Vegas. Many with whom we spoke expressed beliefs that organized crime still maintains interests in the taxi business in Los Angeles. We found nothing to sustain those allegations, though we did not of course conduct the kind of investigation that would be required.

What is clear is that between 1976 and 1984, the taxi business in Los Angeles was transformed. In 1976-77, amid the collapse of Yellow Cab, two new nonprofit co-operatives of taxi drivers were born: the United Independent Taxi Drivers (UITD) and the Independent Taxi Drivers Association (ITOA). The combination of progressive (the co-operative) and conservative (individual ownership) ideas was politically powerful. As originally conceived, these co-operatives would be made up of individual owner/operators: in other words, taxi drivers who own their own cabs. It was not long, however, before the idea of “investor shares” in co-operatives was approved by the City. In 1998, the historic Yellow Cab Company franchise was acquired by Mitchell Rouse, also the founder of SuperShuttle. Rouse transformed Yellow Cab (and his other taxi companies) into a co-operative of sorts, in a complex transaction that also established an umbrella “co-operative of co-operatives” – the Administrative Services Co-operative (ASC) that would, in turn, buy services from private companies owned by Mitchell Rouse. Eventually, every taxicab company save one followed suit. At present City Cab is the only one of nine companies *not* organized as a co-operative.

The original ideal of the co-operative of independent taxi drivers appears to have been preserved to varying degrees in the various companies. One thing is clear: in the current system, there are many opportunities for those who come to control co-operatives to do very well at the expense of the driver-members whose labor is the economic foundation of each company. We did not conduct any sort of forensic audit or, of course, any criminal investigation of any co-operative. We did learn enough to suggest the need for much greater oversight and transparency. For example, in multiple instances taxi drivers who rose to power within co-operatives came to own real estate valued in the millions. As noted, we cannot say that this success was the result of anything other than hard work or good luck. We can say that it is very difficult for the driver-members of many coops to learn anything meaningful about the financial affairs of their co-operatives. This is true despite the fact that, at least in theory, members of co-operatives have a statutory right to examine the books and records of their co-operatives. On occasion, members have tried to enforce that right and have even obtained court orders. They have not, however, obtained the books and records, amid claims of their destruction.

The opportunities for corruption, as opposed to the instances in which those opportunities are seized, are not difficult to spot. Those who come to control co-operatives control the business affairs of the enterprise. It is they who decide not only which lobbyists are hired and which political campaign contributions are made, but also who gets the business of the co-operative in particularly lucrative areas such as liability insurance. Opportunities for kickbacks and side arrangements are everywhere. Because we did not conduct any sort of forensic audit or investigation of the sort the City itself might do, we cannot say how prevalent such corruption is. We can say that many member-drivers of co-operatives believe they are being defrauded of the fruits of their long hours on the road.

The lack of financial transparency extends beyond the smaller co-operatives with poor record-keeping in which outside accounting firms have found serious irregularities. In what most people we spoke with agreed are the most professionally managed co-operatives – those associated with the Rouse family and doing business under the Administrative Services Co-operative (ASC) umbrella -- each of the members of the individual co-operatives (e.g., Yellow Cab) has a right to examine the records of their coop (e.g., Yellow Cab). But all they can see are that funds have been taken in and then paid to ASC. They are not afforded the right to examine the financial affairs of ASC or the transactions between ASC and the companies with which it deals, many of which are ordinary corporations controlled by the Rouse family. In fairness, these arrangements (through which the Rouse-affiliated co-operatives pay Rouse-owned companies) are disclosed to members when they purchase a share of the Yellow Cab co-operative (in a 138-page legal document). The lack of ongoing disclosures beyond brief summaries of expenses reimbursed to ASC however, breeds continuing suspicion among many owner/drivers with whom we spoke that they are being subjected to unreasonable costs. In the next subsection, we address how the City addresses, if at all, these concerns, among others.

The Top Down: The City Regulatory System

The City of Los Angeles has complete authority over the taxi business within the city, which it regulates as a “public utility.” Taxicabs must operate under a specific franchise, described in an ordinance adopted by the City Council and approved by the Mayor. Not surprisingly, perhaps, taxicab companies are among the more significant political campaign donors in the City. This is not really news. As the *Los Angeles Times* reported in 2000 (the year taxi franchises were last awarded), taxicab companies paid lobbyists over a quarter million dollars and made \$40,000 in campaign contributions to City politicians. Our own independent examination of campaign contribution records identified nearly \$200,000 in campaign contributions from taxi company officials, including \$23,450 in contributions from Scott Schaffer, the former co-owner of City Cab who is now awaiting federal sentencing on unrelated charges.

Most of the regulation of the daily lives of taxi drivers comes not from elected officials, but from three other sources: (a) the City’s appointed Taxicab Commission and a section of the Los Angeles Department of Transportation headed by a Taxicab Administrator; (b) the enterprise collectively operated by the companies at Los International Airport (LAX), known as Authorized Taxicab Supervision (ATS); and (c) the Los Angeles Police Department (LAPD). One of the most striking findings of our survey was the degree to which Los Angeles taxi drivers perceive these regulators as being unfair. Among the top problems identified as “very serious problem” were unfair treatment by LADOT (63.2%), ATS (52.9%), and LAPD (50.7%) . These perceptions are supported by some of the things we found, particularly with regard to oversight by the City’s own bureaucracy:

- The City regulates the lives of drivers in minute detail, specifying what they can charge and even what they can wear. Not only must drivers be “neat and

clean,” they must also conform to the City’s very specific dress code: white shirt, black tie, black shoes, black socks. Violations of the minutest sort – white dots on a black tie – can lead to significant economic penalties. Notably, of all the citations of drivers in which fines were imposed between January and August, 2006, 46% were for “dress code” violations.

- At the same time, the City has said it did not have the resources for effective effort to enforce laws against “bandit” cabs and “town cars” operating illegally.
- The City requires drivers to maintain and submit on a routine basis records regarding every fare, yet accepts only very general “business plans” and financial statements from taxicab companies.
- In particular, LADOT has a “hands off” policy when it comes to allegations of serious fraud and corruption within taxi companies – except when it comes to allegations of meter rigging by individual taxi drivers.
- Both companies and drivers allege that LADOT has long known about potential problems with taximeter rigging, but took no action until the problem found its way onto the evening news in Spring 2006.
- The City has failed to respond in a timely or fair way to the dramatic increase in fuel prices, 100% of which are paid by drivers. Although the Taxicab Commission recently approved a rate adjustment, this comes long after fuel prices began to skyrocket.
- Moreover, the “Taxicab Price Index” utilized by LADOT to recommend fare adjustments is seriously flawed in attributing only 13% of the costs of operations to fuel, far less than the empirical data would warrant.

Finally, although taxi company officials and drivers may disagree about many things, they agree that the City has thus far done a very poor job delivering on its end of the franchise “bargain”: to protect them from illegal competitors not subject to the same rules. The illegal competition comes in two primary forms. The first are the “bandit cabs” that ply their trade on the streets of Los Angeles without a City license and without having necessarily complied with regulations regarding insurance to cover passengers or to restrict taxi driving by unlicensed and dangerous drivers. City officials agree on the severity of the problem, concurring with industry representatives that there are at least as many “bandit” cabs on the streets as legal cabs. The second form of illegal competition is increasingly severe, in the estimation of all with whom we spoke: these are “town cars” or limousines regulated (loosely) only by the State Public Utilities Commission. Under state law, these vehicles are permitted to pick up passengers only by advance arrangement. In fact, however, they often appear at hotels and other venues and there compete directly with taxicabs. To this original illegality is added the additional problem that “town cars” and limousine drivers often pay hotel doormen or other gatekeepers for fares, long after the City prohibited taxicab companies and drivers from paying for access to fares. Whether the illegal competition takes the shape of a shabby bandit cab painted to deceive customers and driven by an unlicensed driver, or a gleaming black limousine with a spiffy chauffeur, the consequence to taxi drivers is the same: money taken out of their pockets and not available to care for their families.

Note: Taxicabs as Transportation

We found little evidence that the City regards taxicabs as a significant part of the transportation system in Los Angeles. Taxis are essentially ignored in the City's primary transportation planning document, the Transportation Element of the General Plan. One company official opined that the City does not see taxicabs as a transportation resource, but rather as a "nuisance to be regulated." That is not entirely correct. LADOT does compile and produce reports on how well taxi companies are serving the public: how long it takes them to answer the phone and how timely they are in arriving at the agreed time. The City and LADOT in particular *are* plainly concerned with service delivery to the public. While service delivery was not the focus of our study, we were persuaded by many with whom we spoke – drivers, company officials, and city regulators -- that Los Angeles should begin to see taxicabs as meeting real transportation needs. This vision would extend beyond the assessment of service to current users and extend particularly to the increasingly dense parts of the City that can clearly support a "hail cab" system – now effectively illegal in Los Angeles. Toward that end, we hope this study is not the last to explore not only the lives of LA taxi drivers but also the services they provide to the public.

II. INTRODUCTION AND BRIEF SUMMARY OF METHODS

Little is known by either the public or scholars about taxi drivers in Los Angeles or about the industry of which they are a part. A literature review reveals that few scholarly studies include opinions about the industry from the drivers' perspective.⁵ Various blogs offer insights that reflect taxi-related experiences around the world.⁶ Much of the academic literature focuses on organizational structure of the transportation

⁵ BIJU MATHEW, TAXI: CABS AND CAPITALISM IN NEW YORK CITY (2005); IMMANUEL NESS, IMMIGRANTS, UNIONS, AND THE NEW U.S. LABOR MARKET (2005); Elizabeth A. Hoffman. *Driving Street Justice: The Taxicab Driver as the Last American Cowboy*, 31 LABOR STUDIES JOURNAL 2, 1-18 (2006); RAYMOND RUSSELL, SHARING OWNERSHIP IN THE WORKPLACE (1985); *Unfare: Taxi Drivers and the Cost of Moving the City*, Bureau of Labor Statistics, US Department of Labor, Occupational Outlook Handbook, 2006-07 Edition, Taxi Drivers and Chauffeurs, <http://www.bls.gov/oco/ocos245.htm> (last visited Feb. 27, 2006); Monique L. Dixon, *Alexandria Taxi Drivers Win Struggle for Economic Justice*, 3 COMMUNITY JUSTICE RESOURCE CENTER QUARTERLY NEWSLETTER 3, (2005); CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE COMPTROLLER, HEALTH BENEFITS FOR SAN FRANCISCO TAXI DRIVERS: HEALTH PLAN ALTERNATIVES, FUNDING, AND IMPLEMENTATION (2003); DEBRA LAM, KAREN LEUNG, JOHN LYMAN, STARR TERRELL, & RICK WILSON, THE SAN FRANCISCO TAXICAB INDUSTRY: AN EQUITY ANALYSIS (2006); RHONDA EVANS, JABRIL BENSEDRINE, KEN JACOBS, & CAROL ZABIN, ESTABLISHING A SAN FRANCISCO TAXI DRIVER HEALTH CARE COVERAGE PROGRAM: ADMINISTRATION, COST, AND FUNDING OPTIONS (2006); BRUCE SCHALLER, THE CHANGING FACE OF TAXI AND LIMOUSINE DRIVERS: U.S., LARGE STATES AND METRO AREAS AND NEW YORK CITY (2004).

⁶ Hundreds of blogs exist about taxis and all the ramifications from experiences regarding drivers, passengers, campaigns for more accessible taxis, art projects, etc.

industry, regulation, and supply-demand.⁷ Studies concentrate on measuring performance indicators such as promptness of response to calls and safety. No updated history exists of the development of the taxi industry in Los Angeles, the roots of which go back to the 1920s. This report seeks to fill some of these gaps.

Research was conducted between January and August 2006. As is customary in most contemporary social science, we used a mix of methods. Between January and June, we conducted standardized surveys in the field with 302 taxi drivers operating taxicabs authorized to operate in the City of Los Angeles.⁸ We conducted in-depth structured interviews with 21 of these drivers between May and August. We also interviewed nine current or former taxi company presidents or managers, five city officials, and numerous other key informants familiar with particular aspects or history of the city's taxi industry. We supplemented our primary research with reviews of academic and other literature on the taxi industry and on work and family life. Undergraduate students in Leavitt's class on "Community Development from the Ground Up" and follow-up seminar researched the taxi industry in other municipalities. In addition, we reviewed tens of thousands of pages of documents, including many obtained through the California Public Records Act and many more obtained by Blasi's "Fact Investigation Clinic" law students through various sources. Needless to say, we encountered occasional difficulties in our research. We touch on some of these issues below. Nevertheless, we believe we have conducted the most thorough study to date of the taxi industry in Los Angeles.

A. The Survey of Taxi Drivers

We were fortunate to be able to obtain information through our survey instrument from 302 taxi drivers and to do so in a way that made the sample we obtained fairly representative of those who drive the 2303 licensed taxicabs in the City of Los Angeles.⁹ This is a significant sample, equal to 13.1%, or nearly one in seven of all franchised taxis in Los Angeles. Early on, however, we noted that in conducting surveys at hotels and

⁷ PETER GORDON, TRANSPORTATION ALTERNATIVES FOR SOUTHERN CALIFORNIA (Peter Gordon & Ross D. Eckert, eds., Online ed. 1998) (1976), available at <http://www-rcf.usc.edu/~pgordon/transit.html> (last visited March 11, 2006); JOHN E. KRAMER & WILLIAM H. MELLOR, OPENING PORTLAND'S TAXI MARKET (1996) available at www.cascadepolicy.org/bgc/kkramer.htm (last visited March 12, 2006); Adrian T. Moore & Ted Balaker, *Do Economists Reach a Conclusion on Taxi Deregulation?*, 1 ECONOMIC JOURNAL WATCH 1, 109-132 (2006); Robert Cervero, *Fostering Commercial Transit: Alternatives in Greater Los Angeles*, REASON FOUNDATION POLICY STUDY 146 (Sept. 1992); SPUR (SAN FRANCISCO PLANNING AND URBAN RESEARCH ASSOCIATION), MAKING TAXI SERVICE WORK IN SAN FRANCISCO (Nov. 2001), available at www.spur.org/documents/011001_report_01.shtm (last visited March 24, 2006); BRUCE SCHALLER, 2003 NYC TAXICAB FACT BOOK (2003); James Cooper & Tri Taxi Studies Group, Taxi market regulation, industry, employment and the identification of data toward informed policy decisions (paper presented to Scotecon, March 2004).

⁸ We also interviewed a handful of drivers from companies not franchised to do business in Los Angeles. These cases were excluded from analysis.

⁹ Taxi driving is a predominantly male occupation. Although Bruce Schaller [see note 1] identifies an increase in female drivers, and we are aware of female drivers in LA, no women were identified through the random sampling. In all our work, we encountered one female driver and were informed that there may be as few as four women drivers in the entire taxi fleet in the City of Los Angeles.

taxi stands that we were getting “clusters” of drivers, by company, by ethnicity, and so on that would tend to make our sample non-random. This turns out to be a fact of life about taxi drivers in Los Angeles. At least when waiting for fares, many drivers prefer to wait with others with whom they have things in common. We were therefore grateful to eventually receive permission to interview at the taxi holding lot at LAX. Since taxi drivers make at least twice as much on the one day in five that they are permitted to pick up fares at LAX, this is an ideal site for obtaining a near random sample. We were pleased with the results.

Table 2, below, compares the proportion of our sample, by company, to the known number of cabs licensed to each company by the City. Since these numbers were sufficiently close to the known number for this variable (company) and since we have no way of knowing the other characteristics of the full population from which we might just as reasonably weight the sample, we report here the unweighted data.

Table 2
Taxicabs by Company
(Total Licensed and Number in Sample)

Company	Number Licensed ¹⁰	Number In Sample	Licensed Percent	Sample Percent
South Bay Coop (dba United Checker)	70	4	3.0%	1.7%
Bell Cab Company	261	25	11.3%	8.6%
LA Checker Cab	269	35	11.7%	12.0%
Independent (ITOA)	246	52	10.7%	17.9%
United Independent (UITD)	289	41	12.5%	14.1%
LATC (dba Yellow Cab)	739	86	32.1%	29.6%
City Cab	166	14	7.2%	4.8%
Beverly Hills Coop	163	23	7.1%	7.9%
UITD (dba United Taxi of San Fernando)	100	10	4.3%	3.4%
Total, All Companies	2303	291 ¹¹	100%	100%

Of course, other potential issues arise with any survey. Most obviously, a possibility exists that the respondents are purposely not telling the truth. One way of controlling for this possibility is to have a large enough sample size to minimize the effects of a few conscious prevaricators. We made several additional efforts to control for this possibility. First, as we explained to all potential respondents (and as we were required to do by human subjects principles), all the surveys were conducted in complete confidence and with complete anonymity.¹² There was no possibility that we might, for example, convey information received to the Internal Revenue Service (IRS). These protections were carefully explained verbally and written information was distributed to

¹⁰ Data on franchised taxis are taken directly from the currently in-effect franchise ordinances, Los Angeles City Ordinances 173649 to 173656.

¹¹ In some cases the taxi company was not recorded.

¹² In the report, drivers interviewed are given aliases that best reflect countries of origin.

each driver. In addition, however, we controlled by indirect means by asking for information that might be used to cross check one answer against another. For example, we asked not only about income but also about the amount of rent paid and family circumstances. It is difficult to lie consistently about a great many related things at the same time. And we did not find significant instances in which there were serious inconsistencies in our reporting, we generally report medians rather than means, to minimize the effect of outliers.

Much more likely than consciously false answers is simple misunderstanding or lack of knowledge on the part of either the respondent or the interviewer. Particularly in conducting surveys with immigrants from a multitude of cultures for whom English is a second language, doubts nearly always arise about whether a question is understood in the same way by the researcher and by the respondent. We identified these problems and attempted to correct for them as best we could. Where we made judgment calls, we made them against the hypotheses with which we had begun. For example, based on early reading and attending gatherings of taxi drivers, we hypothesized that taxi drivers are poorly paid. Thus when we got ambiguous responses to a question about “total income,” we interpreted those answers as representing net income rather than gross income, an interpretation that would tend to raise their claimed income (compared to our hypothesis). To find the outer limits of this assumption, we also ran the numbers on the assumption that *every* response to a question about “total income” referred to net income. We report the results of these different interpretations in the analysis that follows.

In addition to misunderstandings and linguistic conventions, no doubt some errors reflect an understandable lack of knowledge. For example, driver/owners may not know how much of the fees they pay to the company go to pay the City’s franchise fee. Moreover, how many of us could provide a detailed account of our household budget, providing monthly averages for things that may only occur once or twice a year. In some of our questions, we asked taxi driver/owners to provide such information. A few drivers, but certainly not the vast majority, were able to pull out financial papers on the spot. In general, across all the respondents, we got consistent answers, but in particular cases, it was clear to us that drivers must simply be wrong in their estimate of how much, for example, they pay on average for traffic tickets or car maintenance (which may include occasional large expenditures). As before, where judgment calls were necessary, we made them against our hypotheses (of low income). Our numbers may to some extent *overstate* the income of driver/owners because we have underestimated their costs. Where other methodological issues arise, we address them in the text below.

B. In-Depth Interviews with Drivers

In addition to surveys of 302 drivers, we conducted in-depth, structured interviews with 21 drivers. During the later stages of our survey, respondents were asked if they would be willing to participate in a longer and more open-ended interview. We selected 21 from approximately 35 who indicated a willingness to be interviewed. Selection was based on our desire to interview a range of drivers with different experiences and perspectives. These 21 subjects were interviewed by trained graduate

students. All information from which it would be possible to identify these individuals, if any such existed, was destroyed, pursuant to the human subjects protection rules of the University.

The interview protocol was divided into five major categories – taxi driving, family, health, budgets, and housing. The protocol probed the following specific areas as well as issues drivers raised during the interview: the taxi driver's background and reasons for entry into driving; thoughts about driving as a job; family and household background including ways in which taxi driving has an impact on family and friends; the resources that drivers use to treat various health problems absent health insurance; income budgets and the survival mechanisms that drivers and their households use when wages are insufficient to meet expenses; specific and general questions about their housing and the housing crisis in general; and an overall category that refers to concerns about the institutions involved in regulating the taxi industry.

C. Interviews with Company Representatives and Others

We also conducted structured interviews with a range of taxi company officials, including company presidents and operations managers, as well as with the key officials in the Taxi Division of the Los Angeles Department of Transportation (LADOT), the President of the Taxi Commission, and other officials. These interviews touched on many issues, including many brought up by our interviewees: the concerns facing the industry, including the competitive and regulatory environment; the relationships between owner/operators, lease drivers and companies; and the feasibility of various policy reforms that might improve either service to the public or the lives of taxi drivers. We also interviewed a number of experts or persons with special knowledge of such topics as the early history of the co-operative organization of taxi companies in Los Angeles, or the contours of various proposals to reform the regulatory process in Los Angeles.

D. Interviews with Interested Parties and Key Informants

We are grateful for the cooperation we received from all concerned. We realized early on that many of the topics of our study are also the subjects of intense debate among those whose lives and livelihood are at stake. We encountered a good deal of distrust and suspicion among our respondents regarding the intentions and veracity of others. This complicated our task, but in retrospect was inevitable. In addition to differences that are motivated by personal interest, there is also the universal problem made memorable in the film *Rashomon*: what we see depends on where we stand, both literally and figuratively. Our methodological response was to interview as wide a range as possible of knowledgeable people: managers and company officials as well as drivers; lease drivers as well as owner/operators; co-operative leaders as well as ordinary members; advocates and organizers as well as company and City officials. We have tried to be fair to the views of all with whom we spoke. Of course, as between conflicting accounts we have necessarily been compelled to make judgments. Where possible, we have bolstered our judgments from multiple sources and from documents. Of course, we

retain responsibility for any errors in interpretation or our judgments as between competing factual claims.

III. THE TAXI BUSINESS FROM THE BOTTOM UP: THE LIVES OF TAXI DRIVERS AND THEIR FAMILIES

A. Overview

What we learned about the lives of Los Angeles taxi drivers was troubling. Virtually everything about this industry -- from the number of cabs, the prices they can charge, to the clothing drivers must wear -- is fixed and regulated by the City of Los Angeles. Nevertheless, working an average of 72 hours a week, these men support themselves and families on far less than the City's own "living wage." Indeed, considering their long hours on the road, these workers earn less than they would at the California minimum wage with overtime protection. The hours they work have negative consequences for these workers, their families, and the public.

Any commuter can begin -- but only begin -- to imagine the effect of spending 12-14 hours per day, nearly 5000 miles each month, on our crowded streets and highways. About half of all drivers report medically diagnosed back and leg problems. Many report experiencing "taxi worker limp," caused by the relative atrophy of the left leg, while the right leg operates the brake and accelerator for 12 hours a day. Similarly, about half of LA taxi drivers report severe and extremely severe levels of job stress.

In this section we report what we learned from our 302 surveys and 21 in depth interviews. We provide both statistical data and the experience of drivers, expressed in their own voices.

B. A Demographic Profile of Los Angeles Taxi Drivers: Middle-Aged Immigrant Fathers

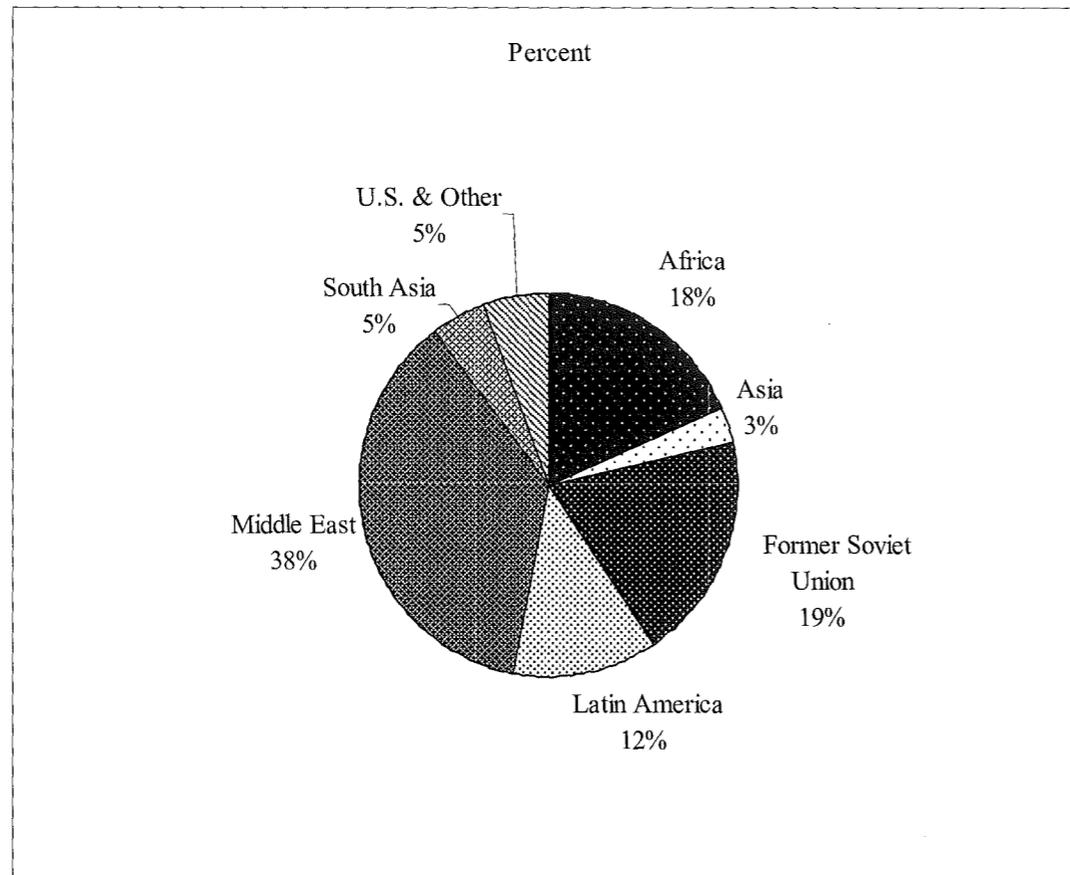
The median taxi driver in Los Angeles is 47 years old and an immigrant. Most support families. Sixty-one percent (61%) have children living at home. The overwhelming majority of taxi drivers are immigrants. Only 13 of the drivers in our sample were born in the United States. Because of the difficulties that undocumented persons face in securing the necessary licenses and permits, there is little reason to doubt that the great majority are naturalized citizens or legal immigrants.

