



# TESTIMONY

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## THE INTRODUCTION OF STATE REGULATIONS CONCERNING TRANSPORTATION NETWORK COMPANIES

*By Graham Renz*

Testimony Before the Senate Transportation,  
Infrastructure and Public Safety Committee

### **TO THE HONORABLE MEMBERS OF THIS COMMITTEE:**

My name is Graham Renz, and I am a policy researcher for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. This testimony is intended to summarize research that analysts for the Show-Me Institute have conducted and reviewed regarding the introduction of transportation network companies (TNCs) in Missouri and the effects of local and state for-hire vehicle regulations.

Missouri Senate Bill 185 (SB 185) would create a statewide regulatory

framework for TNCs, otherwise known as peer-to-peer ridesharing networks. SB185 defines a *transportation network company* as:

[A] corporation, partnership, sole proprietorship, or other entity that is licensed under sections 387.700 to 387.734 and operating in the state of Missouri, that uses a digital network to connect TNC riders to TNC drivers who provide prearranged rides. A TNC shall not be deemed to own, control, operate, or manage the TNC vehicles or TNC drivers that connect to its digital network, except if agreed to by written contract....

\* The material presented in this testimony is substantially drawn from testimony given by Show-Me Institute Policy Analyst Joseph Miller on February 18, 2016 before the House Emerging Issues Committee.

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The most prominent TNCs nationally and in Missouri are Uber and Lyft. The proposed law stipulates that a TNC must obtain a license from the Missouri Department of Revenue. The law would require TNCs to have insurance coverage that includes primary auto-vehicle liability insurance, to perform background checks on prospective drivers, and to restrict drivers to digital network ride requests, among other requirements. Critically, the bill would prohibit additional regulation, oversight, or taxation by regional, municipal, or other local entities.

The introduction of ridesharing in general, and TNCs in particular, presents opportunities for Missouri and its major cities. The national expansion of Uber and Lyft is evidence of significant latent demand for transportation network companies, both as an opportunity for transportation and as a source of employment. In San Francisco, where the largest TNCs originated, Uber alone has added an estimated 11,000 for-hire vehicle drivers to the city.<sup>1</sup> This estimate far exceeds the pre-existing San Francisco taxicab stock (1,812) and rivals the number of taxi drivers in New York City. The impact of TNCs is not confined to the Bay Area. Other cities with more than 500 TNC driver-partners include Los Angeles, Memphis, Austin, Houston, Atlanta, Minneapolis, Chicago, Detroit, and Phoenix.<sup>2</sup> On a national level, in December 2014, Uber alone had 162,037 driver-partners that completed four or more trips, meaning the TNC provided more than 648,000 rides, likely many more.<sup>3</sup> When we consider that other TNCs, especially Lyft, also have many drivers nationwide, the magnitude of TNCs' impact on cities is likely considerable. The speed with which TNCs have spread should also be noted. Uber launched UberX, its low-