Taxi drivers in Los Angeles reflect the enormous diversity of Los Angeles. We spoke with drivers who had been born in no fewer than 47 different countries, including

many no longer on the map. Figure 2 below shows the regions¹³ of the world in which the drivers in our sample were born. The most common countries of birth were, in order, Russia and the countries of the former Soviet Union, Armenia, Ethiopia, and Iran.

Figure 2

Regions of Birth of L.A. Taxi Drivers



C. Becoming (and Staying) a Taxi Driver

One conventional view from many inside and outside the industry is that driving a taxicab is a transitional job, available to immigrants while they seek other employment. This view is contradicted by our data. What is true is that many drivers began hoping that the conventional view was true. As our respondent Ivan generalized, “Every cab driver thinks this is a temporary job.” Many drivers recall a time when they felt more hopeful

¹³ We note in passing that the assignment of countries to regions is controversial. We utilized what seemed to be the most common conventions.

about their life chances and that taxi driving was a means to something else, not a permanent condition.¹⁴

Our survey countered the common assumption that driving a taxi is invariably a short term, transitional occupation for recent immigrants. Some drivers distinguished between the experiences of previous waves of immigrants. While a very large proportion of taxi drivers in Los Angeles are foreign born, most are neither recent immigrants nor new to the taxi industry. Time in the industry ranged from a few months to 42 years. As is the convention in reporting descriptive statistics of populations, we primarily report medians in order to reduce the effect of “outliers” (very atypical cases). The median Los Angeles taxi driver has been driving for 9.5 years. Those with ownership interests in their cab and company (owner/operators) have been driving for 12 years. Those who lease their cabs, typically by the week, have been driving for a median of 8 years. Only 23% of drivers have been driving for three years or less (n=292).

Our in-depth interviews and interviews with taxi company officials reveal much more about how taxi drivers enter the industry. Access is relatively easy. For example, the Bell Cab Company lists the typical qualifications for people who want to “earn big money.”¹⁵

Our taxicab drivers are independent contractors, all the drivers are licensed by the City of Los Angeles Department of Transportation and must undergo a criminal record check performed by the Department.

- Be a United States Citizen or legal resident or have work permit
- Be at least 21 years old
- Have valid California Class A, B, or C driver's license for at least one year
- No misdemeanor convictions & felony convictions within the past (3) years
- No Hit and Run resulting in injury or death
- No reckless driving causing injury & within last (3) years
- No DUI causing injury to others & within the last (3) years
- No more than (3) moving violations within the last (3) years with a maximum of (2) violations within the last year or more than (2) chargeable vehicle accidents within the last (3) years.
- Must enroll and pass a drug/alcohol test and participate in random drug test program
- Be willing to submit to medical exam if required by Bell Cab insurance carrier
- Have no physical or mental conditions that would prevent the driver from boarding, securing, & transporting passengers safely
- Be able to write and speak English
- Be familiar with Los Angeles County

A good many taxi drivers are, by reason of their education and training in their home countries, seemingly overqualified to be taxi drivers. We asked drivers about their prior occupations. Nearly half (49%) had been in skilled trades or in business or professional occupations.

¹⁴ In *Collateral*, a film starring Tom Cruise and Jaime Foxx, Foxx plays a taxi driver in Los Angeles whose dream is to own a limousine company. Cruise, the passenger, in town on assignment as a hit man, commandeers the cab and reproves Foxx for accepting the dispatcher's disdain and the ways in which the industry treats its working people. Cruise goads Foxx into admitting that he has been driving for 11 years, effectively discrediting that taxi work is a “temporary” means to a different goal.

¹⁵ “Earn Big Money ---- We Will Train . . .,” available at <http://www.bellcab.com/driver.htm> (last visited 12/2006).

Donald, a lease driver for seven years, confirms that, "It wasn't difficult to get into this work, since all I needed was a license." Assad expands on this:

I filled out an application form, they sent me to drug test. I got some training and practice exercise questions. Then I went to DOT [Department of Transportation], passed the exam, and got license. Company gave lease number.

Immigrants find ease and quickness of entry into the industry especially attractive. For example, one driver says immigrants "have a very limited view of the jobs you can take." Competition for jobs is severe and taxi companies beckon. Omar, driving for nine years, started because he immigrated to the United States with a wife and kids to support; his objective was to make money. Taxi driving compared favorably to other jobs that offered only minimum wage and were inadequate to support a family. Further, he "didn't want to get on welfare or get that kind of help." Although writing and speaking English is a requirement, driving a taxi is also appealing for those who may be less fluent in the dominant language and speak other languages. Taxi companies advertise for jobs in ethnic newspapers, reaching people who are able to speak the language in geographic areas where the fleet operates. For example, one respondent read about a job in a Korean language newspaper.

None of this is to say that driving a taxicab is without its apparent attractions. Leo, an owner/operator who was once a lease driver, describes taxi driving as a way to "swim between the reefs," explaining that you are your own boss and don't answer to a chain of supervisors. Some drivers move in and out of the taxi business. Alex, for example, also an owner/operator, quit three times and came back because "I like the freedom, I can make my own schedule, work whenever I want, stop whenever I want." Sherif, now driving for nine years, got burned out after two to three years and also quit three times, returning when he wasn't making good money in the towing business. Some drivers quit in order to start their own business but among those we interviewed, none had succeeded. One driver quit in order to get a much needed vacation, finding that was the only way that he could get time off.

While drivers may find it appealing that they can set their own hours and have flexibility, skepticism exists. Ivan, a lease driver for three years, reports,

It's not that being a cab driver you can pick your hours, because whatever hours are available you have to take that shift. . . . I take hours that are not convenient for me to go study.

Indeed, many drivers who take jobs because they harbor hopes of going to college report that they had to drop out of school because it was too difficult to accommodate both schedules. Getting married and having children further diminishes the chances of drivers being able to spend the long hours driving a cab, meeting family responsibilities, and going to college or otherwise preparing themselves for another job with better pay and

fewer hours. Of the 21 drivers that we interviewed only one was in school and driving a taxi. Many drivers reported, accordingly, that they felt trapped in their current work.

D. Hours of Work and the Hidden Costs to Families and the Public

Among the most striking findings of our research is the very long hours worked by taxi drivers, summarized in Table 3 below.

**Table 3
Median Hours and Days Worked Driving Taxi (n=284)**

Hours Per Day (non-“airport day”)	12
Hours Per Day (“airport day”)	14
Days Per Week	6
Total Hours Per Month	312

The median taxi driver in Los Angeles works 312 hours per month, 72 hours per week, typically working more than 12 hours per day, 6 days per week. One fourth of drivers report working 370 or more hours per month, or 85 hours per week. One quarter of drivers report having either zero or one day off in the past 30 days. Because access to LAX is restricted to once each 5 days (referred to by drivers as “airport day”), and because drivers typically make much more money on the longer fares picked up at LAX, drivers tend to work even longer hours – a median of 14 hours – on “airport day.” One fourth of drivers work from 16-21 hours on “airport day.” The negative consequences of such long extend to the drivers themselves, their families, and the general public.

1. Low Earnings Drive Long Hours

The need to pay bills drives the long work day. One man who stops driving for a week when he finds himself not wanting to work “so bad” describes being trapped by the realities of installment payments.

I got stuck because every month you have to make payments and fix the cab, and you get stuck. I couldn’t find another job to make as much money as in the cab business. If you put in hours, you make money. The more you work, the more you make. That’s why you have cab drivers working 18-20 hours.

Tradeoffs abound between making money and taking time off. For example, Ivan tells us:

somewhere in your brain it always tells you that another hour done, no income, no income. . .the bad part is if you take a day off to enjoy life, in your brain, you know it costs you so much. I want to take two days off, it’s going to cost me

\$150, plus whatever money you spend not working...you take a day off you have to pay for cab and what you not earn, \$200-300 a day.

When Solomon takes time off from work, he feels a sense of anxiety over forgone profits:

I don't have chance to go out with friends or family. Between those hours when you go out you feel like you're missing money. You think there is no business so you sit at home but then you feel like you're losing out on money.

Drivers are very aware that they have to put in more than a 40-hour week if they want to acquire even a minimum standard of living. Adit says, "To survive, about 14 hours you have to work, 8-10 hours, we cannot make enough."

Omar believes that you can sometimes get lucky and then you will make more money but a fatalistic attitude prevails.

In taxi driving, your income is limited. Can't be rich or get really good life. So there is no future for [the] driver. It's just a limited income you get every month. You have to manage your life with that income.

2. The Impact on Drivers

Drivers' emotions constantly fluctuate up and down. They invest their time based on a belief – justified or not -- that they will realize more money. Frustration comes with the job. Thurman says, "Sometimes you don't make money and you have to work long hours, it really pisses me off." He works 14 hours a day because he cannot make any money working less. Some days he'll drive for 2 or 3 hours and not make more than \$5. He explains,

That sets a guy off. Some start cussing, some can't take it. But I know if I work a certain number of hours, I'll make a certain amount of money. It's the mindset I feel like I have to put myself into. One day you have a good day, the next day, you might not make as much money. You have to balance it.

Drivers lose out in more than monetary ways. As a single man, similar to women who forego housekeeping when working full time, James lets go of the upkeep of his home.

Before I had a taxi, I was a meticulous housekeeper. Now my place is a disaster. I can't have anyone over. I have no friends. I have no social life. No girlfriend. No family life. When I have a little bit of free time, I have to do something with the car.

3. Impact on Families and Children

For drivers with families, the impacts are particularly severe. This occurs in numerous ways from the lack of free time that drivers can spend with children and mates to eating and sleeping schedules being out of sync with others to increased stress on mothers from fathers “missing” in work. Haddad shared his remorse that “I never knew my kids because they didn’t grow up with me. . . I was there physically.” Mustafa’s family understands but he says, “The kids are never happy because I don’t spend any time with them.”

Phil compares his ideas of family life with the way he thinks others function: “In a family where they have a regular schedule they are able to spend more time with family but with my schedule it is difficult to find time”.

Donald lives with his adult daughter and barely sees her or other members of his family. Saying that he doesn’t have any life for himself, he gives examples of what is missing:

I would really like to visit my family and not have to leave before I’m ready. For instance today [day of interview] is my baby brother’s birthday and I would really like to hang out with him on his birthday but I can’t do that. . . Last time I took a day off was when I got a severe nose bleed on Memorial Day weekend.

Omar describes the letdown on the July 4th holiday when his family had a plan to return to Utah (where they lived and he drove before coming to LA). . “I didn’t want to miss it. This kind of thing happens all the time. One of the reasons I can’t do anything is because I have to pay the company.”

Juan’s limited time with his family is devoted to routine tasks or passive activities.

There is not any time for family, much less for friends. But the little time I have I spend it with my family. We usually go to the market or watch TV but it is actually the only things that we do.

Phil also makes use of any free time to “spend with my wife and usually we have to take care of the bills or go grocery shopping, things that need to get done.”

Sleeping schedules influence the quality of family life. A typical remark by taxi drivers who were interviewed is: “I don’t really feel that I have free time because usually when I am off I am tired so I go to sleep and I don’t really have time to do other things.” Alex spends very little time with his family. “When I wake up they are sleeping. When I come home I have time to take a shower, eat a little, and go to sleep.”

Drivers use different approaches to unwind at the end of a long shift. Some do chores. Juan, for example, is unable to relax right away, “it takes quite some time to do

so.” Others go to sleep. Phil who drives 12 to 14 hours a day says, “I feel very tired and I have no energy.”

As soon as I get home I try to sleep right away. My wife and I have opposite sleeping schedules because she works during the day and she sleeps at night but I work at night and sleep during the day. It makes it difficult to have opposite schedules but you have to get used to it.

For some drivers, like Edward, sleeping schedules may be different only on the days that he goes to the airport. He works 10 hours a day, 7 days a week. He is extremely exhausted when he gets home, both physically and psychologically. On the days that he goes to the airport, he must work 6 am to 12 am.

The mismatch of schedules affects eating together and, when children are young, the opportunity is lost for experiencing the ways in which parents relate to each other. Cabdriver families are as one driver put it, “families without fathers,” de facto single parent households. Omar says that his family doesn’t know who he is or where he is except “when they eat together once a week.” At the same time, as Omar says, you censor yourself when you are with family.

You’re stunned, tired, not seeing around. You don’t want to argue because your brain is being eaten by the business. You don’t want to argue because you’re not there.

Even when the intention is to be home for dinner, drivers may not be able to leave work because they have a passenger in the car. For example, Edward succeeds in being home for dinner only three times a week.

Taxi drivers are painfully aware that their hours create emotional distress for others as well as themselves. Having to work long hours is a major culprit in personal dissatisfaction. Most taxi drivers have little “down” time before they are on the road again in a “long series of shifts.” One driver, asked about how he felt after working a 15 hour day, gave a one word answer – “abused”. Another chooses to drive longer hours to cover lease payments, concluding that he feels uneasy about his relations with other people even if “nobody says anything about it.”

Speaking of his family, Phil says, “I am not able to be there for them. I don’t get there on time and I can’t always answer the phone [while driving a fare].” Sometimes he asks his family to wait to do certain things and “sometimes I don’t even make it on time.”

Emotional distress is heightened because families worry about the safety of their loved ones. Donald’s family thinks that he:

should get a job that is less dangerous and doesn’t demand so much time and pay that is more reliable. A salary that was reliable. . .something that you can depend on. Like the post office, when you can get paid even if there is no work.

Juan who knew the job was dangerous when he started – “but someone has to do it” – says that his family knows about the dangers and is always worried:

My family usually talks to me about my job and why I have to work such long hours and they’re always worried. But I tell them that is part of the job and that’s all I can really say.

4. Impact on the Safety of Drivers, Passengers and Public

Anyone who has ever had to pull over at the end of 8 hours of freeway driving to take a break can appreciate to some degree the level of exhaustion experienced by taxi drivers who have spent 12-14 hours on the streets and freeways of Los Angeles. The direct causal link between vehicle driver fatigue and traffic accidents is well known.¹⁶ An extensive report on the subject suggests that:

Human fatigue is now recognised around the world as being the main cause of accidents in the transport industry. It is increasingly being recognised as a safety issue of the highest priority.¹⁷

Interviewees were asked how they deal with being too tired to drive. Answers include making more frequent stops to buy something to eat, consuming energy drinks, walking, sleeping in the car, going home to rest, talking with other drivers, and talking with passengers. Others read. Some play the radio but others that we interviewed are aware that radio programs are distracting. Drivers are conscious of preventing accidents because of concerns for passengers but also they carry no accident insurance for themselves, and time and money that repairs require will cut into their earnings. Boulos thinks about not getting hit when driving. “In my business, accident is big taboo. Insurance will go up. DOT won’t let you renew your license if you have too many accidents.”

E. Income and Economic Security

The evidence from our survey makes clear that taxi drivers work such long hours, with such negative consequences for themselves and their families, out of economic necessity. As a group, taxi drivers must clearly be considered among the “working

¹⁶ J.R. Dalziel & R.F. Job, *Motor vehicle accidents, fatigue and optimism bias in taxi drivers*, 29 ACCIDENT ANALYSES AND PREVENTION 4, 489-94 (1997); Jon K. Beaulieu, *The Issues of Fatigue and Working Time in the Road Transport Sector*, Working Paper 232, International Labour Organization, Geneva, Switzerland (2005).

¹⁷ Standing Committee on Communications, Information Technology and the Arts, Australian House of Representatives, *BEYOND THE MIDNIGHT OIL: AN INQUIRY INTO MANAGING FATIGUE IN TRANSPORT*, available at <http://www.aph.gov.au/house/committee/cita/manfatigue/mfcontents.htm> (last visited 2/11/2006).

poor.” For his long hours of work, the median driver earns about \$8.39 per hour.¹⁸ As might be expected, owner/operators earn somewhat more than lease drivers, but not much more.¹⁹ *If taxi drivers earned the current minimum wage (\$6.75 per hour) but were paid time and a half for hours over 40 hours per week, they would earn at least \$2572 per month, more than their actual median monthly earnings of \$2412.*²⁰ The City of Los Angeles “living wage,” required to be paid to workers in some businesses doing business with the City, is \$10.64 per hour (without health insurance, an appropriate comparison, given that no taxi company provides health insurance). Even discounting their long hours of work, Los Angeles taxi workers earn well under the City’s “living wage.” They earn only 59% of the \$4000 per month they would earn if they were paid the “living wage” and overtime at time and a half.

These numbers suggest that taxi drivers in Los Angeles, one of the most expensive cities in the country, fare significantly worse than drivers in other large cities. The median hourly wage for taxi drivers in large fleets across the United States is \$10.73 per hour.²¹

1. Lease Drivers

We interviewed 157 lease drivers. These drivers lease from the company (43%), another driver who owns more than one cab (33%), or from others, such as owner investors who do not drive (24%). Their median lease payment is \$500 per week. They drive a median 72 hours per week. As with owner/operators, they pay all the cost of fuel themselves. Their median monthly net income from driving is \$2313. The median hourly wage of lease drivers is \$8.46 per hour.²²

¹⁸ Computed from 266 responses. As indicated earlier, our intention was to ask about gross income and about expenses separately, and then compute net income ourselves, on the theory that most people probably have a better idea about the components of their income and expenses than they do about the net result of arithmetic computations on income and expenses. Nevertheless, it was clear from the context supplied by answers to other questions that some drivers interpreted a question (Question 40, Appendix A) about their “total income” as reflecting net income rather than gross income. We reviewed the responses to other questions on each survey to assist in making a judgment about whether the answer referred to gross income or net income. In an abundance of caution, we also computed the results if we assumed that *all* responses about “total income” referred to net income. Both assumptions may *overestimate* driver income to some extent, and it is clear that the latter assumption does so. For the sake of clarity in reporting, we report the *average* of the two estimates in the text and provide the range of the two estimates in footnotes. For the median hourly wage for all drivers, the range was \$7.38 - \$9.40 per hour.

¹⁹ For lease drivers the median is \$8.46 (\$8.04 - \$8.88). For owner/operators the median is \$8.63 (\$7.14 - \$10.11).

²⁰ Per note 19, the two estimates averaged were \$2174 and \$2650.

²¹ Taxicab, Limousine & Paratransit Association (TLPA), *Statistics on the U.S. Taxicab Industry, 2005*, reporting wages, commissions and salaries for fleets with 100 or more taxicabs.

²² Computed from the two estimates, as explained in note 6, *supra*. It should be noted that each of the medians (hours worked, monthly income, hourly wage) were computed separately, in order to take account of the differences in the hours per week worked by individual drivers.

2. Owner/Operators

Our survey sample included 127 owner/operators. As explained in much greater detail below, the taxi that is driven by these drivers represents one share in a “co-operative.” Unlike lease drivers, owner/operators are responsible for all expenses, including their share of the expenses of the taxi “co-operative.” Most (83%, N=41)²³ of our sample are still making payments on their cab, most (71%, N=31) to the taxi company itself. In addition, they must pay fees to the company to cover the operations of the company and for liability insurance that the City requires. The median amount paid to the company is \$1299 per month (N=116). Owners work the same long hours as lease drivers, a median of 72 hours per week. They earn slightly more, with a median monthly net income of \$2500 per month, and an hourly wage of \$8.63.²⁴

3. The Impact of Fuel Prices

All taxi drivers pay all their own fuel costs. Unlike other sectors of the transportation industry, taxi drivers *cannot* pass increased fuel costs on to their customers, because fares are strictly regulated by the City.²⁵ According to our respondents, the median taxi driver in Los Angeles drives 4330 miles per month (N=275). This is consistent with data provided by company managers in one company with the ability to track all miles driven, who estimate 5000 miles per month. Our survey respondents report a median mileage of 14.4 miles per gallon, almost exactly as reported in other studies.²⁶ The monthly cost of fuel for the median driver (at a nominal \$3.00 per gallon) is thus about \$900. The impact of fuel prices is particularly severe because of the high ratio of “deadhead” miles (uncompensated miles traveled to pick up passengers) is so high in Los Angeles. Only 43.6% of miles driven in Los Angeles are “paid miles”.²⁷ The effective “paid mileage” for Los Angeles taxi drivers is thus about 6.2 “paid miles per gallon.”

Every dollar spent at the gas pump is a dollar not available to meet the needs of the driver, his family, or his children. Phil, an owner/operator, understands this all too well:

With gas prices rising we have more expenses but still get paid the same. . . It is difficult to live when the cost of products continue to go up and we continue to be

²³ As is evident from the numbers, a good many owner/operators declined to discuss their financial arrangements with their companies, despite the confidentiality we were able to provide.

²⁴ The averaged estimates for owner/operators were \$2224 and \$2775 per month, and \$7.14 and \$10.11 per hour.

²⁵ Some relief on that front is now in process – though not yet complete -- within the City regulatory system, as we discuss below.

²⁶ Taxicab, Limousine & Paratransit Association (TLPA), *Statistics on the U.S. Taxicab Industry, 2005* (reporting 14.28 mpg for fleets with 100+ cabs). As in Los Angeles, the most common vehicle is a Ford Crown Victoria.

²⁷ Computed from IADOT *Reported Taxicab Statistics for 2006* (computed for first six months of year).

paid what taxi drivers did a long time ago. It's difficult to live under these circumstances.

Rising gas costs are forcing drivers to rethink their priorities such as saving to send children to college and retiring. Omar, driving for 25 years, was hoping to retire in five years but realistically knows it's not going to happen because of "the gas." He and his wife had set aside money for his seven year old and two other children who live with his ex-wife. The savings are gone and he's just concentrating on "surviving," making up for the loss by putting in extra hours driving. "It all goes to the gas pump! . . . We don't get money from the gas tank." He worries about the consequences. "After I work 25 years, I might be homeless in a day. I might be on welfare." He says he is financially strapped because of the stagnant fare rate and that the trip is meant to be made on \$1.20 to \$1.80 for a gallon of gas, so the rest of the current price has to come out of his profits.

Simple arithmetic reveals that when fuel prices increase by one dollar per gallon and fares do not increase, the net income of the median driver is reduced by \$300 dollars per month. For higher income commuters, this may not seem a lot, but as noted below, recall this is a number equal to nearly one third the housing costs of taxi drivers, and potentially enough to secure health insurance for a child.

3. Other Indicators

One check on the accuracy of the estimates above, as well as an independent indication of the financial situation of drivers is to examine what they are able to buy. In the next section we discuss how few drivers are able to afford health insurance for themselves and their children. We also asked drivers about their housing circumstances. The median rent or mortgage payment for our sample was \$950 per month: 20% of drivers report living in overcrowded conditions, as measured by the Census Bureau indicator of needing to use rooms other than bedrooms for sleeping purposes (N=254).

The financial duress that taxi drivers face also comes out in interviews when drivers told us about their reliance on credit cards and other forms of borrowing. Mustafa, with a wife and children in school, has to make \$1000 a week just to break even to pay for his lease, gas, and any tickets. When he doesn't he falls into the pattern that a lot of people in debt do, "I charge a lot on credit cards and work in the stock market – sometimes make money, sometimes don't." His wife is currently looking for a job because the children are in school. In other cases, a wife's income is the difference between making it and not. Aram, now divorced, has to pay child support and barely makes his rent in months that are slow. One driver whose wife is also working gets some additional income from being a student; an other supplements his income from the catering job that used be his main source of earnings.

Others borrow from friends and relatives. Khalid borrowed money from drivers in the past; also he has lent money to other drivers. Ivan feels like a winner when he reduces his credit debt.

Expectations lower when money is scarce. Juan and his family don't go out to eat, watch a movie, or go shopping. Phil keeps looking for more work but will also cut out movies and buying clothes. Some eliminate recreation activities even as close as Big Bear, both because of the time lost to make additional money and the lack of savings. Donald finds food is the easiest to cut and pays his rent with credit card checks that he receives in the mail. He tries to reduce his fuel cost by cutting out what he calls courtesy trips for older people and trips that take less than 15 minutes to complete.

The value of subsidized housing is evident in Thurman's case because he lives in veterans housing. He is stressed because of expecting to move and anticipating higher rent, having waited in vain for about three years to get Section 8 housing. Haddad's children are grown and he no longer worries about the "big burden" of their education and now rent is his major personal expense.

Hassan feels that "Always my life is gonna be tight. I spent it and I pay it. I can't keep some money as my savings." He doesn't have credit cards because of credit issues in the past. His wife works occasionally, helping people with errands for pay, but she doesn't make very much. Sheriff's life is a mirror image when he doesn't make as much as he expected:

I have to borrow from someone. I have done that a lot from my sisters, friends. Right now, I owe my sister \$700. Last month, I couldn't make rent and the court made me pay \$700 ticket. I haven't been able to pay her back yet.

His wife just started working but she doesn't make much because she only works 15-20 hours a week. She uses that money to pay off credit card debts and with two boys, 11 and 14, needs money to buy the kids clothes. "All the expense is on me. She helps me if I tell her, 'no money for electricity,' but she is not responsible for anything."

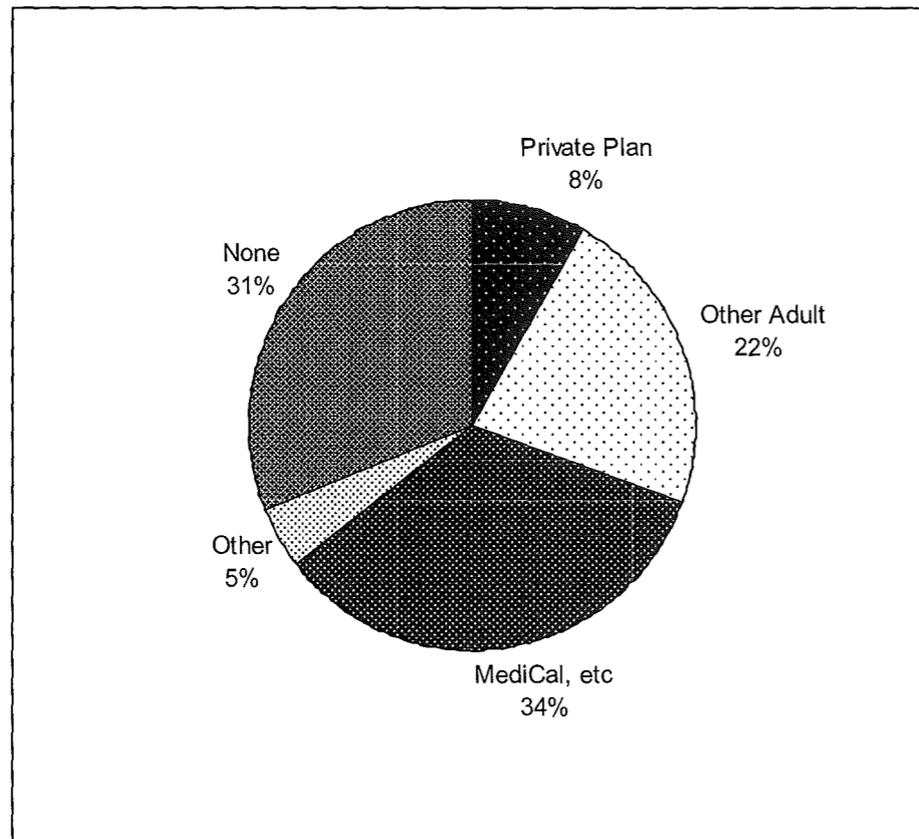
F. Lack of Health Insurance

Most Los Angeles taxi drivers lack health insurance for themselves and their families. In addition, unlike the situation in many other cities,²⁸ Los Angeles taxi

²⁸ Twenty four percent (24%) of large fleets (100 or more cabs) in the U.S. provide workers compensation coverage for drivers. Taxicab, Limousine & Paratransit Association (TLPA), *Statistics on the U.S. Taxicab Industry, 2005*. The City of San Francisco is pioneering a Health Access Program that the San Francisco Board of Supervisors approved in a second vote on July 25, 2006. This will provide comprehensive medical services to about 82,000 uninsured people and will go into effect in 2007. The city also commissioned studies specifically aimed to cover health costs of taxi drivers. See Rhonda Evans, Jabril Bensedrine, Ken Jacobs, and Carol Zabin March 2006. "Establishing a San Francisco Taxi Driver Health Care Coverage Program: Administration, Cost, and Funding Options," San Francisco: City and County of San Francisco Department of Public Health. United to Win (UTW), Communication Workers of America (CWA) Local 9410, has been advocating for health care for taxi drivers. In 2002, the San Francisco Board of Supervisors approved a health plan for taxi workers. On March 21, 2006, at a San Francisco Department of Health meeting, the overview of the proposed Taxi Driver Health Coverage Plan identified 7000 taxi drivers, most of whom are independent contractors; approximately half lack health insurance and are very low income. The proposal seeks to fund health coverage through the San Francisco Health Plan (SFHP), with funding from four possible industry revenue sources: drivers, medallion holders, cab companies, and

companies do not provide workers compensation protection for drivers, who must pay their own medical bills if they are injured while driving. No taxi company provides health insurance of any kind to drivers or their families. Only one third of drivers are able to obtain health insurance for themselves through spouses or other sources. As noted earlier, 61% of drivers have one or more children living at home. *Forty-five percent (45%) of these children have no health insurance from any source. Of those children who are insured, the insurance is provided by taxpayers in the form of MediCal or other government programs.* Figure 3 below summarizes the sources of health insurance, if any, for the children of Los Angeles taxi drivers.

Figure 3
Health Insurance Coverage of Taxi Drivers' Children



the riding public. At the end of June 2006, the taxi commission agreed to form a working group composed of five voting members, likely to be comprised of stakeholders – drivers, medallion owners, companies, tourist bureau representatives – and seven non-voting members, one of whom will be one of the authors of the report noted above. The taxi commission has recently sent a letter out calling for nominations; it is anticipated that the members will be selected by the end of September 2006.

We did not survey drivers about the consequences of lack of health care for their children. We assume the consequences are the same as with any population: poorer health and reduced life chances for these children. We did speak with drivers about how they dealt with the lack of health insurance for themselves.

The lack of health insurance leads drivers to let serious health problems go untreated and continue driving. Mustafa, a lease driver for 11 years, has never taken time off from driving despite health problems. He cannot afford to:

I should have but I couldn't. A lot of times, I feel back pain but I still do it, because the first thing that comes to mind is wife and kids. I cannot collect unemployment from my company, so I'd rather be in pain than on the streets with my family. A lot of times I can feel my legs are getting numb from sitting all the time.

Similarly, Khalid says:

I'm afraid to go to the hospital for check up because of money. One driver I know has hard time going to bathroom. All of the friends ask why not go to doctor. He says he's afraid of having prostate cancer, and he cannot do anything. Other day they find out he doesn't have it but he is asked to stay overnight so they just treat him and now he must pay thousands of dollars. Last time I had a full check up was about 15 years ago.

James says:

I can't afford to go to the dentist, I can't afford to see doctors. I have no control over my diet and exercise. In a sense, it's a long, slow slaughter—it has to be seen in those terms. . . .I'm on thin ice with my teeth.

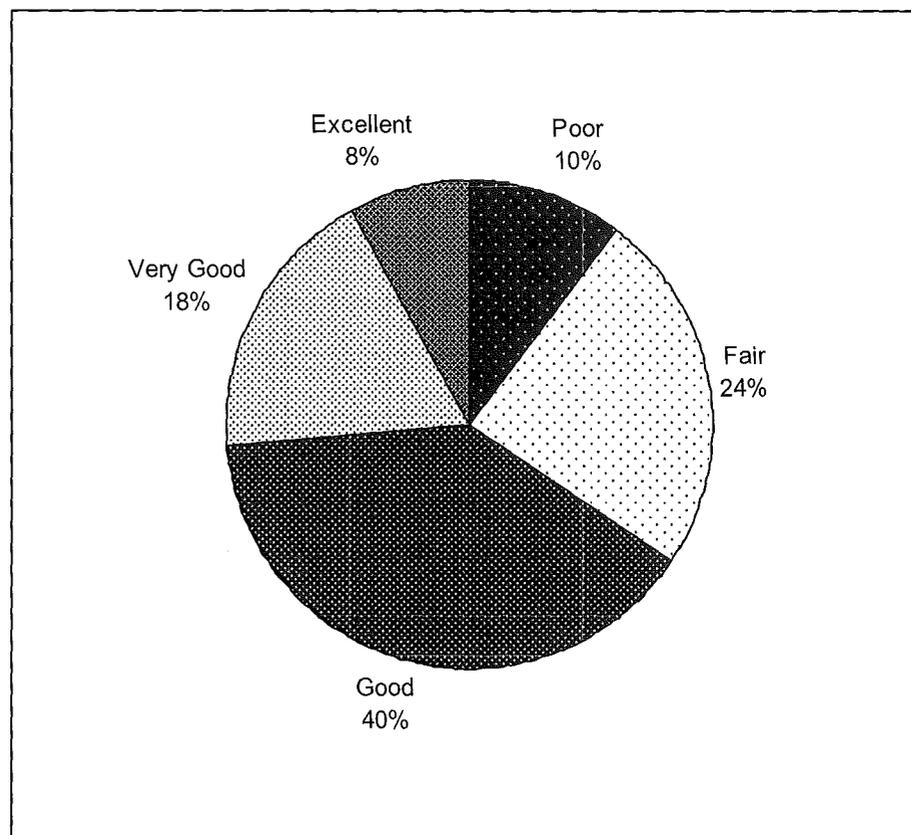
Solomon had to call 911 to come to the taxi stand because he felt so dizzy one time but he couldn't follow up with a hospital visit to check his ear because it would have cost him \$600. Although he is aware that it is dangerous to drive, especially when he experiences vision changes, he makes do by stopping for a while, maybe an hour, until he regains clarity and continues to drive.

Similar to the ways in which some drivers work through their being fatigued, those feeling ill may rely on painkillers that may also cause drowsiness. The alternative is to take time off from the job and some drivers interviewed report that can last from a few weeks to a few months to a year or so away from the job. Without savings or other means of earning money, the interviews reveal that drivers think a lot about quitting but are unable to even take short periods of time off to look after themselves.

G. Health Status and Health Consequences of Driving a Taxi in Los Angeles.

Drivers were asked to rate their general health status from excellent to poor. In general, self-assessed terms, taxi drivers report their health status as reflected in Figure 4.

Figure 4
Self-Described Health Status of Drivers (N=295)



Of course, given the lack of access of most drivers to health care, as well as cultural and gender influences, these numbers should not be taken as reflecting the actual health status of drivers. The generic health problems resulting from driving a cab, especially back problems, are well known and have been reported in several studies.²⁹ To deal with the fact that some problems, like backaches, are common, we asked drivers to describe only those problems that had been diagnosed by a doctor. Table 4 provides

²⁹ See, e.g., Jiu-Chiuan Chen et al., *Occupational Factors Associated with Low Back Pain in Urban Taxi Drivers*, 55 OCCUPATIONAL MEDICINE 5, 535-40 (2005); M. Anthony Machin & Jillian M. D. DeSouza, *Predicting Health Outcomes and Safety Behaviour in Taxi Drivers*, paper presented at 5th Australian Industrial & Organisational Psychology Conference, Melbourne, 26-29 June, 2003 (on file with authors).

the incidence of medically diagnosed health problems among Los Angeles taxi drivers that drivers (and the medical literature) associate with driving a cab.

Table 4
Work Related Health Problems

Health Problem	Drivers Reporting
Back pain severe enough to interfere with daily activities	49%
Leg problems, including swollen legs and left leg limp	40%
Shoulder pain severe enough to interfere with daily activities	30%
Eye problems	34%
High blood pressure	24%
Serious weight gain or obesity	21%

A number of these health problems are highly likely to be occupationally related. Common sense would suggest that such long hours behind the wheel would produce back problems. Moreover, the driver's seats in taxicabs are not, like those in many commercial trucks and busses, ergonomically designed. Rather, the most common taxicab in Los Angeles is a recycled police car with a bench seat. Adit describes the sensation:

[Taxicab front] seats are not designed so well, especially the driver's seat. It should be better because [you] sit there all day. It feels like when you sit in seat, like you're falling into a hole, and it gives you back problems."

Studies suggest that it is not only posture but road vibrations that aggravate back problems. The required and controversial³⁰ partitions between the passenger and the driver seat further exacerbate back problems, particularly for tall drivers like Leo. He gets some relief by pushing the partition back a little and explains: "Industry average is 17 minutes that passenger stays in the cab. I'm there 17 hours. I need to stay comfortable." Alex explains that the passenger and the driver suffer from the partition:

If people have long legs or tall, cannot sit straight or relax. Many [drivers] complain of back pain because they cannot adjust the seat, and for customer, they complain because it's so tight. . . .People complain that they feel like they are sitting in jail.

Assad points out that partitions "confine the space. You can't move and even stretch yourself, and the customer himself doesn't feel good."

³⁰ In addition to back discomfort, some drivers report that partitions prevent air conditioning from reaching the passenger. Others object to claims that the partition, also known as a safety shield, actually adds to safety for the driver. Assad says that that drivers are told that the partition, "it's meant for criminal, it's bullet proof so they don't kill you. But I don't think it's safe. It doesn't protect much." Alex states "Many people who want to kill the driver or rob them, they can step out of the car and kill them because we have bulletproof windows." The partition also makes it difficult to clean when someone drops things.

Several drivers reported a syndrome known as “taxi driver limp.”³¹ This appears to be caused by spending so many hours of the day using the right leg (to control the brakes and accelerator) while using the left leg very little. Back and leg problems are a risk for taxi drivers everywhere. Shoulder pain, fourth on the list of work related health problems, as well as back pain, can be associated with lifting baggage and awkward movements when drivers receive fares and return change to passengers, as well as the hours spent at the wheel in Los Angeles traffic.³²

Other problems may also be job-related. Eye problems, hypertension, and serious weight gain or obesity may be associated with long hours, limited access to healthy food, and job stress. Because drivers do not have routine access to ergonomic, occupational health and safety services or workers compensation, they report their own assessments of the causes of their problems. The National Institute of Aging reports that studies find that bus and taxi drivers who are physically inactive have a higher rate of heart disease than men in other occupations.³³

Boulos took exception to the interviewer skipping over his assertion that “Health is related to business,” demanding that the public has to know. He systematically reiterated the list of his diseases and explained their relationship to driving a cab:

The kidney disease is because I can’t go to the bathroom. Every cab driver, his bladder is big. You can’t find so easily a place to go to the restroom. You can’t go to a hotel or a restaurant. And if you go on the street, you’ll get a ticket.

He recalled the times that his only option was to go in the bushes near a hotel, an embarrassing but necessary part of being a cabdriver.³⁴ Boulos went on. “My back, neck and knee are from where you are sitting, from investing in the business.” He said that his liver disease comes from stress, and his heart disease comes from “the stress and the tension, the long hours, lots of coffee,” concluding that, “This is a prescription to die. You see how many cab drivers are dying behind the wheel because of heart attack, stress from the business, long hours, less time to relax.” Others referred to drivers who had died behind the wheel from heart attacks. Ivan observes drivers’ big bellies and:

knows that some guys that drive 25-30 years [they become handicap[ped]] . . . because this job has down time, they smoke a lot, they eat a lot, so most cab drivers are overweight and not healthy. . . .this job can kill you.

³¹ Diabetes came up as a reported health problem in a number of interviews. Diabetes carries with it the risk of leg problems as well.

³² Only Edward reported asthma in the interviews, tying its onset to when he began driving. Given levels of pollution in driving, this disease may be more prevalent than revealed in our survey.

³³ Diabetes Monitor, available at <http://www.diabetesmonitor.com/chapter1.htm>, (last visited August 31, 2006).

³⁴ Another driver explained that lack of access to running water may be a problem for practicing Muslims who observe ritual prayers. In order to find water, drivers may stop for drinks as an excuse to use bathrooms. Similarly, Omar pointed out problems about going into bars to use restrooms because of city regulations that prevent drivers from being around alcohol while working.

The National Institute for Occupational Safety and Health's (NIOSH) findings for truck drivers bear out this observation. Like truck drivers, taxi drivers sit for long periods, are sleep deprived, and do not have a balanced diet while on the road. NIOSH finds that these factors predispose such workers to "obesity, cardiovascular disease, diabetes, and other health problems."³⁵

H. Job Stress

Any Los Angeles commuter has some appreciation for the stress that results from spending one, two, even three hours each day in some of the worst traffic in the United States. Not many can fully comprehend the effects of spending 12 hours a day, six days a week on those same streets and highways. But Los Angeles taxi drivers face sources of stress few other drivers encounter while driving. *As noted below, more than 36% of drivers have been subjected to racial slurs during the past year. Twenty four percent (24%) have been physically attacked or threatened with physical harm. Thirty percent (30%) of these attacks resulted in injuries to the driver.*

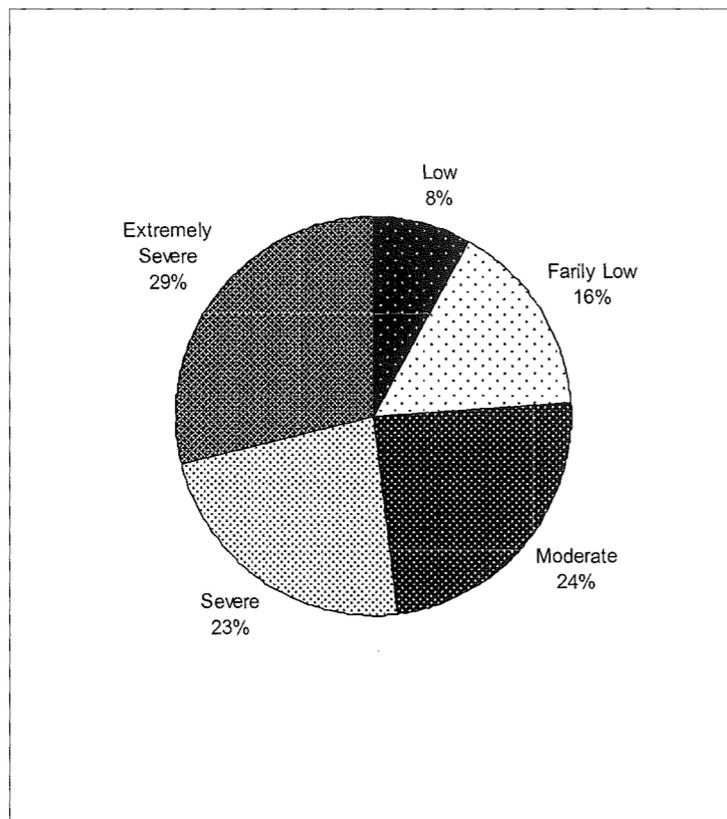
In order to assess the overall job stress experienced by taxi drivers, we utilized questions drawn from a well-known survey instrument developed for this purpose by the Marlin Company and Harris Interactive in annual polling studies.³⁶ In these studies responses can be tabulated to rank job stress from "low" to "severe" to "extremely severe." The interpretation given to "severe" levels of stress is "able to cope but life at work can be miserable." "Extremely severe" stress is considered potentially dangerous. As Figure 5 indicates, *more than half of the taxi drivers in Los Angeles can be judged to be experiencing either severe or extremely severe stress.*

³⁵ NIOSH Program Portfolio, available at <http://www.cdc.gov/niosh/programs/twu/economics.html>, (last visited August 31, 2006).

³⁶ See, e.g. Barsade S, Wiesenfeld B, The Marlin Company [1997]. Attitudes in the American workplace III. New Haven, CT: Yale University School of Management. See also, National Institute for Occupational Safety and Health, *Stress at Work* available at <http://www.cdc.gov/niosh/stresswk.html>.

Figure 5

**Job Stress Levels Experienced by L.A. Taxi Drivers
(Percent of Drivers)**



The particular responses to the standard job stress assessment instrument provide some insight into the causes for these very high levels of stress. Table 5 reports the tabulated responses of our sample.

Table 5
Job Stress Conditions Reported by L.A. Taxi Drivers

	Never	Rarely	Sometimes	Often	Very Often
	Percent Reporting				
Work Is Unpleasant Or Unsafe	7	8	41	21	23
Work Negatively Affects Physical And Emotional Well-Being	13	8	28	23	29
Too Much Work Or Time Pressure	12	9	24	24	30
Difficult To Express Opinions About Conditions	26	8	23	20	23
Work Interferes With Personal Life	18	7	21	27	27
Inadequate Control Over Work Duties	27	16	21	17	19
No Appropriate Recognition For Work	32	10	20	12	27
Unable To Use Skills At Work	23	10	22	18	27

Job stress is directly related to physical health. A recent survey by University of California at Irvine (UCI) researchers establishes the links between work and poor health for about 24,500 Californian workers in 2001. Recall that taxi drivers work a median 72 hours per week. The UCI study reports workers who “clocked more than 51 hours in the job were 29% more likely to have diagnosed high blood pressure.” Clerical workers were 23% more likely to have higher rates of diagnosed hypertension; unskilled workers were 50% more likely. Other studies of Asian and European workers link long work hours to heart disease, sudden heart attack, high blood pressure, and depression.

Our in-depth interviews provided a sometimes troubling account of the kinds of stress taxi drivers face in Los Angeles. Drivers sometimes broke down and cried with our interviewers as they described the frustrations of their work. Boulos believes there is always a sense of being scared, getting shot, robbed, having an accident. “Sometimes on the freeway, I hope that nothing is going to happen, because when you drive 13 hours a day, with people they way they drive—plus gangs and drunks.” He hopes that his customers don’t carry guns, argue with him. He says about a hypothetical customer, “I manage him, take him where he goes.” Juan “is scared sometimes because you never know what could happen on the road or what a person could do. They have robbed me and used a knife on me and sometimes they just don’t pay.” Edward does not like driving because he fears being the victim of a robbery or a violent crime like so many of his

colleagues. Sheriff believes that as many as 70% to 80% of drivers don't want to work at night because they "don't want to be shot, robbed, because no idea about the person in your car – their past."

The International Transport Workers' Federation (ITWF) has a campaign organized around "Fatigue Kills." A working paper by Jon K. Beaulieu for the International Labour Office finds that taxi drivers generally are as vulnerable to fatigue as are long haul truck drivers:

[Taxi drivers] often start work the following day without sufficient recovery from the previous day's fatigue. A study on taxi drivers reported that driver time-on-the-road is often considerable: 67 per cent of those surveyed drove at least 50 hours per week, yet time off in long shifts (up to 12 hours) was often short (as low as three minutes, with an average of 37 minutes).³⁷

Accidents are only part of the worry. Fatigue "can also impair a driver's ability to handle violence in the work environment, an issue of growing concern."

In addition to physical violence, drivers – particularly those of apparent Middle Eastern descent – face abuse from passengers and others since 9/11. More than a third of all drivers reported being the target of racial slurs. Table 6 reports the experiences of drivers with racial epithets and physical attacks.

Table 6
Physical Assaults and Racial Slurs
(N=290)

Drivers' Experience with Assaults and Racism in Past Year	
Subjected to racial slurs or hostile comments about the driver's race or apparent country of origin	36.5%
Median number of incidents in past year for those reporting (n=70)	4
Drivers physically attacked or threatened with physical harm	24%

Adit faced discrimination before 9/11 because of his long beard and turban. Of the more recent period, he says:

There is discrimination on the road – people yelling about different races, where you are from – with Afghanistan problem and now Iraq. There is supposed to be protection by law but nobody care. In the police forces there is problem[s] too. They don't care if you complain. They always wait till something happens to act.

³⁷ Jon K. Beaulieu, *The Issues of Fatigue and Working Time in the Road Transport Sector*, Working Paper 232, International Labour Organization, Geneva, Switzerland (2005).

Passengers are not the only source of abuse reported by workers. A surprising number of drivers report abuse and lack of fair treatment by regulators. As indicated in Table 7 below, a significant majority of drivers believe they are seriously mistreated by LADOT, LAPD and by ATS, with nearly two thirds expressing that view regarding LADOT.

In addition, although the city now prohibits taxi companies from paying for exclusive arrangements with hotels and other venues, most taxi drivers complain of being extorted by hotel doormen in order to obtain better fares. Interestingly, these issues are rated as more serious problems even than being subjected to racial slurs and insults. Table 7 summarizes the top 5 complaints rated by drivers as being “serious” and “very serious” in their experience.

Table 7
Problems Rated by Drivers as “Serious” or “Very Serious”
(N=274-280)

Problem or Complaint	Percent Rating Serious or Very Serious
Having To Pay Hotel Doormen To Pick Up Fares	68.6%
Drivers Not Treated Fairly By DOT	63.2%
Dress Code Interferes With Personal Freedom	53.6%
Drivers Not Treated Fairly By ATS	52.9%
Drivers Not Treated Fairly By LAPD	50.7%
Being Subjected To Racial Slurs And Insults	39.7%

Khalid describes the chain of events in a hotel queue:

[A] bellman calls drivers and gets tips and call his favorite drivers. And they say you should not tip the bellman. But if you don't, he doesn't give you business. The situation in front of hotels is absolutely not fair. Drivers who know bellman and tip good have best business at hotels. Drivers complain to DOT and even though their job, they don't do anything.

Adit echoes this complaint about the queuing system in front of hotels:

The City of LA opened hotels to every cab company but still some individuals, they don't care what city requires. They do not wait in line. And every time we argue with them [hotel bellmen] they ask for a paper. . . .At certain hotels they don't care. They ask for papers and refuse us. And in San Fernando Valley, especially Universal hotels. Only allow United and City cabs to pick up. To

provide for equality of service, it should be open to everybody. They should have a line system.

Assad, a lease driver for two years sums up the general grievance:

Taxi driver has hardly any rights, no respect. The doormen don't respect us, and when we complain, nobody accepts our complaints. When someone complaining about us, we get punished—doesn't matter if true or not. Taxi companies treat drivers very badly. DOT treat us very badly. And ATS treat us very badly. As I told you, there is no protection. Nobody fights for taxi drivers. So on every situation we are victims. I don't like this.

Taking other drivers' points-of-view under consideration, the complaints appear systemic. Juan feels that the LADOT and the LAPD, as well as the taxi companies, cheat and take advantage of drivers. Solomon has a similar criticism about ATS: "If the customer tells a story, they believe them but not ours." Other times, actions seem idiosyncratic. Adit thinks that the DOT takes the attitude that, "If you're working a day not your airport day and go to taxi zone to use the restroom they say not your day and can't eat at food truck." Khalid complains that LADOT harasses drivers about small things a lot such as the uniforms. For example, "This one driver had white dots on his [black] tie, so he got cited. These are childish citations." Echoing this sentiment, Adit zeroes in on seemingly contradictory priorities:

One day they are considering us an independent driver. They give us ID. People see this and we are taxi driver. Now all together same uniform. Socks, pants. And now that it's summertime, no time for some time. But we wear tie while lifting heavy bags. Get in the way on airport days. Why [does the] City wants to see us in uniform? Why don't we have any choice? So inconvenient. We need to ask the City to make sure we provide quality of service, not have to wear uniform. It's a problem if they don't have taxi driver ID. But uniform not big problem.

In the interviews, the City comes in for its share of complaints. Alex says the "City's not willing to give insurance, pension plan, or whatever. We work for the city, give them the money, follow their rules. At the same time, they don't give us anything." In fact, because cabs are commercial vehicles, drivers receive tickets if they park on residential streets. Adit worries:

The taxi needs to be in the City. We need to park in safe space so our equipment doesn't get stolen. Taxi should be allowed on residential street. These are not big loading/unloading trucks or busses. The taxi is passenger ship. Needs to be by people.

Aram thinks Los Angeles "is the stupidest city in the world, the way the taxi industry works." He cannot pick people up in a certain area and people get mad and he cannot do anything. This issue is discussed further in later sections of the report.

G. Interaction of Long Hours, Low Income, Poor Health, and Job Stress

It is not easy to separate out all the aggravating factors contributing to the difficult life of the average taxi driver in Los Angeles. Some results from the broken dreams of immigrants. Boulos says:

It's too late to have a dream. I'm 41 years old. Not that I'm really old. But my dream is to see my kids grow, get an education, more respectable job that's easier, better, with more income.

Others feel like outcasts from anyone except taxi drivers with whom they share common experiences. When asked who the driver saw as his community, more responded that it was only their family, that they didn't have time for anyone else. The drivers who are single describe frequently isolated lives, too tired to go out to see friends or needing to work on car repairs, or simply busy working. Billy just wants a quiet space at home and avoids going out and seeing friends.

Mustafa wouldn't choose to drive a cab again because "it is not a life for a human being. . . It's not healthy to be in such a small space even for 10 hours a day. As far as the cab driver in this City, everyone looks down on us."

Not surprising, not one driver interviewed who had children, wants them to drive a taxi. Taxi workers are continuously brokering between time and family, time and sleep, and time and paying bills.

Others are dispirited by what they see as corruption about which they can do nothing. One owner/operator reflected that, "In all companies, [there is] lots of corruption." Omar believes, even though he cannot prove it, that taxi dispatchers treat drivers differently:

There is lots of good business that I don't get for two, three weeks. I can't prove it, but I know they're doing something. They sell orders sometimes. Some drivers give dispatchers money and ask for favors.

Drivers also report feeling powerlessness and fearful about taking action. Edward explains: "It is difficult to establish solidarity with other cab drivers because the cab companies will stop drivers from organizing. If anyone leads such efforts, he will likely get canned."

Other drivers have mixed views about how best to do anything about their situation. For example, Mustafa says, "I wish to have a union in this business so we have something to fall back on, so no one will take advantage of us." Khalid, a lease driver, agrees that a union would make his job better because it could win benefits such as health insurance and worker's compensation. But he sees the City, i.e. LADOT, as being against unionizing all drivers:

I don't know why they are afraid of us. But that must be politics. Drivers have tried to organize unions but they don't have support from city. Eight different cab companies—maybe they would support union, but I don't think DOT. Members would pay dues and union would get retirement benefits, health benefits, workers comp for their workers.

James doesn't think a taxi cab union is his "mode of resistance" but thinks there should be a way to unite drivers. A writer, he proposes:

something like a newsletter or publication that's supported by businesses, so they [drivers] can create their own relationships so they [start] their own lives and vocational future. . . . Show them how to build up their own clientele. I didn't do this when I started because I didn't know how to find someone, create a relationship with them, and create a relationship with other drivers, have a system where they'll pass on client calls to others if they're already doing a run, and that this was how a lot of them made their money.

Drivers should have an opportunity "to start sharing stuff that works for you with others so that it's not such a secret and that management has all the control." He believes that the more information that you have, the more you can overcome the powers that be, such as management and the city officials and say to them, "This is what I need, and you're gonna have to cope with it." James thinks a newsletter could let cab drivers know what businesses were ok to go to and which ones weren't. "It will say where you can go to get your auto fixed, that they will maintain certain standards with you." He said that he would even put the newsletter in the back of the cab so that customers would have this information. "Not only would it reveal to them their work conditions, but it would also help them to overcome misconceptions, like to let them know when a cab doesn't show up it's not always the driver's fault."

James is actually a very disillusioned lease driver. Asked whether he thought he would be driving a taxi for three years when he first took the job, he talks about the "terrifying process" of living on diminishing savings as he tries to continue writing. James went into the taxi industry without a clue about it and believes that he is "just picking up" an understanding:

They [the company] don't help you at all. I'm always able to pay the lease on time, but god help me... There are a lot of games that companies will play with drivers that owe them money. They will become the noose around your neck, and they'll tighten and loosen it, tighten and loosen it.

He continues: "It undermines the integrity of the human being." Another driver expressed similar thoughts in saying that his dignity was being undermined. James contends that companies are able to buy out the city government and "those creatures that work for the DOT and up." He said, "I don't have a problem with taxi cab starters themselves, but once you get up to the next level."

All the foregoing problems are aggravated for many drivers by what they see as the social stigma attached to driving a cab. Edward feels that his wife and kids are embarrassed about what he does for a living, although they have never discussed the subject. He regrets that he can't afford to quit and must continue driving. As a result of what he believes is shame attached to cab driving, even trivial tasks become burdensome. For example, in order to take his wife grocery shopping, he must go home first and switch cars because his wife does not like going anywhere in the cab since she is embarrassed. Edward doesn't tell his friends what he does.

Omar takes pride in driving but lives with the knowledge that his children don't feel the same way:

Both of my kids are ashamed to tell their friends that their dad is a taxi driver. Anytime they need a ride, I have to take them in another car. Before, they didn't have this problem. As a matter of fact, I'm trying to sell my car right now and get out of this business. I will try another business.

Leo recalled the time he drove his son to a birthday party and he said, "Dad, I don't want to be seen in your taxi.' I didn't like that but kids at that age are cruel sometimes. I understand. I had to drop him off a block before."

For drivers like Mustafa, the poignancy is compounded. He holds a professional degree from in his words "a third world country" and his degree is no good in the United States. "My kids, they don't think highly of driving a cab. They are ashamed to ride the cab because everybody thinks low of a cab driver, even though most cab drivers are highly educated. I have an engineering degree."

Two drivers spoke about their ethnic communities and the low regard for taxi driving. Ivan said:

Yes, well sure, most of my friends think that I am just losing my time and instead of doing something you know, because, there is an opinion in like Russian, in our community, whatever you do is better than driving a cab....anything....in our community it's ok if you don't speak English or if you have some other disadvantages, but if you can speak English and you drive a cab people think you are stupid or lazy...that's how to be a cab driver in Russian community.

Speaking about the Iranian community, Sherif remarked:

Iranians try to be friends with people of a better class. Taxi is low class in every country. That's why you don't see Americans driving taxis. Mostly foreigners because they're not from here, so they don't care. The only ones you see are old and don't care. Cab driving doesn't have good social image so no one wants to have relations with you. If I get another job, more people will want to be family friends with me.

Similar to renters who bankers treat as second class citizens because of their lack of equity, taxi drivers face awkward situations. Hassan gives an example of this:

I went to go buy car. Dealership asked me, how much do I make a month. \$3,000-\$4,000 net. Do you have paycheck stub? I give my company's information to finance company and they call. But they answer. He only drive for our company for two years and he pay lease \$500 a week. This is major issue. Nobody approve you.

H. Pride and Resilience

Notwithstanding all the foregoing, drivers often report a sense of pride in their work and the service they provide. Omar refers to taxi work this way:

We are a public service so I feel like part of larger community. Out-of-town lawyers have to get to court to defend cases. We give them rides so they can do that. We facilitate people's activities and lives, make it easier for them.

Even when he is exhausted, pride surfaces. Omar said, "I'm a professional. When the meter is running, it's like you gave me the strongest coffee."

Sherif asserts that "I am a cab driver, I'm not someone driving a cab. I'm not just driving." Comparing himself to the chauffeur in the movie and stage play *Driving Miss. Daisy*, he pulled out his Blackberry during the interview to show the hundreds of numbers he keeps in there, his loyal customers. He explains:

I have customers for years and years. I have customers that pay me double, instead of \$60 or \$70, they will pay me \$110 or \$120. These are the customers I have, this is the service I give . . . I'm doing something they appreciate it.

He explains that the customers in the list are his "extra customers" since he can't just survive on daily fares alone.

Leo approaches taxi driving strategically and was able to move from being a lease driver to owning, purchasing an extra cab for a good price with a business partner after 9/11. He selects hours to drive when fewer drivers are on the road and locations where less competition exists, as in Westwood and Brentwood. He focuses because:

Driving in LA is like a chess game. You have to think 2-3 cars ahead. Woman driving while talking on the cell phone, driver who is eating – you find a better position on the road.

His recommendations for navigating the taxi industry are:

Learn the business. Know what you're doing behind the wheel and it will get better. And no matter what you do, do it well. If you're gonna drive a taxi, still be a human being. Keep your cab clean. It's sad seeing cab drivers who want to save a dollar or two and don't turn on their air-conditioner. The passenger suffers. When I run the air-conditioner all day, I make more money. People pay more.

Haddad, an owner who has been driving for 19 years, expresses pride in his knowledge when he is critical of customers getting into his cab with printouts from www.mapquest.com. This "is annoying because it's for people who don't know their way. . . it's meant for people from out-of-town." Haddad describes the situation as one where people will bring these sheets and think they know more than him about how to get around.

IV. THE TAXI BUSINESS FROM THE TOP DOWN: TAXICABS IN THE ECONOMIC AND REGULATORY SYSTEM

A. The Place of Taxicabs in Los Angeles Transportation Planning

Despite their importance to key segments of the public – from tourists and business travelers to the City's disabled poor and elderly – taxicabs are virtually ignored in the transportation planning of the City of Los Angeles. The state-mandated Transportation Element of the City's General Plan never addresses taxis directly, but only mentions them in passing on other topics.³⁸ In contrast to other cities, Los Angeles appears to treat taxicabs as a nuisance to be regulated, rather than an essential component of a multimodal transit system. As we discuss below, this attitude is most recently illustrated in the reluctance of City transit planners to support a "hail cab" system even in downtown Los Angeles – leaving subject to citation the cab driver who responds to the familiar outstretched arm of a passenger seeking only to get on his or her way.

While our focus is primarily on the circumstances of taxi drivers and the nature of the taxi industry that may account for those circumstances, it is important for the City to recognize that a healthy taxi industry with competent, healthy taxi drivers working a tolerable number of hours each week can be an important supplement to the City's other efforts to improve its much maligned traffic and transit system. This is especially so given the added emphasis that planners are giving to support in-fill development with increased density that encourage walking neighborhoods.

³⁸ The full Transportation Element is available at <http://cityplanning.lacity.org/> (last visited August 31, 2006). It mentions the provision of financial support to students and seniors so that they can use taxis, among many other possible modes; improving the multi-modal function of transit centers to facilitate transfers from one mode to another; and "transit friendly site design, where appropriate" to facilitate "smart walking and taxi queuing."

Gail Goldberg, the new Director of the Los Angeles Department of City Planning, raises questions about transforming neighborhoods into places where many daily needs can take place – e.g., access to dry cleaners, doctors, nearby schools, variety of housing types, etc. Transformation, she says, cannot occur at the same time as accommodating the “current rate of car ownership, that’s about 675,000 cars.”³⁹ This would require “37 square miles of parking.” The simultaneous maturation of neighborhood councils signals potential for Los Angeles to pioneer new ideas about taxis and their regulation that may further neighborhood planning for the 21st century.

In the conventional view, Los Angeles is not a “taxi town” because of its sprawl. In fact, however, Los Angeles is no longer the sprawl capital of the United States. Parts of the city – downtown, Hollywood, Ventura Boulevard -- are among the densest in the country. Still, Los Angeles has the lowest ratio of taxi and limousine drivers at 0.9 to 1,000 population for a large metropolitan area compared to 4.6 for New York City, 3.0 for Las Vegas, 1.6 for Washington, D.C., 1.4 for Boston, 1.3 for San Francisco, and 1.2 for Chicago⁴⁰. By these accounts, Los Angeles is not a “taxi town” although one study estimates LA’s combined taxi and limousine driver population of 7,700 ranks with all the other large metropolitan areas listed above except New York City and Las Vegas. Of course New York and Las Vegas are unique cities and Los Angeles’ potential “trip density” is unlikely to equal that of midtown Manhattan or the Las Vegas Strip. But neither are taxis as irrelevant to our transportation planning as our transportation planners seem to have assumed for many years. As one industry insider put it: “In Los Angeles taxis are not seen as a transportation resource, but a nuisance to be regulated.” In the next section, we examine that system of regulation.

B. The Regulatory System

California assigns to each city the responsibility of regulating the taxicab industry within its borders in order to “protect the public health, safety, and welfare”.⁴¹ At a minimum, each city (or county, for unincorporated areas) must adopt ordinances or resolutions that establish a policy for entry into the taxicab business and taxicab rates.⁴² In Los Angeles, each taxicab franchise is contained in a separate ordinance, enacted by the City Council and signed by the Mayor. Not coincidentally, perhaps, taxicab companies and their principals have long constituted one of the largest sources of political campaign contributions in the City. When it comes to taxicabs, there is no regional planning or regulation of taxicabs, despite the fact that taxicabs obviously transit across many city boundaries in the course of their travels. Taxi drivers are permitted to deliver passengers to any jurisdiction, but they can legally pick up passengers in a city only under the authority of a permit issued by that city. Each city has separate regulatory schemes and the issuing of franchises in each city is accompanied by substantial lobbying

³⁹ *Unhealthy by Design? Not if Cities Plan Liveable, Dense, Walkable Neighborhoods* (June 2006), available at http://www.planningreport.com/tpr/?module=displaystory&story_id=1174&format=html (last visited August 31, 2006).

⁴⁰ BRUCE SCHALLER, *THE CHANGING FACE OF TAXI AND LIMOUSINE DRIVERS: U.S., LARGE STATES AND METRO AREAS AND NEW YORK CITY* (2004).

⁴¹ CAL. GOV’T CODE § 53075.5(a) (Deering 2006). In unincorporated areas of counties, the respective county has jurisdiction.

⁴² CAL. GOV’T CODE § 53075.5(b) (Deering 2006).

effort and campaign contributions by taxi companies. We leave to a later section of this report some of the negative consequences that flow from this arrangement, itself the product of state law.

1. The Award of Taxi Franchises, Politics and Campaign Contributions

Taxicabs are considered a public utility in the City of Los Angeles.⁴³ Taxicab franchises are awarded by the City Council and Mayor by ordinance. The monitoring and enforcement of the requirements of franchise ordinances is delegated to the Board of Taxicab Commissioners and the Los Angeles Department of Transportation. The Mayor and City Council, respectively, appoint and confirm the members of the Board of Taxicab Commissioners, which is staffed by LADOT, under the overall supervision of the General Manager of LADOT.

It is thus not surprising to observers of Los Angeles municipal politics that the taxi industry is among the largest source of political campaign contributions to members of the City Council. The *Los Angeles Times* reported that in 2000 (the last year new franchises were awarded), taxicab companies paid lobbyists \$288,000 in that year and made nearly \$40,000 in contributions to council and mayoral candidates between 1998 and 2000. This did not count the \$34,000 contributed by the industry to the unsuccessful state Assembly race of former City Council Transportation Committee chair Rudy Svorinich.⁴⁴

We conducted our own non-exhaustive review of campaign contributions to council and mayoral candidates by major figures in the taxi industry (executives, board members, lobbyists) from 1998 to the present. We did not include donations from spouses or domestic partners of most of these individuals. We identified a total of \$199,573 in such donations, most often to mayoral candidates or members of the Council's Transportation Committee. By far the largest single donor (\$23,450) was Scott Schaffer, former secretary and director of San Gabriel Transit/City Cab, who is as of this writing awaiting sentencing on federal criminal charges unrelated to the taxi industry.

We were also told, but could not confirm, that some taxi industry interests had made very large political contributions by laundering campaign contributions through donations from individual taxi drivers and their owners, who were then reimbursed by their companies either directly or by reductions of payments due the company. We did not confirm this allegation, but do note that the current system of reporting campaign contributions would make it difficult, albeit not impossible, to detect the laundering of campaign funds through the coordination of smaller donations. The City might run the database of campaign contributions against the list of licensed taxicab drivers (and others residing at the same addresses), but to our knowledge no one in the City has ever done

⁴³ LOS ANGELES, CAL., ADMINISTRATIVE CODE § 22.484(g)(2)(B)(1)(ii) (2000). [Old City Charter art. XX, § 212 (pre-2000)].

⁴⁴ *Time Donut Taxi Firms Spend a Lot on Lobbying*, L.A. TIMES, Nov. 29, 2000, at B1.

this. Beyond this observation, we draw no conclusions from these facts that observers of the City's political culture have long noted.

a. Awarding the Franchises by Ordinance

Since 2000, the City of Los Angeles has been "the only large metropolitan area in the United States to use a franchising system to regulate taxis" but, as in other jurisdictions, most drivers are independent contractors.⁴⁵ Currently nine taxicab franchises (i.e. taxicab companies) in Los Angeles operate 2303 taxis.⁴⁶ In order to operate a taxicab in Los Angeles, one must have a franchise agreement with the City and each specific vehicle is required to be separately permitted by the Taxicab Commission.⁴⁷ Although the City Council makes decisions regarding the granting of franchises or any other action that affects an existing franchise, all franchise applications are first sent to the Board of Taxicab Commissioners for review and recommendation.⁴⁸ The Taxicab Commission must investigate applications and report to the City Council with its opinion.⁴⁹ Practically speaking, this duty is then passed along to LADOT.⁵⁰

Prior to 2000 there was no uniform system of taxicab franchise contracts. Each company had a different agreement with the City with differing terms that tended to correlate to the lobbying efforts of each company.⁵¹ In 2000 there was a push to create a uniform system. The Taxicab Commission determined how many taxicabs were needed for Los Angeles and divided the city into five geographical zones. Taxicab franchises then bid on the zones and for an allotted number of taxicabs to operate in each zone.⁵² The Taxicab Commission awarded franchises based on scoring criteria: 35% quality and feasibility of management business plan; 25% company experience; 20% management and administrative experience; 15% character qualifications; and 5% company identification, structure and organizational procedures.⁵³

The new franchise agreements went into effect in January 2001 and are still in effect today. Under the current agreements L.A. Taxi Co-Operative controls the most taxicabs, more than two and a half times as many as any other company and more than

⁴⁵ Nelson/Nygaard Consulting Associates, "Making Taxi Service Work in San Francisco, Appendix E, Regulating Outcomes, Not Inputs," p. 3.

⁴⁶ City of Los Angeles Taxi Services, <http://www.taxicabsla.org> (last visited Apr. 25, 2006).

⁴⁷ LOS ANGELES MUNICIPAL CODE § 71.02(b) (2001).

⁴⁸ LOS ANGELES ADMINISTRATIVE CODE § 12(a) (2000).

⁴⁹ LOS ANGELES ADMINISTRATIVE CODE § 12(b) (2000).

⁵⁰ See Memorandum from Thomas M. Drischler to Board of Taxicab Commissioners, "Recommendation to award franchises for the operation of taxicab transportation services in all service zones of the city of Los Angeles," (Oct. 19, 2000).

⁵¹ Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles (Apr. 13, 2006).

⁵² *Id.*

⁵³ Memorandum from Thomas M. Drischler to Board of Taxicab Commissioners, "Recommendation to award franchises for the operation of taxicab transportation services in all service zones of the city of Los Angeles," page 6 (Oct. 19, 2000).

ten times as many as the smallest company.⁵⁴ Of the nine franchised companies, eight are structured as co-operatives of owner-operators or owner-investors. However, only 40% of the active drivers are owner-operators, the other 60% lease their cabs from either the company or another driver.⁵⁵ One company, City Cab, is owned by a single operator who leases all taxicabs to drivers. City Cab was also the only new company to be granted a franchise agreement in 2000.⁵⁶

2. Administration of the Franchises: Overview

Although the Board of Transportation Commissioners⁵⁷ (Transportation Commission) has powers and duties over nearly all other privately-owned public utilities in Los Angeles, taxicab utilities are placed under the jurisdiction of the Board of Taxicab Commissioners (Taxicab Commission).⁵⁸ Prior to 1999, taxicab utilities fell under the Transportation Commission, but as it consumed a disproportionate amount of the Commission's time, the City decided to make a separate department to focus entirely on the taxicab industry.⁵⁹ The General Manager of the Los Angeles Department of Transportation has general authority over the regulation of the privately-owned public utilities,⁶⁰ and both the Transportation Commission and the Taxicab Commission have an advisory relationship to her.⁶¹

(1). Board of Taxicab Commissioners

Notwithstanding its advisory capacity, the Taxicab Commission has authority and the duty to investigate all taxicab companies in Los Angeles, and to compile information to determine proper services and charges.⁶² The Taxicab Commission has the right to

⁵⁴ *Id.* at 2-3. L.A. Taxi Co-Operative, Inc. (dba Yellow Cab and Fiesta Taxi) is authorized to operate 739 taxicabs; United Independent Taxi Drivers Inc. (dba United Independent Taxi) is 289; Los Angeles Checker Cab Company, Inc. (dba Checker Cab Co.) is 269; Bell Cab Company, Inc. (dba Bell Cab) is 261; Independent Taxi Owners' Association (dba Independent Taxi Company) is 246; San Gabriel Transit, Inc. (dba City Cab) is 166; Beverly Hills Transit Co-operative (dba Beverly Hills Cab Company) is 163; United Independent Taxi Drivers, Inc. (dba United Taxi of San Fernando Valley) is 100; South Bay Co-Operative, Inc. (dba United Checker Cab Company) is 70.

⁵⁵ Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles (Apr. 13, 2006).

⁵⁶ *Id.*

⁵⁷ The Board of Transportation Commissioners is the successor to the Board of Traffic Commissioners, the Board of Public Utilities and Transportation, and the Board of Parking Commissioners. LOS ANGELES ADMINISTRATIVE CODE § 22.484(a) (2000).

⁵⁸ LOS ANGELES ADMINISTRATIVE CODE § 22.484(g)(2) (2000). *See also* LOS ANGELES ADMINISTRATIVE CODE § 13.2 (2000).

⁵⁹ Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles (Apr. 13, 2006). Interview with Joseph Czyzyk, President, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles, (April 13, 2006).

⁶⁰ LOS ANGELES ADMINISTRATIVE CODE § 22.483(a)(7) (2000).

⁶¹ LOS ANGELES ADMINISTRATIVE CODE § 22.484(g)(1) (2000); LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(1) (2000). The current General Manager is Gloria Jeff, former Director of the Michigan Transportation Department.

⁶² LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(2)(A) (2000).

access “at all reasonable times” the “property and records of the utilities for the purpose of investigation” and can also require reports from the companies.⁶³ The Taxicab Commission is charged with establishing regulations “for the operation of, the extent, character and quality of service, the rates to be charged by and the extensions to be required of, any of those taxicab utilities. . . .”⁶⁴ Any proposed regulation must follow certain public notice and comment procedures and any resolution fixing rates must be approved by the City Council.⁶⁵ Other statutory duties of the Taxicab Commission include: investigating complaints against the taxicab companies,⁶⁶ inspecting the taxicab companies for compliance with their franchises, city and state laws, and general service, and enforcing compliance,⁶⁷ and keeping a record of all public taxicab utility franchises granted by the City.⁶⁸

(2). LADOT and the Taxicab Administrator

Like other city commissions, the Taxicab Commission is required to hold a meeting at least once a month that is open to the public.⁶⁹ Tom Drischler, the Taxicab Administrator for the LADOT, serves as the Executive Director to the Taxicab Commission.⁷⁰ Drischler supervises engineers and other taxicab-related staff at the LADOT.⁷¹ LADOT administrative staff is responsible for issuing permits to taxicab drivers.⁷² The investigative staff inspects taxicabs and drivers for compliance with state and local rules and issues citations.⁷³

The Taxicab Administrator and the Senior Transportation Engineer have the power, authority, and immunity of a public officer to make arrests without a warrant for infractions committed in their presence.⁷⁴ The Chief Transportation Investigators, Senior Transportation Investigators and Transportation have the immunity, authority, and powers of arrest of a peace officer to enforce any state law or city ordinance falling under the LADOT’s jurisdiction.⁷⁵ All of the above also have the authority to issue citations for offenses falling under LADOT’s jurisdiction and to subject the offender to administrative hearings and penalties.⁷⁶ They each also have the authority to obtain state and local criminal history information.⁷⁷ LADOT and the Taxicab Commission use this authority

⁶³ *Id.*

⁶⁴ LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(2)(B) (2000).

⁶⁵ *Id.*

⁶⁶ LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(2)(C) (2000).

⁶⁷ LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(2)(D) (2000).

⁶⁸ LOS ANGELES ADMINISTRATIVE CODE § 22.488(g)(2)(E) (2000).

⁶⁹ LOS ANGELES ADMINISTRATIVE CODE § 22.488(e)(2) (2000).

⁷⁰ Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles, (Apr. 13, 2006).

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Id.*

⁷⁴ LOS ANGELES MUNICIPAL CODE § 71.01.1(a) (2001).

⁷⁵ LOS ANGELES MUNICIPAL CODE § 71.01.1(b) (2001).

⁷⁶ LOS ANGELES MUNICIPAL CODE § 71.01.1(c) (2001).

⁷⁷ LOS ANGELES MUNICIPAL CODE § 71.01.2 (2001).

when granting (or denying) permits to drivers and affirming (or denying) membership to a taxicab coop board.⁷⁸

(3) City Involvement with the Franchisees

The franchise agreements provide the City with the means to regulate and control the industry. Companies (franchisees) are required to submit a variety of paperwork to the Taxicab Commission including: a current list of members, employees, and lessees along with each person's current address at the beginning of each month;⁷⁹ and an annual Management/Business Plan which is required to be approved by the Taxicab Commission and must include the company's organizational structure and procedures; management/administrative structure and procedures; financial status and related information; programs and activities for driver training, testing, supervision and social benefits; and record keeping among other things.⁸⁰ The Taxicab Commission is even more involved in the companies that are structured as membership organizations (i.e. the eight co-operatives). Membership organizations are required to elect a Board of Directors and officers and to submit the names of the directors and officers to the Taxicab Commission for approval.⁸¹ Membership organizations are also required to submit their bylaws to the Taxicab Commission for review and approval.⁸² Additionally, the City imposes certain restrictions on the makeup of the membership of the co-operative organizations and limits members to owning a maximum of five percent of the total taxicabs in the franchise.⁸³

The Taxicab Commission may suspend a taxicab franchise for noncompliance with franchise terms, Board rules and order, Department directives, or the State Vehicle Code; or when the holder of a majority interest illegally conducts any type of public transportation operation (this can result in suspension of one or more fleet vehicles and/or suspension of the right to pick up at certain taxicab stands and at Los Angeles International Airport (LAX)).⁸⁴ Any suspension that lasts for 30 days or more or that exceeds an aggregate of 30 days in a 12-month period may be appealed to the City Council.⁸⁵ In addition to suspension of a franchise, the Taxicab Commission can give monetary penalties for violations.⁸⁶ Pursuant to this authority, the Board must set a schedule of penalties, a procedure for assessing them, and an appeal procedure.⁸⁷ Any penalty assessment exceeding \$30,000 is subject to appeal to the City Council

⁷⁸ Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles (Apr. 13, 2006).

⁷⁹ § 204 Taxicab Rules and Regulations of the Board of Taxicab Commissioners, City of Los Angeles (May 1999). *See also* Sample Franchise Agreement § 4.2(f) p12.

⁸⁰ Sample Franchise Agreement § 4.2(h) p12-13.

⁸¹ Sample Franchise Agreement § 6 (b), p28; Interview with Thomas M. Drischler, Taxicab Administrator, Board of Taxicab Commissioners of the City of Los Angeles, Los Angeles (Apr. 13, 2006).

⁸² Sample Franchise Agreement § 6 (c), p28.

⁸³ Sample Franchise Agreement § 6.2, p29.

⁸⁴ LOS ANGELES MUNICIPAL CODE § 71.02.1(a) (2001).

⁸⁵ LOS ANGELES MUNICIPAL CODE § 71.02.1(b) (2001).

⁸⁶ LOS ANGELES MUNICIPAL CODE § 71.02.2(a) (2000).

⁸⁷ LOS ANGELES MUNICIPAL CODE § 71.02.2(b) (2000).

3. Areas of Regulation Under the Franchise Ordinances

The franchise ordinances give the City the power to extensively regulate the taxi companies, both in terms of service delivery standards and, to some extent, their internal operations.

1. Service Delivery

Franchisees are required to dedicate a specific percentage of their fleet to specific “Primary Service Areas,” which are comprised of one or more of the five geographically defined “Service Zones” in the City.⁸⁸ Each company is also required to deliver to LADOT on a monthly basis very detailed data regarding the delivery of taxi services, including 100% of service order and response data and summaries of data regarding response times.⁸⁹ These service delivery data are utilized in deciding whether to extend or award a taxi franchise. In addition, the fee paid by the franchisees to the City is determined, in part, by the level of service delivered by the franchisee, as measured by a Service Factor computed by a rather complicated formula set forth in the *Taxicab Rules* adopted by the Board of Taxicab Commissioners.⁹⁰

A substantial part of the work of the Taxi Commission and Administrator is devoted to monitoring the performance of the franchised companies in delivering service to the public, as they are directed to do in each franchise ordinance. The Taxicab Commission has developed and occasionally modified both a set of “Taxicab Operator Performance Review and Evaluation Criteria” and a Taxicab Service Index (TSI) scoring guideline that results in the computation of an overall score for each company on a 115 point scale. For example, the TSIs computed for companies for 2004 ranged from a low of 30 (City Cab) to 110 (Bell Cab).⁹¹ The TSI is computed based on data on taxicab company performance in the following areas:⁹²

- Taxicab Service On-Time Response in Primary Service Area
- Telephonic Phone Service Response Time
- Telephonic Phone Service - Hold Time
- Number of Complaints Received Through the City
- Number of Driver and Operator Violations Assessed
- Magnitude of Driver and Operator Violations Assessed
- Vehicle Inspection - Inspections Failed on First Attempt
- Payment (to City) Timeliness - Number of Late Payment Incidents.

⁸⁸ Form Ordinance supplied by Taxi Administrator Tom Drischler (hereafter “Form Ordinance”), Section 4.1(a).

⁸⁹ Form Ordinance, Section 4.5

⁹⁰ LOS ANGELES MUNICIPAL CODE § LAMC 71.05(b)(5) and Taxicab Rules, § 800.

⁹¹ Data supplied by LADOT (TaxicabSvc index scoring 2004)

⁹² Board Order No. 021 Amending Board Order No. 013; Final Resolution of The Board Of Taxicab Commissioners of the City Of Los Angeles (Aug. 29, 2002).

Although collection of data for all these variables would seem an immense task, it is rendered much easier because all of the taxi companies utilize digital dispatch systems that produce data files that can be delivered to LADOT for analysis. In addition, according to LADOT, they conduct spot tests to determine whether the data being delivered by the companies accurately reflect events in the field.

2. Drivers and record keeping

The City (through the Taxicab Commission and LADOT) also regulates companies and drivers in a multitude of other areas, including:

- the dress of drivers (black dress pants, white dress shirt, black tie, black shoes with socks)⁹³
- the age and mileage of taxicabs⁹⁴
- the keeping of records of shifts, trips and fares, including detailed waybills, by drivers and companies⁹⁵
- the licensing and qualifications of drivers.⁹⁶

3. Operation of Co-operatives

The City regulates the internal operations of those taxicab companies (8 out of 9) that are associations or co-operatives. Under the terms of the Form Ordinance, Driver/Manager members of these organizations are not allowed to control and manage more than three taxicabs.⁹⁷ In addition, for example, these organizations are required to:

- supply the home mailing addresses of all members on a quarterly basis⁹⁸
- have any new member provide detailed information to LADOT⁹⁹
- notify LADOT when any member transfers stock in a Subchapter S corporation that is a permittee.¹⁰⁰

4. Financial and operational regulation

Under the terms of the franchise ordinance, the companies must submit annually a Management/Business Plan for how the company plans to carry out its obligations.¹⁰¹ The plan must include, at least, the following:

⁹³ *Taxicab Rules*, Rule 212.

⁹⁴ *Taxicab Rules*, Rules 401, 447, 448.

⁹⁵ *Taxicab Rules*, Rules 312-321.

⁹⁶ *Taxicab Rules*, Rule 600.

⁹⁷ Form Ordinance, 6.2(d).

⁹⁸ *Taxicab Rules*, Rule 530.

⁹⁹ *Taxicab Rules*, Rule 559.

¹⁰⁰ *Taxicab Rules*, Rule 584.

¹⁰¹ Form Ordinance, § 4.2 says this Plan will be used, "as the basis for evaluating the capability of the Grantee to provide taxicab operations and service in accordance with the service demands of the public and standards of the City."

- Grantee Organizational Structure and Procedures;
- Management/Administrative Structure and Procedures;
- Financial Status and Related Information;
- Dispatch and Communications - Description of Facilities, Personnel and Technology;
- Operating Location(s), Storage/Parking of Vehicles, Maintenance and Inspection - Description of Facilities and Personnel;
- Programs and Activities for Driver Training, Testing, Supervision and Social Benefits;
- Vehicle Maintenance and Inspection;
- Procedures for Maintaining Service Levels, Programs for Addressing Service Deficiencies;
- Service/Operation Procedures for Discipline, Driver Evaluation, Complaint Processing and Accident/Safety Control;
- Special Programs, Agreements and Services;
- Record Keeping;
- Grantee's Plan Evaluation & Response to Changes or Additions.

Finally, franchisees are required to post a bond for the term of the franchise¹⁰² and maintain "a policy of insurance or a program of self-insurance" covering all their taxicabs¹⁰³ and to provide evidence of such insurance or self-insurance program with LADOT.¹⁰⁴

5. Enforcement of regulations regarding franchisees

A serious violation of a franchise agreement is grounds for termination of the franchise, although this has not happened in many years. A more common, though still unusual, consequence of violations is monetary penalties, on the following schedule:

- Up to \$10,000 for the first offense.
- Up to \$25,000 for the second offense within a 12-month period.
- Up to a maximum of \$50,000 for third and subsequent offenses within subsequent 12-month periods.

4. City Regulation of Service to LAX through ATS

According to virtually every person with whom we spoke, serving passengers at LAX provide a very large proportion of the total fares earned by drivers and companies. Each taxicab franchised in the City is given one of five stickers (A through E), and can pick up passengers at the airport only every fifth day. Regulation of taxi service at LAX

¹⁰² Form Ordinance § 5.2.

¹⁰³ LOS ANGELES MUNICIPAL CODE § 71.14, Form Ordinance Section 4.7(a)

¹⁰⁴ Form Ordinance § 4.7(c)

is structured similarly to the Taxicab Commission system. The Department of Airports was established by the Los Angeles City Charter and is managed and controlled by the Board of Airport Commissioners (Airport Commission).¹⁰⁵ As is commonly known, LAX is also serviced by shuttles (like SuperShuttle), limousines, and more recently Los Angeles World Airport's own FlyAway Bus.¹⁰⁶

Taxicabs serving LAX are closely regulated by the Department of Airports (aka LAWA). Until 1991, LAWA contracted with a private company, Taxicab Management, Inc. operated and solely owned by Behzad Biteraf.¹⁰⁷ Following an extensive, but inconclusive, police investigation of illegal campaign contributions and kickbacks by Taxicab Management, Inc. in 1991, taxi operations at LAX were contracted to a nonprofit organization, Authorized Taxicab Supervision, Inc. (ATS.). ATS was incorporated by Biteraf himself in March 1991.¹⁰⁸ The board of ATS is comprised of representatives of each of the franchised taxicab companies allowed to serve LAX. Biteraf remains the General Manager of ATS, which operates as a tax-exempt corporation, with a budget of over \$3.5 million in 2004, almost all of which comes from the \$2.50 surcharge paid by passengers departing LAX in a taxi.¹⁰⁹ Along with the Airport Police, ATS is charged with enforcing the rules of the Airport Commission and LADOT, and managing the taxicab holding lot at LAX. ATS has the power to impose penalties on the taxicab drivers and has established hearing procedures with an appeals process to the Airport Commission.¹¹⁰

In recent months, there have been several controversies regarding the operation by ATS of the holding lot and the treatment of drivers by both Airport Police and ATS employees. We did not conduct any separate investigation of these controversies and express no opinion regarding them. One informant, however, who had previously been a member of the ATS board of directors, made certain allegations regarding the operation of ATS that bear further investigation. As noted above, ATS is a nonprofit corporation, the board of directors of which is entirely composed of representatives of taxicab companies and still operated on a day to day basis by the same gentleman who previously operated the enterprise. This informant told us that members of the ATS board were paid \$500 per meeting and that the meetings were generally held at expensive restaurants, with the tab picked up by ATS. Given that some of the recent controversies between drivers and ATS management relate to whether ATS can afford to provide additional shade, better drinking fountains, and cleaner restrooms, these allegations merit further investigation. We did not so investigate, other than to obtain the federal IRS filing of ATS (the Form 990 required to be filed by tax exempt organizations). The 2005 filing

¹⁰⁵ LOS ANGELES ADMINISTRATIVE CODE § 23.1 (2000).

FlyAway Service Between Los Angeles' Union Station and LAX, <http://www.lawa.org/flyAwayInfo2.cfm> (last visited August 30, 2006).

¹⁰⁶ <http://www.lawa.org/flyAwayInfo2.cfm>

¹⁰⁷ Rich Connell, *Cerrell's Records Seized as Taxi Inquiry Widens Lobbyist*, L.A. TIMES, Apr. 26, 1991, at B1.

¹⁰⁸ Articles of Incorporation, Authorized Taxicab Supervision, Inc. (March 11, 1991).

¹⁰⁹ IRS Form 990 filed by ATS on Oct. 24, 2005, available at www.guidestar.org.

¹¹⁰ *Id.*

with IRS shows that the nonprofit ATS had \$880,000 in fund balances at the end of 2005.¹¹¹

C. Enforcement of Laws and Regulations Regarding “Bandit Cabs” and “Town Cars” and Limousines Operating Illegally

In addition to regulating those taxi companies that operate legally and pay the City for a permit to operate, the City is also charged with regulating illegal competition that would otherwise render the franchises meaningless. This competition comes in several forms, chiefly “bandit” cabs¹¹² and limousines or “town cars” operating illegally. There are several forms of “bandit” cabs: (1) taxicabs authorized by the City to operate in certain zones but that operate outside their licensed zones; (2) taxicabs legally permitted to operate in other jurisdictions (e.g., Santa Monica), who pick up passengers in Los Angeles without a permit; (3) taxicabs that lack permits to operate from any jurisdiction but that appear to unsophisticated passengers to be legitimate taxicabs, bearing trade dress and insignia that mimic licensed taxicabs; and (4) individuals driving private cars that do not mimic taxicabs but who transport passengers for hire. The last two categories of “bandits” are both generally thought more numerous and more dangerous to the public. These completely illegal “bandit” cabs must pass no inspection and may be completely uninsured. “Bandit” drivers may be bad drivers with a history of serious traffic violations or worse, since they must pass no background check.

It is not difficult to spot bandit cabs; indeed, one can spend an hour on some street corners in parts of Los Angeles and expect to see several plying their trade. Limousines and “town cars” operating illegally in direct competition with franchised taxicabs are more difficult to separate from those complying with the law and the regulations issued by the state Public Utilities Commission, which has jurisdiction over limousines, shuttles, buses and most carriers other than taxicabs. Public Utilities Code Section 5360.5 requires limousines to operate on a “prearranged basis,” meaning that “the transportation of the prospective passenger was arranged with the carrier by the passenger, or a representative of the passenger, either by written contract or telephone.” Further, a limousine service or other “charter-party carrier” is forbidden to:

advertise its services, or in any manner represent its services, as being a taxicab or taxi service. For the purposes of this section, “advertise” includes any business card, stationery, brochure, flyer, circular, newsletter, fax form, printed or published paid advertisement in any media form, or telephone book listing.¹¹³

Thus, the line between taxicabs and limousines is, in theory, clear. The problem is that the line is very poorly policed by regulators.

¹¹¹ *Id.*

¹¹² In other cities, illegal taxicabs are sometimes called “gypsy” cabs, to the dismay of members of the Roma culture.

¹¹³ Public Utilities Code § 5386.5.

In 2002, the PUC instituted rulemaking in response to complaints from taxi operators and city officials:

Taxi operators complain that carriers are conducting taxicab or taxicab-like services under the guise of charter party operations. Activities complained of include providing service on short notice or in immediate response to telephone calls, conducting transportation that is predominately one-way and of short duration, obtaining customers by waiting at hotels, picking up passengers who hail the driver, advertising in a manner that suggests taxicab service, failing to prepare waybills, operating vehicles that bear a resemblance to taxicabs, and charging flat rates instead of on a time and/or mileage basis.

...

City officials complain that carriers engaged in these activities undermine their taxicab regulatory programs. These programs vary from city to city. In addition to liability insurance requirements, they may include limits on the number of franchises granted, licensing of individual drivers (which could entail a criminal background check), fare regulation, vehicle maintenance and appearance requirements, and service standards.¹¹⁴

The PUC apparently dismissed this rulemaking in 2003, but was directed by the legislature in 2004 to examine the same issues.¹¹⁵ The PUC required limousine drivers to possess a “waybill” that must include, among other things, the name and address of the person requesting the service, the time and date the service was requested, and the points of origin and destination¹¹⁶ and ordered drivers to show the waybill to, among others, any city official authorized to inspect waybills if the city imposes “reasonable rules for the inspection of waybills. . . for purposes of verifying valid prearranged travel.”¹¹⁷ *Apparently, the City has never taken exercised this authority and issued any such “reasonable rules.”*¹¹⁸

Nevertheless, many drivers, company officials and City regulators told us that limousines and “town cars” continue to operate illegally beyond the scope of “prearranged” travel, in direct competition with franchised taxicabs. What matters are not only the rules, but how (or whether) the rules are enforced. The PUC itself appears to look into illicit limousine operation only in adjudicating formal complaints -- essentially requiring the complainant to conduct administrative litigation in order to see that the PUC’s own rules are enforced.¹¹⁹ Limousine drivers effectively operating as

¹¹⁴ Order Instituting Rulemaking on the Commission’s Own Motion, Rulemaking 02-08-002, filed August 8, 2002, at 3-4.

¹¹⁵ AB 2591, Chapter 603, Statutes of 2004, adding Section 5381.5 to the Public Utilities Code: “The commission shall, by rule or other appropriate procedure, ensure that every charter-party carrier of passengers operates on a prearranged basis within the state, consistent with Section 5360.5.”

¹¹⁶ PUC General Order 157-D, effective February 24, 2005, Section 3.01.

¹¹⁷ *Id.*, and Public Utilities Code Section 5371.4(h).

¹¹⁸ Response of Alex Cameron, LADOT, to request under the California Public Records Act, August 31, 2006.

¹¹⁹ See, e.g., Opinion Partially Granting Complaint, *Gorgee Enterprises, Inc., et al, vs. Aram Davtyan, and Individual the Americas Dream Limousine Service*, Case 01-01-008, filed January 3, 2001 and Presiding

taxicabs are guilty of a misdemeanor¹²⁰ and a LADOT Investigator is authorized to make and arrest “whenever he or she has reasonable cause to believe that the person to be arrested has committed a misdemeanor or an infraction in his or her presence.”¹²¹

Given the scale of the problem of both bandit cabs and illegally operating limousines, the enforcement staff of LADOT is woefully inadequate. A force of only six (6) LADOT investigators and one supervisor is charged with policing both bandit cabs and illegal limousines across the 466 square miles of the City. Although these investigators are authorized to effectuate arrests, they are unarmed and are not permitted to make traffic stops. A bandit driver approached by a LADOT investigator can simply drive away, without fear of being pursued.

Among drivers interviewed for this study who concur are those who bitterly resent the City’s failure to address the problem of bandit cabs. Khalid stopped a cab that had the same number, same logo, same everything as his taxi, parked in front of a strip club on Hollywood Boulevard:

I got out to talk to the driver and I found out that it was a “gypsy” cab. I didn’t approach it, I just left. It was dangerous. Most bandit cabs are dangerous. They carry weapons. If something happened, it would be possible for someone to call me and blame it on me. But this is not my job. It’s DOT’s job.

He finds that limousines and town cars are the same as “gypsy” cabs, and the City doesn’t do anything about the issue. “Drivers complain to DOT and they don’t do anything.” Mustafa, for one, points out that some laws exist but are not enforced. He says that the City takes dues from taxi drivers every year and tells them that they will use part of the dues to fight bandit cabs, but this is not happening. He is licensed in L.A. He says:

If I picks up in other cities, I he will go to jail and pay \$3,000. But in Hollywood and LA, cops sit in their cars and bandit cabs will put up right in front of them and they do nothing. Often times, bandit cabs have hot meters that overcharge. Then they not only rip other cab drivers off but also the customers.

The City is on the verge of a new effort to address the “bandit” taxi problem, funded by a monthly fee to drivers, passed along to passengers at the rate of an additional 20 cents per mile. Under the terms an arrangement between LADOT and LAPD, LAPD will provide approximately 130 8-hour shifts of uniformed officers, with their police cruisers, to assist in policing bandit cabs and illegal limousines. Not only will these officers be authorized and equipped to make traffic stops, the fact that they are drawn from a much larger pool of personnel means that they will be able to conduct undercover

Officer’s Decision, *San Gabriel Transit, Inc., v. Titan Capital Corp, dba Valley Cab & Valley Transportation, et al*, Case No 01-10-012, filed October 10, 2001. Both cases involved alleged illicit limousine operations in Burbank, Glendale and Pasadena, and in the later case, Los Angeles.

¹²⁰ LOS ANGELES MUNICIPAL CODE § 71.02(c)

¹²¹ LOS ANGELES MUNICIPAL CODE § 71.01.1(a)-(b)

“sting” operations of various kinds. How effective this new effort will be remains to be seen. As we detail below, however, illegal taxicab competition is currently a serious drag on driver income, as well as dangerous to the public. And, as one company owner told us, unless the City controls bandits, it is not really delivering on its end of the franchise bargain.

V. THE TAXI BUSINESS FROM THE TOP DOWN: The “Co-operative” in the Los Angeles Taxicab Business

One cannot really understand either the current structure of the taxicab business in Los Angeles or some of the issues of concern to today’s taxi drivers and owners without knowing something about how the Los Angeles taxi business came to be dominated by organizations that either are, or claim to be, “co-operatives.” We do not purport to provide anything like a comprehensive history here. Rather, we explain how the current systems of City regulation and of the organization of taxi companies into “co-operatives” came about, and the historical context for current suspicions of corruption – well founded or not -- in the taxi business.

A. C. Arnholt Smith, the Las Vegas Connection and the Repeated Collapse of Yellow Cab of Los Angeles

From 1935 until 1973, the Yellow Cab Company had a legal monopoly on the most lucrative taxi business in Los Angeles: the central area of the city and service to the airport.¹²² By the 1970’s, Yellow Cab in Los Angeles and several other cities had become part of the Westgate conglomerate controlled by C. Arnholt Smith of San Diego, a principal backer of the presidential ambitions of Richard Nixon. In 1970, San Diego Mayor Frank Curran and most of the San Diego City Council was convicted of taking bribes from Smith’s Yellow Cab.¹²³ The resulting investigation probed connections between Smith and John Allessio, a Los Vegas gambler with reputed connections to the Mafia.¹²⁴ By 1970, Smith’s Yellow Cab had acquired about 75% of the taxi business in Los Angeles. The remaining companies included Wilmington Cab Company, controlled by the Rouse family of Long Beach that would later come to control the Yellow Cab franchise in Los Angeles.¹²⁵

C. Arnholt Smith’s empire, including Yellow Cab, collapsed in a massive scandal in 1973, involving the collapse of his U.S. National Bank, political corruption, and

¹²² Erwin Baker, *Council Moves to Expand City Taxi Service*, L.A. TIMES, May 22, 1974, at C8; Mike Goodman, *Yellow Cab Agrees to Accept City Competition*, L.A. TIMES, Nov. 9, 1973, at D1.

¹²³ Maria L. La Ganga & Tony Perry, *Its Ego Bruised, San Diego Asks: ‘What Next?’*, L.A. TIMES, Apr. 29, 2005, at A1.

¹²⁴ Don Bauder, *Sleaze Saga*, SAN DIEGO READER, Sept. 4, 2003, available at <http://www.sandiegoreader.com>.

¹²⁵ Eric Malnic, *City Council Gets Taxi Competition Proposals*, L.A. TIMES, Apr. 3, 1970, at B1.

allegations of ties between Smith and the Las Vegas mob.¹²⁶ Smith was later convicted of embezzlement and tax fraud and sentenced to prison.¹²⁷ In December 1976, Yellow Cab in Los Angeles was shut down because of insurance problems, themselves possibly the result of Smith's Westgate insurance companies siphoning money from his taxi operations. Whatever the cause both passengers and drivers were left in the lurch.¹²⁸ Here the story temporarily diverges. One consequence of the collapse of Yellow Cab was to create an opening for the emergence of two co-operative organizations of taxi-owner/operators, United Independent and ITOA, as we detail below. Yellow Cab itself survived. It did not, however, fall into the most capable or reputable of hands.

Eugene Maday was a Las Vegas gambler who, like C. Arnholt Smith, had reputed connections to the Las Vegas mob. In the 1970's a former Los Angeles Teamsters official, Homer L. (Dutch) Woxberg -- who had been Jimmy Hoffa's key spokesman on the west coast -- bought a unionized Las Vegas taxi company with money from the Teamsters' notorious Central States Pension Fund.¹²⁹ Woxberg sold that company to Maday,¹³⁰ owner of a reputed Mafia-connected Las Vegas casino, Little Caesars.¹³¹ Maday quickly got rid of Teamster's representation for Las Vegas drivers. In 1977, Maday also made a bet in at the bankruptcy auction in San Diego, paying \$500,000 for the C. Arnholt Smith's Los Angeles Yellow Cab franchise and rolling stock.¹³² Despite the union's problems with Maday in Las Vegas, the Teamsters helped Maday lobby the Los Angeles City Council to approve Maday's application for a franchise under the Yellow Cab banner in Los Angeles. Maday promised to recognize the union in Los Angeles and provide fair wages and benefits for drivers.¹³³

By 1981, however, Maday claimed he was losing money and demanded deep cuts in the wages of taxi drivers, who were then making about \$150 per week, and the elimination of their health insurance. In February 1981, the drivers struck.¹³⁴ The City, which had promised to allow Maday to raise fares, voted not to award Maday a new franchise unless he settled with his workers.¹³⁵ Maday refused and sued, losing in the lower courts, but eventually prevailing in the United States Supreme Court, which held in 1985 that the City had intruded into the federally preempted area of labor regulation. The Court found in a second case in 1989 that Maday and his Golden State Transit Corporation were entitled to damages from the City. The City settled with Maday in

¹²⁶ Al Delugach, *C. Arnholt Smith: Troubles Are Far From Over*, L.A. TIMES, Oct. 31, 1973, at D8; Denny Walsh, *Banker Friend of Nixon is Target of U.S. Inquiry*, N.Y. TIMES, Sept. 10, 1973, at 1.

¹²⁷ *Mr. San Diego Sentenced to Prison*, MIAMI HERALD, Oct. 11, 1984, at 6A.

¹²⁸ *West Coast Is Hit By Shortage of Taxis As Insurance Expires*, WALL ST. J., Dec. 2, 1976, at 20.

¹²⁹ Gene Blake & Jack Tobin, *Teamsters Funds Finance Taxi Deal*, L.A. TIMES, May 16, 1962, at 2.

¹³⁰ Harry Bernstein, *Attempting to Help the Working Poor*, L.A. TIMES, Jan. 21, 1992, at D3.

¹³¹ Deanna DeMatteo, *Little Caesars*, available at http://www.dicedealer.com/your_stories.htm.

¹³² Margaret A. Kilgore, *SBA, Bank Offer Loans to Cabbies*, L.A. TIMES, June 2, 1977, at F13.

¹³³ Bernstein, *supra* note 90.

¹³⁴ David G. Savage, *L.A. Loses Taxi Case In High Court Law*, L.A. TIMES, Dec. 6, 1989, at B1; *Teamsters Union Calls Strike of L.A. Yellow Cab Drivers*, L.A. TIMES, Feb. 12, 1981, at OC_A12.,

¹³⁵ Savage, *supra* note 94.

1992, agreeing to pay \$12.75 million in damages, interest and attorney's fees.¹³⁶ While his \$500,000 bet had paid off handsomely, Maday died of a heart attack in 1994.¹³⁷

In the meantime, the Yellow Cab franchise changed hands twice before being acquired in 1997 by a company controlled by a principal protagonist in our story, Mitchell Rouse. How Rouse came to acquire Yellow Cab and to transform it into a “co-operative” in 1998 while still maintaining economic control is another story, detailed below. This transformation to a “co-operative” would not have been possible, however, were it not for the organizing efforts of employee drivers who lost their livelihoods during the shutdown of Yellow Cab and virtually all taxi service in Los Angeles in 1976-1977, as mentioned above. The drivers who weathered the shutdown of Yellow Cab for seven months, in conjunction with the Los Angeles City Council, created the business form that still dominates the structure of the industry in Los Angeles, at least on paper: the owner/operator co-operative.

B. Emergence of the Co-operative Form in 1977: UITD and ITOA

In November, 1976, Los Angeles Yellow Cab (then owned by C. Arnholt Smith's Westgate California) shut down, ostensibly because it could not pay insurance premiums. Many believed that the shutdown occurred because of Smith's own self-dealing, in which the insurance companies controlled by Westgate charged excessive premiums to the Yellow Cab franchises controlled by Westgate, in order to move money from one part of the corporation to another.¹³⁸ Whatever the cause of the collapse of Yellow Cab, they also refused to pay the checks owed to Yellow Cab's drivers for the preceding two weeks. David Shapiro, who had been a driver intermittently with Yellow Cab since 1959 but who also was much involved in Democratic Party politics and political campaigns, took the lead in developing a proposal for a taxi company structured as a co-operative of individual entrepreneurs, taxi owner/drivers. The co-operative would manage the required common activities like dispatch, and bargain collectively for services like insurance to reduce costs. Another group of former Yellow Cab drivers also lobbied for a change in the law to permit such co-operatives of independent owner/drivers.¹³⁹

Taxi co-operatives were not a new phenomenon in 1976, but they were new to Los Angeles.¹⁴⁰ In April, 1977, the City Council approved an ordinance allowing for

¹³⁶ Penelope McMillan, *City Settles Yellow Cab Suit for \$12.75 Million*, L.A. TIMES, Jan. 8, 1992, at B1.

¹³⁷ *Eugene Maday: Casino Owner*, 66, N.Y. TIMES, Aug. 12, 1994, at A21.

¹³⁸ Interview with David Shapiro, founder and first President, United Independent Taxi Drivers, Inc., Los Angeles, California (May 31, 2006).

¹³⁹ Interview with Jerome Schnitzer, one of founders, Independent Taxi Drivers Association, Los Angeles (June 26, 2006). The reasons there were two co-operatives rather than one are somewhat unclear. At least in the perception of some, the founders of UITD were suspicious of the Teamsters connections of some of the founders of ITOA, although none of the founders of ITOA apparently held any significant Teamsters office.

¹⁴⁰ The Boston Independent Taxi Operators Association (also known as ITOA), was formed in 1924, also to challenge the dominance of the major taxi fleets. RAYMOND RUSSELL, *SHARING OWNERSHIP IN THE WORKPLACE* 108 (1985).

individual ownership and operation of taxicabs for the first time in 42 years.¹⁴¹ And on June 16, 1977, six months after the collapse of Yellow Cab, the City Council broke the Yellow Cab monopoly, granting franchises to operate across Los Angeles to two new associations of drivers, United Independent Taxi Drivers (UITD), the co-operative of independent drivers led by Shapiro, and another co-operative, the Independent Taxi Drivers Association (ITOA), organized by another group of former Westgate Yellow Cab drivers. At the same time, the City Council moved the Yellow Cab franchise to another operator, Golden State Transit Corp, owned by the Las Vegas gambler Eugene Maday, as noted above.¹⁴²

Both UITD and ITOA were organized as nonprofit corporations with a co-operative structure. Each was incorporated in June, 1977 as a tax-exempt, nonprofit corporation.¹⁴³ By the summer of 1978, the City Council had authorized Yellow Cab to operate 302 taxis and UITD and ITOA 176 taxis each.¹⁴⁴ The vision of both co-operatives, as expressed in their founding documents, was clear: The people who drove the cabs would own the company. ITOA's articles stated its purpose to be "a master association of independent taxicab drivers and taxicab owner-operators that will operate a dispatch service for its members."¹⁴⁵ UITD's founding "specific and primary purpose" was to:

operate as a business league for members of the taxi driving trade who are independent driver-owners of taxicabs, providing a radio dispatch system and other services directed to the improvement of business conditions of the taxi driving business and advancing the interests of the community at large.¹⁴⁶

In the case of both co-operatives, the initial notion of an association of driver-owners was later changed by amendments of the corporate bylaws to allow "investor/owners" or "investor/shareholders" (who did not themselves drive, but who could lease their taxicabs to other drivers. Scholars of co-operative ownership systems refer to the process through which a true co-operative of workers evolves to have one class of owners and another of workers without an interest in the co-operative as "degeneration."¹⁴⁷ In the case of UITD and ITOA, the process of "degeneration" occurred rather early on.¹⁴⁸

Within a few years, eight of the nine taxi companies holding franchises in the City of Los Angeles either were, or claimed to be, co-operatives of independent taxi owners or

¹⁴¹ Erwin Baker, *Owner-Driven Cabs Get Green Light From Council*, L.A. TIMES, Apr. 14, 1977, at C1.

¹⁴² Erwin Baker, *Cab Competition OK'd by Council*, L.A. TIMES, June 17, 1977, at C1.

¹⁴³ Articles of Incorporation of ITOA, filed April 22, 1977. Articles of Incorporation of UITD, filed June 27, 1977. The founding documents of both co-operatives set out their status as nonprofit co-operatives. The articles of UITD claimed tax exempt status under Section 501(c)(6) of the Internal Revenue Code, pertaining to "business leagues." The ITOA articles referred only to its nonprofit status.

¹⁴⁴ *Independents Making Inroads in Taxi Battle*, L.A. TIMES, July 9, 1978, at WS1.

¹⁴⁵ ITOA Articles of Incorporation, April 22, 1977, paragraph II(a).

¹⁴⁶ UITD Articles of Incorporation, June 27, 1977, paragraph II(a).

¹⁴⁷ Raymond Russell, *Sharing Ownership in the Workplace* 109-11 (1985.),

¹⁴⁸ By early 1980, the selling of memberships in the co-operatives to non-drivers was very common.

RAYMOND RUSSELL, *SHARING OWNERSHIP IN THE WORKPLACE* 122-23 (1985).

drivers. *United Taxi of San Fernando Valley* is a dba of UITD.¹⁴⁹ *Los Angeles Checker Cab Co., Inc.* was incorporated in 1984¹⁵⁰ as an ordinary corporation but was transformed through new articles of incorporation in 2001 into the *L.A. Checker Cab Co-operative, Inc.*¹⁵¹ Beverly Hills Cab Company was incorporated as *Beverly Hills Transit Co-operative*, a small co-operative with only 51 shares, in 1988.¹⁵²

The movement toward the co-operative form – a seemingly liberal, progressive combination of collaboration and entrepreneurship that began in 1977 was a powerful one. *Bell Cab Company* was incorporated in 1985, though as an ordinary corporation authorized to issue 100,000 shares rather than a co-operative.¹⁵³ Although the City has issued franchises to the “*Bell Cab Co-operative*,”¹⁵⁴ the records of the Secretary of State do not indicate that any such legal entity exists.¹⁵⁵ In 1987, when Bell Cab Company heavily and successfully lobbied the City Council to enter the Los Angeles market -- as the Bell Cab Co-operative¹⁵⁶ -- the lobbyist for L.A. Taxi, former City Attorney Burt Pines, “complained that the city was so eager to stimulate cabbie-owned co-operatives that it did not force Bell to undergo the stiff financial and operational scrutiny required of previously licensed companies.”¹⁵⁷

These lessons were not lost on any of the taxi companies. Only *City Cab* neither is, nor purports to be, a co-operative. Rather, it is a dba of San Gabriel Transit, Inc., formerly San Gabriel Valley Cab Company, owned by Timmy Mardrossian and, until recently at least, Scott Schaffer.¹⁵⁸ The remaining franchisees – *United Checker Cab* and *Yellow Cab* are also co-operatives¹⁵⁹ and are, indeed, part of a “co-operative of co-operatives” – the Administrative Services Co-operative -- founded and controlled by the Rouse family. *United Checker Cab* was formerly the d.b.a of the Rouse family’s Wilmington Cab Company,¹⁶⁰ and is currently the dba of the South Bay Co-operative,

¹⁴⁹ Board Report to LADOT 10/19/2000.

¹⁵⁰ Articles of Incorporation, Los Angeles Checker Cab Co., Inc, March 30, 1984).

¹⁵¹ Articles of Incorporation of L.A. Checker Cab Co-operative, Inc, filed November 5, 2001. Also filed with the articles was a letter from Yevgeny Smolyar, President of L.A. Checker Cab Company, authoring the attorney for both, Neal Evans, indicating “he is our attorney and we want this new name.” Letter of Yevgeny Smolyar to Secretary of State dated October 10, 2001.

¹⁵² Articles of Incorporation of Beverly Hills Transit Co-operative, Inc., filed January 13, 1988.

¹⁵³ Bell Cab Company, Inc. Articles of Incorporation filed September 26, 1985.

¹⁵⁴ Ordinance 170069, signed by the Acting Mayor on October 12, 1994; Ordinance 172733, signed by the Mayor on July 30, 1999; Ordinance 173114, signed by the Acting Mayor on March 1, 2000; Ordinance 173412, signed by the Mayor on July 26, 2000.

¹⁵⁵ On line searches of Secretary of State records as of June 23, 2006.

¹⁵⁶ *Cab Firm Gets Green Light*, L.A. TIMES, Oct. 28, 1987, at 2.

¹⁵⁷ Bill Boyarsky, *Woo Drops Opposition to More Cabs*, L.A. TIMES, Oct. 20, 1987, at 8.

¹⁵⁸ Los Angeles City Cab Company, Inc. was incorporated on May 9, 1977, and awarded a franchise in 1980 by Ordinance 154930, signed by the Mayor on February 19, 1981. Schaffer was arrested last year amid allegations that he traded guns to the notorious Vineland Boyz street gang for narcotics. Kevin Uhrich & Joe Piasecki, *Drugs, Guns, and a City in Crisis*, L.A. CITY BEAT, JULY 21, 2005, available at <http://www.lacitybeat.com/article.php?id=2361&IssueNum=111> (last visited Sept. 13, 2006).

¹⁵⁹ Some companies prefer to call themselves “associations”—a distinction without a practical difference as far as we can tell from the law and operation of such entities.

¹⁶⁰ See, e.g., Ordinance 155325, signed by the Mayor on June 1, 1981

Inc.,¹⁶¹ which was incorporated in 1992 by Mitchell Rouse as "U.C.C. – South Bay Co-operative"¹⁶² How the largest franchise, Yellow Cab (actually L.A. Taxi, Inc, dba Yellow Cab) became a co-operative is detailed below, as is the failure of the co-operative form to live up to promise it held for its progressive promoters in 1977.

C. The Los Angeles Olympics and LA Taxi Company

In 1984, anticipating the Summer Olympics and "[f]aced with growing complaints about unsafe taxis, price gouging and trip refusals, the city granted a franchise to Mitchell S. Rouse and the Cincinnati-based ATE Management Co. in an effort to shake up the taxi industry in Los Angeles."¹⁶³ On May 15, 1984, the City Council granted a new franchise to Rouse's Private Sector Systems and ATE Management to operate L.A. Taxi.¹⁶⁴ According to newspaper reports at the time, the new "LA Taxi" invested \$4.1 million in new cars, put its drivers in uniforms, and promised to end price-gouging and discourteous service. Rouse, the prime mover in this drama, had started SuperShuttle in Los Angeles the year before.¹⁶⁵ As with the drivers for Yellow Cab in Los Angeles, the drivers for L.A. Taxi were employees¹⁶⁶ who received the protections of wage and hour laws, worker's compensation, and the like.

By the summer of 1985, however, Rouse claimed that LA Taxi was "in dire financial straits".¹⁶⁷ Stories at the time did not report that some of LA Taxi's problems might, in fact, stem from competition with Rouse's SuperShuttle.¹⁶⁸ Unlike Maday, who had sought only to cut wages and benefits paid to Yellow Cab drivers, Rouse proposed a complete restructuring of the industry, entirely ending the status of taxi drivers as employees and making them "independent contractors." The end of employee status would mean the end not only of minimum wage requirements but also of workers compensation and other labor protections under federal, state and local law. The *Los Angeles Times* of June 22, 1985 reported the outcome of Rouse's campaign as follows:

Without any discussion, the Los Angeles City Council on Friday approved an emergency ordinance to let the city's 10 taxicab companies reclassify their drivers as independent contractors in a move to keep the financially ailing Mitchell S. Rouse in business. About 75 cab drivers and industry officials, anticipating a long debate, were caught by surprise by the swift 13-0 vote, which would allow

¹⁶¹ See, e.g., Ordinance 173657, signed by the Acting Mayor on November 29, 2000.

¹⁶² Articles of Incorporation of U.C.C. – South Bay Co-operative, Inc., filed September 3, 1992. The corporate name was changed to South Bay Co-Operative, Inc. on November 20, 1992. Certificate of Amendment to Articles of Incorporation of U.C.C. – South Bay Co-operative, Inc. filed that date.

¹⁶³ George Ramos, *L.A. Taxi Co. Gets a Boost That May Keep It Alive*, L.A. TIMES, May 31, 1985, at 1.

¹⁶⁴ Ordinance 158955, approved by City Council on May 15, 1984.

¹⁶⁵ Marc Beauchamp, *Off the Meter*, FORBES, August 11, 1986, at 66.

¹⁶⁶ The ordinance specifically required Rouse to use employee-drivers. Ordinance 158955, Section 4.2(e)

¹⁶⁷ George Ramos, *L.A. Taxi Co, Initially Highly Touted, in 'Dire Financial Straits'*, L.A. TIMES, May 1, 1985 at V_A1.

¹⁶⁸ Rouse's SuperShuttle began serving LAX in April, 1984. David Talbot, *SuperShuttle Is Latest Entry in L A Airport Van Fleets*. L.A. TIMES, Apr. 15, 1984, at F4.

L.A. Taxi to end fringe benefits and employer contributions to Social Security. The move would help stem the losses--approaching \$1.5 million--that the company has suffered since going into business before the start of the Olympic Games last summer. The ordinance, which still must be approved by Mayor Tom Bradley, also lifts a requirement that L.A. Taxi pay the minimum wage to its drivers. As independent contractors, drivers would be paid no wages and would have to rely for income solely on their share of fares, city Transportation Department officials said....The city's other franchises are likely to take advantage of the independent contractor status when their permits come up for renewal in September, executives of several cab firms said.¹⁶⁹

By 1985, L.A. Taxi was still a traditional taxi company, now completely owned by Mitchell Rouse, first through a company called Private Sector Systems and later through his Taxi Systems, Inc. (or TSI).¹⁷⁰ But all of Rouse's drivers were now "independent contractors" without benefit of minimum wage, worker's compensation, or other protections afforded employees. As the next sections demonstrate, however, the reorganization of the taxi business in Los Angeles by Mr. Rouse was not yet complete.

D. Yellow Cab Becomes a "Co-operative": L.A. Taxi, Yellow Cab, and the Administrative Services Co-operative

The Los Angeles Taxi Co-operative, Inc. (LATC) was incorporated on September 3, 1992.¹⁷¹ The Administrative Services Co-operative (ASC) and the South Bay Co-operative (which also operates as United Checker Cab) were incorporated that very same day.¹⁷² All were incorporated by Mitchell Rouse's son, William Rouse (also referred to as Bill in this report). Exactly two months later, on November 3, 1992, the City Council transferred the franchise previously granted to Rouse's TSI to operate L.A. Taxi to the L.A. Taxi Co-operative.¹⁷³

Under the terms of the ordinance TSI was to divest itself of shares in the L.A. Taxi Co-operative from 80% at the beginning of the ordinance to 5% as of July 1, 1995. In May, 1993, Rouse's TSI issued an "Offering Circular" to prospective purchasers of shares describing the process by which TSI proposed to sell its L.A. Taxi assets a LATC.¹⁷⁴ TSI assigned the equipment needed to run the dispatch operation to ASC. The members of ASC would be limited only to other co-ops, including LATC, the United Checker Co-operative and the South Bay Co-operative (and, initially, TSI itself). The latter two Co-operatives were also created to receive assets from other Rouse operations bearing similar names. Under the arrangement, LATC and the other co-ops contracted:

¹⁶⁹ George Ramos, *Measure Aimed at Saving L.A. Taxi Co. Is Approved*, L.A. TIMES, June 22, 1985, at 6.

¹⁷⁰ ATE Management Company received permission to sell equity interest in L.A. Taxi to Rouse's Private Sector Systems on August 7, 1985. Council File 85-1283. Ordinance 160286, approved August 12, 1985, recounts that "Private Sector Systems, Inc., is presently the sole (100%) owner of the Grantee (L.A. Taxi). Mitchell Rouse is the sole stockholder of Private Section Systems, Inc.

¹⁷¹ Articles of Incorporation, L.A. Taxi Co-operative (March 9, 1991).

¹⁷² Articles of Incorporation, Administrative Services Co-operative, Inc. (Stepbmer 3, 1992).

¹⁷³ LA City Ordinance 168316, adopted November 3, 1992.

¹⁷⁴ *Offering Circular Membership Share in L. A. Taxi Co-operative, Inc.*, May 18, 1993.

- with ASC to provide dispatch services, at a cost to be set by ASC.
- with “Professional Taxi Managers,” an affiliate of TSI, to provide “administrative consulting services.
- with TSI to lease from TSI radio equipment, at a cost per cab of \$35 per week.
- with TSI to sublease facilities previously occupied and used by TSI.

One year later, Rouse’s TSI filed for bankruptcy under Chapter 11, apparently in response to several bodily injury lawsuits by motorists injured by taxis operated by the company.¹⁷⁵ TSI emerged from bankruptcy protection in January, 1997 and three months later, Rouse’s Enterprise Finance acquired the rights to the Yellow Cab franchise from Anything Yellow, Inc., which had acquired the rights to the name and franchise from Eugene Maday’s Golden State Transit Corporation in 1995.¹⁷⁶ In September, 1998, Rouse obtained City Council approval to acquire and operate the Yellow Cab franchise through the L.A. Taxi Co-operative dba Yellow Cab, acknowledging that Rouse’s Enterprise Finance, Inc. owned all shares in the co-operative on the first day of the assignment of the franchise and authorizing Enterprise Finance to sell 200 shares (taxicab permits) by August 31, 1999.¹⁷⁷ Enterprise finance was given time to sell shares in order to get down to maximum percentage ownership five percent. Two months after acquiring the Yellow Cab franchise, Rouse created the structure that still exists with respect to the largest fleet in the City, Yellow Cab. We examine this structure below, in our evaluation of the financial transparency of the industry to regulators, the public, and most especially, to the co-operative shareowners and drivers.

V. WHERE “TOP DOWN” AND “BOTTOM UP” MEET: WHY DO TAXI WORKERS EARN SO LITTLE?

As reported earlier, if taxi drivers were treated as employees (and some argue they should be), subject to the wage and hour laws that protect employees in California, they would earn more, even at minimum wage. If these heavily regulated workers enjoyed the protection of the City’s “living wage” policy, they would receive a wage increase of forty per cent. Plainly, simple poverty is the most critical issue facing taxi workers in Los Angeles, along with the lack of health care insurance that poverty occasions. Why, then, do taxi workers earn so little? A part of the answer is that the system of regulation and the operation of the taxicab companies in Los Angeles disadvantage drivers in multiple and reinforcing ways. As we explain in greater detail below, there are three principal factors at work to keep the net income of taxi workers low:

¹⁷⁵ *Briefly: Taxi Systems Files for Chapter 11*, L.A. TIMES, May 24, 1994, at D2. Although the original franchise to L.A. Taxi required the company to maintain in effect liability insurance of \$1 million per accident, Ordinance 158955, Section 4.3, later taxi franchise ordinances permitted “a program of self-insurance.”

¹⁷⁶ Ordinance 170486, passed April 11, 1995.

¹⁷⁷ Ordinance 172199 and 172200, both passed September 8, 1998.

1. **Taxi fares are not high enough to pay drivers a living wage.** Particularly with the dramatic rise in fuel prices – and all taxicab drivers pay for their own fuel -- the City’s archaic system of revising taxi fares to take economic changes into account leaves taxi drivers bearing increases in costs they can ill afford to pay. The regulatory system not only imposes restrictions on drivers that seem to have little to do with passenger service but also imposes unwarranted fees ultimately passed through to drivers.
2. **Raising fares will help little if increased fares cause the taxicabs to lose more business to unregulated and often illegal, competition.** At the same time that taxicab drivers are heavily regulated, they face stiff competition from essentially unregulated competition: “bandit” cabs and limousines – so-called “town cars” -- operating illegally. Other competition facing taxi drivers is legal, but similarly loosely regulated: airport shuttles or limousines, sometimes those owned by the same people who substantially control taxicab companies. Most recently, taxicab drivers face increasing competition from the City itself, in the form of the LAWA FlyAway bus.
3. **Even if drivers gross more income, they are no better off if that income is siphoned off through inflated costs and unwarranted “special assessments” imposed by company managers.** The current organization and regulation of the taxicab industry in Los Angeles creates huge opportunities for sharp business practices and outright corruption, to the disadvantage of those who directly serve the public. One indication of the result is that while the many taxi drivers at the bottom of this system pay nearly half their income to live in small, sometimes overcrowded apartments, some of those at the top – co-operative presidents and those who sell goods and services to taxi co-ops -- often live in houses costing upwards of a million dollars. Although born a noble birth thirty years ago, the ideal of a co-operative of independent owner-drivers has in many instances degenerated into a creative system for exploiting those who toil on our streets and highways, to the benefit of few and the detriment of the many.

We take up each of these problem areas in turn, and link our explanation of the problems with some specific, targeted reforms the City should consider, including some that it has recently taken up for consideration.

A. The Need for Responsive Regulation of Meter Rates – and Reasonable Responses to Meter Rigging.

1. The “Taxi Cost Index” ostensibly used to set meter rates is seriously flawed.

Under the City’s system, taximeter rates fares are to be adjusted periodically on the basis of changes in components of the Consumer Price Index known as the “Taxi Cost Index” or TCI. The TCI is supposed to provide an objective criterion by which

fares, and the need for fare adjustments, can be made. It is comprised of weighted factors taken from the Bureau of Labor Statistics. In our view, the TCI needs to be reviewed in light of current circumstances. For example, fuel costs are weighted to account for only 13% of the TCI, the same amount allocated to “repairs and maintenance.” By contrast, our survey found that during our survey period (during which time gas prices varied dramatically), the median taxi driver using about 300 gallons of gasoline per month at a cost of \$833 per month., compared to the median \$200 per month spent by owners on maintenance and repairs (n=127). Of course, rising fuel prices would tend to produce such an imbalance.

So where did this 13% weighting for gasoline costs come from? In September, 1999 LADOT recommended to the Board of Taxicab Commissioners a taximeter rate increase based on the then new TCI.¹⁷⁸ The weights of the various components of the TCI were said to be based on an “extensive interviewing process combined with industry data.” This interviewing and data collection had been conducted, in turn, by consultants retained by LADOT, who had produced a report a year earlier.¹⁷⁹ Notably, the consultants’ report specifically recommended that the TCI be reviewed *annually*, and that the weights assigned to its components be adjusted to reflect changes in economic reality.¹⁸⁰ No adjustments have ever been made. LADOT, the Taxicab Administrator, and the Board of Taxicab Commissioners have, instead, continued to utilize precisely the same spreadsheet provided by the consultants nearly eight years ago. Although this failure to attend to economic reality is most striking in the case of fuel costs, there is no evidence that LADOT or the Taxi Administrator have made any other adjustments. For example, the 6% weight for “insurance” in the TCI h.14as remained unchanged,¹⁸¹ despite the fact that insurance costs are well known to be second only to fuel for the operation of taxicabs.

2. The City Has Not Been Responsible in Timely Adjusting of Meter Rates.

In July, 2005, the City Council approved an increase in taximeter rates of approximately 10 per cent.¹⁸² This was the first increase since April, 2003.¹⁸³ In the meantime the prices for gasoline --- the largest single cost for drivers -- had skyrocketed and continued to climb. And there is no end in sight. In January, 2005, the Taxicab

¹⁷⁸ LADOT, *Taxicab Industry Request for an Increase in the Taximeter Rates*, September 2, 1999 and Response of Alex Cameron, LADOT, to request under the California Public Records Act, August 31, 2006.

¹⁷⁹ Inter American Holdings co, Hra Associates, Inc, and Echelon Industries, Inc, SMART SHUTTLE REGULATORY FRAMEWORK, November 30, 1998.

¹⁸⁰ *Id.*, at 3-22.

¹⁸¹ Response of Alex Cameron, LADOT, to request under the California Public Records Act, August 31, 2006.

¹⁸² Ordinance 177017, enacting a resolution of the Board of Taxicab Commissioners of the City of Los Angeles, adopted July 21, 2005, designated as Board Order No. 037.

¹⁸³ Ordinance 175365, approving a resolution of the Board of Taxicab Commissioners of the City of Los Angeles, adopted April 3, 2003, which resolution is designated as Board Order No. 023

Commission recommended, and the City Council later approved, a system allowing drivers to post an appropriate notice in their cabs and add to their request for payment by the passenger a fuel surcharge of 50 cents to the total fare, if the price of gasoline tops \$2.73 per gallon or \$1.00 if it tops \$3.28.¹⁸⁴ Many drivers say they don't bother, because the result is inevitably that passengers pay attention only to the meter. Any "surcharge" is thus taken from the amount that might have gone to a tip. We have not verified this phenomenon independently, but it is entirely consistent with both economic psychology and common sense. Any meaningful rate relief must be reflected in the meter.

Of equal importance is the timeliness of that relief. Between January 20, 2005, the date of the Board's resolution authorizing the apparently ineffective "sticker" system and May 2006, the price of gasoline in Los Angeles increased from \$2.01 to \$3.40 per gallon, according to the Bureau of Labor Statistics indicator utilized by the City.¹⁸⁵ The effects of these price increases are felt by all taxi drivers, all of whom pay for their own gas. *For a taxi driver driving 4,000 miles per month in a vehicle averaging a typical 12 miles per gallon, the loss of net income to the driver and his family in that period amounts to \$465 per month.*

On August 3, 2006, LADOT recommended to the Board of Taxicab Commissioners both approve another fare increase (averaging about 10.5%), based chiefly on increases in fuel costs, and also that the Board seek authority from the City Council to adjust meter rates (within a range of 10%) without Council action.¹⁸⁶ Those recommendations, together with other revisions, including a minimum fare from LAX, were approved by the Board and are, as of this writing, pending action by the City Council and Mayor. As before, the LADOT recommendations and Board action were based on the completely unsupported (and empirically false) assumption that fuel costs account for only 13% of the costs of operating a taxi.¹⁸⁷

3. The Rigging of Taximeters, However Prevalent, Is Inexcusable But Provides No Excuse for the City to Delay Meter Increases.

We learned two troubling things about meter rigging in interviewing City officials. First, one official opined to the effect that "of course they are rigging meters; what do you expect them to do with gas prices this high." Second, we were told by a well-placed City official that a proposal for taxi fare relief was pulled by LADOT from possible consideration by the City Council as a result of the May 18, 2006 KNBC

¹⁸⁴ Ordinance 177018, enacting Board of Taxicab Commissioners Board Order 034, adopted January 20, 2005. The "trigger" rates were increased from 2001 triggers of \$2.22 and \$2.68, adopted in Ordinance 174131.

¹⁸⁵ BLS Series ID APUA4217471A (Gasoline, all types, per gallon), Los Angeles-Riverside-Orange County, available at http://www.econstats.com/BLS/blscu/index_cpi_area.htm (last visited September 17, 2006).

¹⁸⁶ Memorandum from LADOT General Manager Gloria J. Jeff to the Board of Taxicab Commissioners, August 3, 2006.

¹⁸⁷ See Section V(A)(1) above.

“hidden camera” expose of meter rigging by some drivers,¹⁸⁸ on advice of influential people on the City Council. Both attitudes are wildly out of place among those who regulate the taxi industry in Los Angeles. First, meter rigging may not harm City officials, but it certainly harms passengers. Moreover, it harms the honest drivers who make the decision to work yet more hours rather than cheat their passengers. Second, if the taxi fare increase was delayed for these reasons – and we were told by independent sources that it was – then it constituted the kind of group punishment of honest, low income drivers that is not befitting the City of Los Angeles.

There is no doubt that meter rigging does occur. The question is how common it is and what the City does to stop it. The only empirical evidence of the prevalence of meter rigging in Los Angeles of which we are aware derives from the “multi-agency law enforcement taxi ‘sting operation’” conducted by airport police and others on June 8, 2006. According to the resulting press release from Los Angeles World Airports, during a six hour period, 477 taxicabs were inspected, resulting in 54 administrative citations, and exactly two (2) taxis with “meter zapper” devices and two more with wires that might be used for this purpose. Based on this *ad hoc* empirical “study” conducted by the City itself, the prevalence of meter rigging appears closer to 0.4% to 1%, rather than the much larger unsubstantiated figures circulated by others, including Taxi Administrator Tom Drischler, who recently told a *Los Angeles Times* reporter he estimated a prevalence rate 10 to 20 times that high.¹⁸⁹ Mr. Drischler indicated that this was his best estimate on being asked for a number by a reporter. A company manager, however, disputed this number as wildly inflated, given the ratio of taxi trips and complaints received by companies about overcharging.

Whatever the rate, we do not here join the debate about who is responsible for allowing meter rigging to exist, recently played out in comments in the same news story. Companies and drivers blame City officials for not acting on prior complaints. City officials blame drivers. Some acknowledged privately to us that the economic pressure of rising fuel costs has forced some drivers to cheat to survive. We only note that honest drivers are powerless to prevent other drivers from meter rigging, and should not themselves be punished for the actions of others. We also note that in the highly publicized “sting” at LAX there is a lesson for how taxi meter fraud should be deterred. Many times each month, every taxicab in Los Angeles passes through a single driveway to enter the taxi holding lot at LAX, on Alverstone Avenue, near the 96th Street Bridge. If the City conducted routine random spot checks of taxi meters at this lot and imposed appropriately high penalties, there is no doubt that only the most irrational meter cheat would continue to do so.

B. Illegal and Other Competition

Each taxi driver in Los Angeles pays \$86.85 per month for the privilege of being closely regulated by the City, all the way down to the color of his socks. At the same

¹⁸⁸ Joel Grover & Matt Goldberg, *Special Report: Taxi Fare Deception*, available at <http://www.nbc4.tv/investigations/9241924/detail.html>.

¹⁸⁹ Jessica Garrison, L.A. Taxi Business Hits Bumpy Stretch of Road, L.A. Times, July 13, 2006, at B-1.

time, each driver competes for business not only with other drivers, but also with completely unregulated bandit cabs and virtually unregulated “town cars” and limousines. To this illegal competition is added legal competition from airport shuttle services and LAWA’s own new Flyaway Bus. We do not address the legal competition, as this is a policy matter beyond the task we have set for ourselves. We do note, however, one of the two shuttle companies authorized to serve LAX, SuperShuttle, is controlled by Mitch Rouse, who also created and still controls many aspects of the largest taxi fleet in Los Angeles (Yellow Cab and United Checker). Through SuperShuttle, Rouse also controls a limousine company, ExecuCar.¹⁹⁰ The degree to which airport shuttles actually compete against taxicabs depends on the degree of market segmentation among transit users. Some argue that the customer base for shuttles is completely separate from that for taxis. We disagree, if only on the basis of our own experience as users of both. There is some market segmentation, but it is far from total. The City has never conducted any empirical study of this competition. Nor has it, of course, examined how the new Flyaway Bus will affect the other modes of service for passengers at LAX.

1. Bandit Cabs.

At least at LAX, taxi drivers face little *illegal* competition. This is not the case on the streets of the City. As with many other aspects of the taxi business, we know of no empirically based estimates of the number of illegal, unlicensed “bandit cabs.” Conventional wisdom among those in the industry and City regulators appears to put the number at approximately the same as the number of legal cabs and drivers (about 2300 and 5000, respectively). Operating entirely outside the law and thus at much lower cost, these vehicles may be uninspected, uninsured, and unsafe. They may be driven by felons or people with violent pasts. They may also be operated responsibly by hardworking drivers simply trying to survive in the environment in which they find themselves, providing services to communities and neighborhoods ill-served by legitimate taxicabs in Los Angeles. There is little doubt that both views are to some extent true. South Los Angeles has long been poorly served by taxicabs, owing to perceptions of the risks to drivers of violent crime, as well as the likelihood that fares are likely to be shorter trips. According to some, Koreatown is not well served by drivers who speak Korean. Pico-Union is underserved by drivers who speak Spanish.

Whatever the causes, there is no doubt that there are far too many “bandit” cabs in Los Angeles. One can stand on any street corner in South Los Angeles, Koreatown, Hollywood, or Pico Union and observe vehicles in trade dress *approximating* that of the franchised companies, often painted in shades of yellow. More easily obtained evidence lies not further away than the nearest “Yellow Pages,” paper or virtual. Put “taxi” and

¹⁹⁰ ExecuCar claims to be “not a taxi, not a limousine, but is the logical choice in between” provided by modern, luxurious sedans, chauffeured by courteous, professional drivers.” See <http://www.execucar.com> (last visited Sept. 13, 2006). There may be some technical differences between the ExecuCar service and a limousine service, but given that description and the images of Lincoln Town Cars that accompany it, it is hard to see any difference that would matter to a prospective passenger.

“Los Angeles” into www.yellowpages.com, and one finds 338 entries.¹⁹¹ Some are Los Angeles franchised companies engaged in creative marketing. For example the “A-AAA Taxi” entry leads to the legally franchised Independent Taxi Owners Association (ITOA). Others may be operating legally outside the City of Los Angeles. But most appear simply to be businesses not only operating outside the law, but advertising the fact that they do so. We have conducted no independent investigation ourselves, but it would not take long to determine the status of listings like A-1 American Yellow Cab (1287 W. 37th Street), Center Cab (3420 Council Street, Apartment 101), or Silver Mercedes Taxi Service (310-828-2233), to name only three of hundreds. Examining the addresses of the suspect taxicab operations also provides some evidence for the proposition that bandit cabs are serving areas of the City generally thought to be underserved by the franchised companies: a great many are located in “Area D” which covers much of South Los Angeles.

Acknowledging that the issue is complex and bound up in larger transportation and social issues, we also observe that the current City system for regulating bandit cabs is ineffective. The reasons are clear, and explicable in standard regulatory theory: the probability of detection of a violation is quite low. As noted earlier, only six investigators in the Taxi Division are responsible for covering the 466 square miles of the City. To this small staff will soon be added a supplemental force of LAPD officers working overtime, and paid by a monthly fee on taxi drivers. It is, of course, too early to say how effective this new program will be in apprehending or citing bandit taxi drivers.

Of course, the risk of being stopped – even by LAPD – is not a sufficient deterrent if the bandit taxi business is lucrative enough and if the costs of being caught are low enough. The Taxicab Commission has requested an ordinance change to LAMC Section 71.09.2(b), which currently imposes a \$500 ceiling on monetary penalties on bandits. The request was granted by the Council on a 15-0 vote on July 11, 2006. While we take no position on whether or how much these penalties should be increased, it is clear that they are currently insufficient to deter bandit taxis, and the illegal competition faced by legitimate taxi drivers and companies in Los Angeles.

2. Limousines and “Town Cars” Operating Illegally

The legal difference between a legal taxicab and a limousine is clear: Limousines are limited to transporting passengers who “prearrange” their trips.¹⁹² Limousines are regulated by the state Public Utilities Commission, and lie beyond the jurisdiction of the City – so long as they are operating legally as limousines. For example, when Valley

¹⁹¹ www.yellowpages.com (last visited July 16, 2006).

¹⁹² Public Utilities Code 5360.5(b) defines this to mean that “the transportation of the passenger was arranged with the carrier by the passenger, or a representative of the passenger, either by written contract or telephone.” Public Utilities Code 5371.4, which determines the extent of possible City regulation of limousines, defines them as “any luxury sedan, of either standard or extended length, with a seating capacity of not more than nine passengers including the driver, used in the transportation of passengers for hire on a prearranged basis within this state.” Section 5371.4(i).

Cab Company lost its franchise in Los Angeles in 2001, the company secured a limousine license from the Public Utilities Commission to operate as Valley Transportation, and used the same dispatch system, drivers and cars to operate a “limousine company” in precisely the same area, continuing to advertise in the taxi section of the phone directory.¹⁹³ But according to virtually everyone with whom we spoke – including some limousine drivers – the much more prevalent form of illegal competition from limousines is conducted on a more *ad hoc* basis: limousine drivers solicit customers at hotels and other locations for immediate transportation. The City appropriately prohibits taxicab companies and drivers from paying hotels, hotel doormen, and others for business.¹⁹⁴ No such prohibition inhibits limousine drivers, who can obtain the most lucrative fares by paying hotel doormen and others in a position to steer customers away from legal taxicabs and to their awaiting town cars. We cannot say precisely *how* common these payments are, or the general practice of illegal “poaching” taxi customers is, but we did not interview anyone with significant knowledge of the industry who did not identify these practices as one of the most serious problems facing the taxi industry. The result is, again, gross income lost to legal taxi drivers and their families.

Unlike bandit cabs, which are easily identified by their lack of the appropriate City sticker, there is no way to visually determine the difference between the limousine, legally picking up passengers through prearrangement and a “poaching” limousine picking up passengers at will. It should be possible, however, to determine the status of the particular trip through a quick interview with the driver and passengers. So far as we can determine, the City makes no effort to police the boundary between legal and illegal operations by limousine companies and drivers.

We leave the third factor causing low taxi driver wages to last, not because it is the least significant, but because it is the most complex and controversial. We treat it separately in the next section.

C. POTENTIAL INCOME LOST TO SHARP PRACTICES AND CORRUPTION

We have not conducted any kind of forensic audit or investigation with the benefit of tools available to law enforcement officers. We have, however, reviewed thousands of pages of records, from the real estate holdings of those who control taxi co-operatives to internal financial reports. At least two of the taxi co-operative presidents have acquired real estate worth over \$1 million. The median home value of the co-operative presidents we researched was \$649,800 -- not extraordinary in some respects, but worthy of note for leaders of nonprofit co-operatives, each a former taxi driver himself. By comparison, we found that the median taxi driver was able to pay \$925 per month for housing.

¹⁹³ Patrick McGreevy, *Ousted Taxi Firm Returns in New Guise*, L.A. TIMES, Oct. 4, 2001, at B3.

¹⁹⁴ The prohibition is not in the form of an ordinance, but a directive from the Thomas M. Drischler, Taxicab Administrator, *Memorandum to All Los Angeles Taxicab Operators Re Payment of Hotel Doormen or other Employees to Gain Access to Passenger*, November 4, 2003.

It may only take a sharp business eye or good luck that permit an individual who is a taxi driver to become a co-operative president living in a home worth well over a million dollars. What we can say definitively is that the current organization of the taxi business in Los Angeles provides many apparent opportunities for corruption that would deprive taxi drivers of the benefits of their labor and some share owners in taxi “co-operatives” of the benefit of their investments. In other instances, the practices that disadvantage drivers are likely legal but nonetheless arguably exploitative. We cannot say how pervasive these abuses are, only that there is strong evidence that they have taken place and that they are generally beyond the view of the City’s regulatory apparatus. In our view, the City should exercise its essentially plenary power to grant or withhold franchises to prevent corruption and abuse of taxi drivers by organizations holding franchises, and need not wait for more evidence that the opportunities for corruption have been seized upon more than the instances we cite here.

1. Opportunities for Self-Dealing and Kickbacks and the Lack of Financial Transparency

Our focus here is on the taxi co-operatives and the positions of members of co-ops. As noted earlier, all of the franchised companies other than City Cab are, or claim to be, co-operatives. Problems that affect co-op shareowners are passed along to lease drivers as well, since shareowners who bear unwarranted costs must pass those costs along to lease drivers. As we noted above, originally the City permitted only true co-operatives of driver-owners. The ordinance was later changed to permit a single person to own 5% of the shares representing taxicabs licensed in Los Angeles. In any case, the 5% limitation applies only to cabs licensed in the City of Los Angeles, but all of the co-ops operate outside the City of Los Angeles

According to many with whom we spoke, it is not difficult for one investor to own many more shares than that, under the names of relatives or friends. Thus, within most of the co-operatives, there are “mini-fleets,” some controlled by people who have never driven a taxicab and whose interests are distinctly at odds with those who do. Each of the co-operatives is run by a Board of Directors elected pursuant to its own bylaws. Like all organizations, there is a good deal of politics and political maneuvering within the organization. The politics within the co-operatives in Los Angeles is often divided along ethnic lines. As in politics in the broader world, these ethnic divisions are sometimes exploited by those with something to gain. In small co-operatives like Beverly Hills Taxi, the internal politics, though sometimes brutal, are conducted among people who know each other. In the larger co-operatives like L.A. Taxi (dba Yellow Cab), the 735 shares are divided among 480 owners spread across a large geographic area.¹⁹⁵ Board elections for L.A. Taxi (dba Yellow Cab) are at least sometimes preceded by letters from Mitch Rouse setting out a slate of members to be elected. And Mr. Rouse continues to control a large number of shares. For example, as of February, 2005,¹⁹⁶ Enterprise Finance, Inc, a company owned by Mitchell Rouse, owned 52 of the 735, or 7%, of “Yellow Cab” co-op shares. Many of these appear to represent shares

¹⁹⁵ Owner Share List, Administrative Services Coop, Feb. 22, 2005.

¹⁹⁶ *Id*

repossessed by Rouse's Enterprise Finance when driver-owners to whom it sold shares could not make their required payments. Rouse's original Taxi Systems, Inc. retained ownership of four shares under that name.

Under the democratic ideal, if a board does not faithfully represent its members, it will be replaced in the next election. The democratic ideal also requires, however, that members have access to information on which to base their decisions. When that information is withheld, there is nothing to prevent those in control of a co-operative from engaging in self-dealing or receiving kickbacks from vendors. Without accurate, audited financial reports, members cannot know that their managers are paying fair market rate negotiated in arms-length transactions for such big-ticket items as liability insurance. Absent access to financial reports and records, members cannot know that the frequent imposition by co-op managers of "special assessments" on each member are required for legitimate reasons, or merely provide a means of extracting money from shareowners and drivers.

Even the most professionally managed companies strictly limit the flow of financial information, which is regarded as proprietary.¹⁹⁷ For example, members of the co-operatives operating under the Administrative Services Co-operative arrangement and managed by Rouse's Van Ness Management (including Yellow Cab and United Checker operations in Los Angeles) are given access to fundamental budget information only at annual meetings conducted under tight security and are not permitted to take such documents from the meeting for evaluation by their own accountants or others.¹⁹⁸ Other co-operatives do not do even this much to insure that their members know what co-op managers are doing with their money.

Whatever the prevalence of corruption, there is a serious problem at the level of appearance. Not only is reliable, intelligible financial information difficult or impossible for some co-op shareowners to acquire, but the financial circumstances of some of the officers of co-operatives give rise to suspicions that they may have enriched themselves at the expense of taxi drivers. As we noted at the outset, we have had neither the intention nor the resources to conduct any sort of forensic inquiry into what has happened to money paid by passengers and earned by drivers. As noted at the beginning of this section, we were struck by the disconnect between the circumstances of co-operative presidents and the average taxi driver, as revealed in public records about the values of their homes. We do not list any individual information because we do not allege any wrongdoing on the part of any of these individuals. However, as we say, appearances matter, especially in an environment with so little access to information and so many opportunities for corruption.

¹⁹⁷ As one co-op manager told us, "we don't want our financials floating around the airport holding lot."

¹⁹⁸ Interviews with both members and managers of the ASC family of co-operatives.

2. The Lack of Financial Transparency through Simple Withholding or Destruction of Records: The Case of UITD

Co-operatives are required by state law to make records available to members. But among the most common complaints we heard was that meaningful financial reports and records of co-operatives are withheld from members. The case of United Independent Taxi Co-operative (UITD) may be more extreme than most, but it illustrates the shortcomings in the current system of oversight of the co-operatives. Over the past few years, the lack (or claimed destruction) of financial records of this co-operative has led to unfavorable audit reports and a good deal of litigation, none of which has resulted, so far as we can tell, in the disclosure of reliable information about the past finances of this co-operative. A detailed history of these controversies is beyond our current scope, but consider the following:

- In 2001, the “Big 6” (now “Big 4”) accounting firm Deloitte and Touche conducted an audit of UITD. A summary of the audit presented on October 23, 2001 by Deloitte and Touche¹⁹⁹ outlined a preliminary “summary of key findings,” including:
 - “Destruction of financial records”
 - “Lack of documentation for financial transactions, including:
 - Related party transactions
 - Debt agreements
 - Insurance premiums and coverages
 - Hotel and parking lease expenses
 - Loan repayments via checks payable to “cash” to various individuals
 - “Misclassification of political contributions
 - “Potential conflicts of interest by vendors/members
 - “No audit of member dues”
 - \$2 million in checks made payable to “cash” in 1999 and 2000
- In November, 2003, Certified Public Accountant (CPA) Hafeez M. Sheikh provided an “Accountant’s Compilation Report” to the Board and Members of UITD. Mr. Sheikh reported that:

“Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the Company’s financial position and results of operations and its cash flows.”²⁰⁰

¹⁹⁹ We have not reviewed the full audit. The summary was indicated to be “tentative and preliminary.” In reviewing much of the litigation that has resulted since, we have not seen evidence to contradict its findings.

²⁰⁰ Letter from Hafeez M. Sheikh, CPA to the Board of Directors and Members, United Independent Taxi Drivers, Inc. (Nov. 17, 2003)

- In August, 2004, the audit committee of the board of UITD reported to the Board that their inspection of the records of UITD found that many transactions had been inappropriately recorded and that bank reconciliations did not match cash disbursement journals.²⁰¹
- In August, 2005, several members of UITD sued UITD and some of its officers seeking access to the financial records of the co-operative.²⁰² On December 8, 2005, Judge David Yaffe ordered UITD and its officers to make financial records available to the plaintiffs.²⁰³

Of course, we have no opinion as to what really has happened to the financial records at UITD, and whether the alleged \$2 million in checks payable to “cash” represents a vehicle for corruption or just an extremely unusual business practice. In other litigation, confusion and misleading statements about the issue of who destroyed what and when resulted in one judge dismissing a case brought by UITD against a former co-op president alleged to have absconded with UITD funds and business opportunities.²⁰⁴ Our point is that members of co-operatives franchised by the City should not have to sue to obtain access to financial records to which they are entitled under the law. Moreover, the City should know that the co-operatives it has franchised are not in danger of a fate – bankruptcy -- that has befallen many taxi companies franchised by the City in the past, sometimes amid allegations of fraud and mismanagement, or used as a vehicle to promote corruption that increases the costs of taxi operations. All these objectives would be achieved if the City required all co-operatives franchised by the City to submit both to their members and to the City a certified financial audit by a firm with a spotless reputation.

3. The Lack of Financial Transparency through Complex Business Structures: The Case of the ASC Co-operatives

In our history of the evolution of the taxi business in Los Angeles to one of ordinary employers and unionized drivers, we explained how all but one of the taxi companies in Los Angeles, including the largest fleet in the City (Yellow Cab) became co-operatives. In the case of Yellow Cab, the City granted to Mitchell Rouse’s Enterprise Finance, Inc. the right to operate 400 Yellow Cabs in Los Angeles, under a franchise previously held by another company, Anything Yellow, Inc. At the same time, the City granted Rouse the right to resell individual shares in the coop he created – each representing the right to operate one taxicab – to individuals. In effect, then, the City Council gave Rouse a franchise at wholesale and authorized him to resell it at retail at

²⁰¹ Memorandum from members of the audit committee to the Board of Directors of UITD (Aug. 31, 2004).

²⁰² *Buchanan v. United Independent Taxi Drivers, Inc.*, No. BS098813, (Los Angeles Super. Ct. filed Aug. 22, 2005).

²⁰³ Judgment by Court on Petitioners Verified Petition for Writ of Mandate, etc., in *Buchanan v. United Independent Taxi Drivers, Inc.*, No. BS098813 (Los Angeles Super. Ct. judgment filed Dec. 8, 2005).

²⁰⁴ *United Independent Taxi Drivers v. Nasrollahy*, No. BC312451 (Los Angeles Super. Ct. Tentative Ruling by Judge Helen I. Bendix re hearing on April 25, 2005).

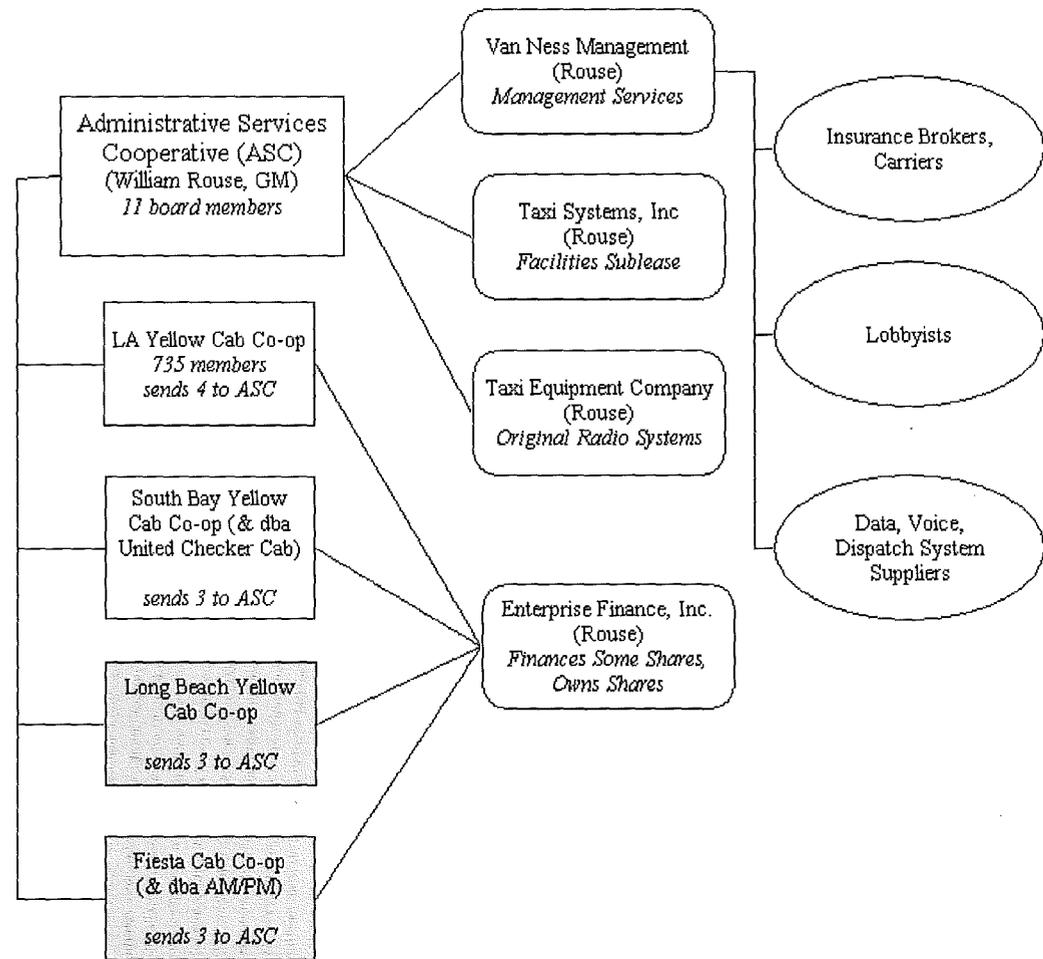
whatever price the market would bear. We were told, but have not confirmed, that Rouse paid Anything Yellow, Inc. \$1.8 million for the franchise and that initial prices paid during the period over which these shares were sold ranged between \$25,000 and \$40,000 – which would amount to a return of between \$10 and \$16 million on the initial investment. In addition, Enterprise Finance was the first taxi company to finance the acquisition of share, at substantial interest rates. Of course, Enterprise Finance retained a security interest in the share so that if a driver/owner was unable to make payments, the share would be returned to Enterprise Finance and available for resale. Moreover, as we explain below, Rouse did not transfer to the co-operatives the entire taxi business he acquired. Rather, as one industry insider told us, he kept “everything it takes to make a taxi company” -- the radio frequencies for the dispatch system, the rights to use the Yellow Cab taxicab trade dress, and so on. These continue to generate earnings from Yellow Cab shareholders through payments under agreements set up when the co-operatives were created.

As we noted in our history of the Los Angeles taxi business, in 1998 Rouse’s Enterprise Finance transferred to the L.A. Taxi Co-operative its city franchise rights to Yellow Cab franchise and offered 400 new “Y” shares of the LATC. Yellow Cab, at least on paper, thus joined the “progressive” movement toward co-operatives in the taxi industry in Los Angeles. And quite a lot of paper it was. The documents to be signed by prospective co-op shareowners in order to buy a “share” of Yellow Cab from Rouse’s Enterprise Finance ran to 31 pages, plus 10 annexed documents comprising 107 additional pages. These 138 pages of legal documents describe the relationship still in place with regard to Yellow Cab of Los Angeles (including those cabs formerly operated under the L.A. Taxi name and logo). The “offering circular” comprising these contract documents for a “share” in the Yellow Cab co-operative states clearly that they are not registered or approved by either the Securities and Exchange Commission or the California Commissioner of Corporations, and have not “been qualified for sale under the California corporate securities law in reliance on an exemption under that law.”²⁰⁵ These documents also describe a series of interlocking corporations and contractual arrangements of great complexity and, for Yellow Cab drivers, great economic consequence. Figure 6 below provides an overview of the relationships between and among the various corporate entities involved.

²⁰⁵ Offering Circular, November 1998, hereafter “Offering Circular.”

Figure 6

The Rouse Family Co-operatives



As structured in the legal documents establishing these entities, Yellow Cab is one of five co-operatives, all of which operate out of the same complex at 2129 W. Rosecrans Avenue in Gardena and all of which were incorporated by William J. Rouse, an attorney, the son of Mitchell Rouse, and currently the General Manager of the enterprise.²⁰⁶ What connects these co-operatives to each other and to various enterprises

²⁰⁶ These other "co-operatives" include Yellow Cab of South Bay, Inc. (Incorporated Jan. 26, 1993) Long Beach Yellow Cab Co-operative, Inc. (incorporated Apr. 15, 1993), United Checker Cab Co-op (operated under the name of Yellow Cab of South Bay as of Apr. 8, 1993), and Fiesta Taxi Co-operative, Inc. (incorporated Jan. 30, 1996). Like ASC and the LA Taxi Coop, all were incorporated by Mitchell Rouse's son, William J. Rouse. All listed the same mailing address on Rosecrans in Gardena, California. Fiesta Taxi was an effort to develop a Spanish language taxi service which never really took off. For a time, L.A. had taxis on the street under the Fiesta Taxi name, but abandoned the franchise under that name

owned by the Rouse family is the Administrative Services Co-operative (ASC). The board of ASC is comprised of members of the boards of each of the member co-operatives. As we explain in the next section, the individual co-operatives under the ASC umbrella do virtually no business as themselves. They have no staff. They have no offices. They do not contract directly with suppliers. Instead, they contract with ASC, which contracts in turn with private, profit making enterprises, most of which the Rouse family controls.

Under the terms of the 1998 offering circular, and for the most part continuing today, Rouse family firms sell to the Administrative Services Co-operative, and through ASC to the member co-operatives, virtually everything a taxi company needs, as follows:

- *Administrative services, including dispatch and obtaining insurance:* According to the circular, administrative services are provided to ASC by Van Ness Management, Inc. under a 10 year agreement that commenced May 5, 1997.²⁰⁷ The Chairman and Chief Executive Officer of Van Ness Management is Mitchell Rouse.²⁰⁸ Van Ness Management was, in fact, incorporated by Mitchell Rouse on May 5, 1997.²⁰⁹
- *Facilities:* ASC entered into a \$25,000 monthly sublease for the Gardena headquarters for the ASC-affiliated taxi fleets from Taxi Systems, Inc. TSI was incorporated by Mitchell Rouse and Anthony Palmeri in 1986.²¹⁰ In 1989, the Rouse family's original Wilmington Cab Company changed its name to Taxi Systems, Inc. in 1989.²¹¹ The Master lease was subject to renewal until May 2019.²¹²
- *Radios or "Mobile Data Units"* ASC and each of the fleet co-ops entered into a "Radio System Agreement" with Taxi Equipment Company (TEC), an affiliate of Enterprise Financial.²¹³ TEC was incorporated with Mitchell Rouse as President in 1993.²¹⁴

According to the offering circular, the weekly co-op membership dues included payments for the co-op's share of expenses itemized above (to ASC, Van Ness, TSI, and TEC) as well as the franchise fee paid to the City.²¹⁵ The auditor's report of L.A. Taxi Co-operative for 1999,²¹⁶ the first full year of operation of Yellow Cab as part of

within the City of Los Angeles in 2004. Addendum July 15, 2004, to Yellow Cab Company 2004 Management/Business Plan Update.

²⁰⁷ Offering Circular, at 11.

²⁰⁸ *Id.*, at 27.

²⁰⁹ Articles of Incorporation, Van Ness Management, Inc. (May 5, 1997).

²¹⁰ Articles of Incorporation, Taxisystems, Inc. (October 6, 1986).

²¹¹ Certificate of Amendment, to Articles of Incorporation (June 1, 1989).

²¹² Offering Circular, at 13.

²¹³ Offering Circular, at 13

²¹⁴ Articles of Incorporation, Taxi Equipment Company, Inc, July 14, 1993).

²¹⁵ Offering Circular, at 21.

the LA Taxi Co-operative, illustrates both the problem of transparency as well as an economic story quite different from that portrayed in the offering circular the previous year. First, the report illustrates that LATC is merely a vehicle through which funds are transferred to the Administrative Service Co-op. The dues paid by LATC members (\$3,921,097) are precisely the same as the dues paid by LATC to ASC (\$3,921,097). The “electronics dues” collected from members were precisely the same amount (\$838,938) as was paid to Rouse’s Taxi Equipment Corporation (\$838,938). The expenses of the co-op in 1999 were set at a per-share basis of just over \$1000 per month,²¹⁷ including \$389 per month for insurance premiums. In 2005, the owner of a Yellow Cab share paid \$1243 per month in dues and liability insurance, which averaged \$408 per month.²¹⁸

Virtually all of the expenses covered by dues paid by Yellow Cab shareholders other than liability insurance are paid through ASC to one or another of the enterprises owned by Mitchell Rouse: Van Ness Management, Taxi Equipment Corporation, or Taxi Services, Inc. The specifics of these transactions between ASC and the Rouse companies were not, however disclosed in the 1999 audit. The company does provide to co-op board members and to some shareowners a budget detailing the categories of expenses incurred by ASC and shared among the five member Co-ops. In this regard, the ASC/Rouse affiliated Co-ops provide considerably more information than do some of their competitors. However, the numbers presented in budget documents are arranged as to functions (e.g., \$834,000 allocated to “management fees” or \$90,000 for “lobbying expense”)²¹⁹ without informing Yellow Cab shareowners of where the money is going and for what.

Moreover, under the arrangement set up by the Rouse family, members of the five co-ops probably have no legal right to know more. Since the parties to these transactions are ASC and the Rouse enterprises, and since individuals owning shares in the taxi co-operatives are not themselves members of ASC, they likely have no legal rights to obtain information from ASC; no right to question whether ASC is paying a fair price for the services it obtains from the various Rouse companies; or whether ASC and their own co-ops might obtain such services at more favorable rates from independent sources. Of course, the board members of ASC are themselves board members of the co-operatives. William Rouse, manager of Yellow Cab, acknowledged in an interview that conflicts of interest are endemic to this structure, noting that when ASC board members are deciding, for example, whether to raise ASC fees to member co-ops, it is not clear whether they are acting for ASC or for the member co-operative that sent them to the ASC board.²²⁰ Mr. Rouse was quick to explain, however, that the nature of the relationships between ASC, the five taxi fleet coops that are members of ASC, and the various entities with whom ASC contracts have been fully disclosed to all members of the member co-ops. And at the level of legal formalities we agree: all of these relationships are described, for example, in the

²¹⁷ *Id.*, based on total expenses of \$8,718,741 divided over 726 active shares.

²¹⁸ Annual Shareholder Activity Report for one share provided by Yellow Cab shareholder.

²¹⁹ These examples are from the ASC Preliminary Budget, 2005.

138 pages of legal documents provided to original purchasers of Yellow Cab shares. However, when we interviewed owners of shares in Yellow Cab or other ASC co-operatives, including current or past board members who have been quite active in the company, we were struck by how poorly these co-op members understood the nature of what, if anything, they owned. Given the complexity of the arrangement and the relative lack of business sophistication of many taxi drivers, this is not really surprising. It is, however, troubling – given that the co-op share owned by a taxi driver often represents his biggest single financial investment.

The lack of financial transparency does not merely create the opportunity for self-dealing and the corruption of co-op boards. It also feeds paranoia regarding alleged nefarious dealings where there may be none. The response that Co-op members do not need access to basic financial information about their Co-op because each Co-op has an elected board is not sufficient. First of all, for reasons detailed above, only members of the ASC board have access to meaningful financial information affecting the five member coops, including Yellow Cab. These members are not selected directly by Yellow Cab members, but indirectly by the board elected by Yellow Cab members.

Moreover, some co-operative board members and officers are themselves on the payroll of ASC or Van Ness Management. For example, Oscar Nicolas, the President of the South Bay Yellow Cab Co-operative (which operates the United Checker franchise in Los Angeles) is employed by ASC and Van Ness Management.²²¹ The suspicion of backroom dealing and corruption is not helped by the sometimes fractious and heated internal politics regarding board elections

For example, in the most recent Yellow Cab²²² board election on March 18, 2006, there were only five nominees for five open seats on the board. We were told by the General Manager of Yellow Cab, William Rouse, that this was a coincidence and that any owner could have nominated another candidate with the consent of only one other shareowner. Perhaps, but in a co-op with 739 shares, the appearance of a preordained outcome is inescapable, particularly in light of the history of earlier elections. For example, in March 22, 2005, Mitchell Rouse wrote on Van Ness Management stationery to all shareholders of Yellow Cab, attacking some board members as “unprofessional and incompetent liars,” threatening to “send Yellow Cab away from ASC.” He noted that “about a year ago, our management decided to ignore these Board members and focus on improving our business,” which required, he said, “tough, politically unpopular decisions.” In concluding, Rouse presented a slate of 13 candidates for the board, with his endorsement “to vote only for these 13”. The alternative, he said, was to “commence negotiations for Yellow Cab’s exit from

²²¹ Interview with Oscar Nicolas in Los Angeles, Cal. (April 14, 2006). Accounting documents for ASC co-operative bearing the notation “Cashiered by: 13-Oscar Nicolas”.

²²² All references are to Yellow Cab for convenience and clarity. As a formal matter, the co-operative which operates exclusively under the Yellow Cab name and trade dress is still known as the L.A. Taxi Co-operative, Inc.

our organization.”²²³ While this letter presented, by its own terms “a clear choice,” it was a choice complicated by the fact that the entire structure of interconnected businesses and the franchise itself were established by Mr. Rouse, leaving any shareholder to wonder whether his investment would be worthless should those relationships be terminated. We, of course, can have no opinion on the substantive merits of the disputes that preceded such a letter.

We cite these examples not to single out Yellow Cab or the Rouse family of co-operatives. As we have noted, members of the ASC co-operatives appear to receive *more* financial information than members of other co-operatives. But this history illustrates the need for both transparency in the electoral and financial dealings of not only Yellow Cab, but all of the co-operatives holding City taxi franchises. The alternative is not only openings to the actual or perceived corruption and exploitation of taxi drivers, but also the stability of this important public utility, which it is the City’s duty to fairly regulate.

In any case, the appropriate policy responses seem to us to be the same: First, as part of its plenary authority over taxi franchises, the City should mandate that every co-operative operating a City franchise obtain and present both to the City and to its shareowners a certified financial audit prepared by an independent auditor with impeccable credentials and reputation.

VI. Conclusions and Recommendations

The task we set for ourselves was to research and report on the circumstances of taxi drivers in Los Angeles and the aspects of the industry of regulation by the City of Los Angeles responsible for those conditions. No doubt readers of this report will come to different conclusions about what ought to be done to improve service to the public, to improve the lives of taxi drivers and their families, or to improve business conditions for taxi companies and management in the City. Based on our research and conversations with taxi drivers, taxicab company management, City officials, and others, we believe the following recommendations merit consideration by the City of Los Angeles:

1. The City should take steps to see that taxi drivers whose livelihoods the City so closely controls have a reasonable opportunity to earn the “living wage” adopted by the City. This will require the City to enact reforms in the areas set forth below.
2. The City must do a better job of upholding its end of the franchise bargain with taxicab companies by enforcing laws against bandit cabs and limousines operating illegally, particularly in areas in which there is no clearly no shortage of legal taxicabs. Recent steps to increase deployment of LAPD officers for these purposes are a serious step in the right direction, but the City should also:

²²³ Letter from Mitchell Rouse to “Yellow Cab Shareholders” (March 22, 2005).

- a. Monitor the effectiveness of these efforts by conducting periodic empirical assessments (easily conducted by simple observations from the street);
 - b. Take advantage of state law empowering the City to enact reasonable rules and regulations regarding limousines operating illegally; and
 - c. If necessary, seek additional authority from the State to regulate “town cars” and limousines that are competing illegally with taxicabs franchised by the City.
3. The City should be more responsible and timely in adjusting taximeter rates to reflect costs over which companies and drivers have no control, especially fuel costs.
 - a. While the recent proposals by LADOT and the Board of Taxicab Commissioners are a much needed step in the right direction, they come long after the dramatic run up in fuel prices. As recommended by LADOT and the Board of Taxicab Commissioners, the Board should be empowered to adjust fares within a reasonable range. But LADOT and the Board should also be directed to review the costs on a routine and periodic basis. It should not require demonstrations and lobbying for the City to do its job.
 - b. The City should follow through on the recommendations of its own consultants who generated the “taxi cost index” (TCI) to adjust the weights of the index to reflect changes in economic reality. Having fares set on the basis of objective economic data rather than political lobbying is a sound one. But this principle is undermined when LADOT and the City leave the index weights unchanged, even as fuel prices increase nearly 300%.
4. The City should require greater financial transparency within the co-operatives to which it issues franchises. Increases in fares will benefit only company managers and officials if they are diverted from drivers through unwarranted “special assessments” or unfair deals with suppliers.
 - a. Through its plenary power to regulate taxicabs through the franchise ordinance process, the City should condition the issuance of any taxicab franchise or the extension of any existing franchise, to a co-operative or association, on that co-operative or association providing reasonable access by members to significant financial information.
 - b. The City should require a detailed financial audit of each co-operative performed by an independent and reputable accounting firm approved in advance by the City, with the results of that audit to be made available to members of the co-operative, in conformity with existing state law.
5. The City should follow the example of San Francisco to help Los Angeles taxi drivers to obtain health insurance for themselves and their families.

6. The City should do what it easily can to help drivers improve their own health, through such things as better information about the ergonomics of driving and the provision of exercise space at the LAX holding lot.
 7. The City should review its operational regulation of taxicab operations and respond to the fact that, amid all the other dangers and challenges they face, taxicab drivers rate among their biggest problems unfair treatment by LADOT, ATS, and LAPD. The City should consider designating an ombudsperson to receive and follow-up on complaints from taxi drivers about abusive treatment by City officials.
 8. The City should conduct or sponsor a review of the industry and the circumstances of taxi drivers on a periodic basis in order to keep itself well-informed of the consequences of how it oversees the taxicab industry.
-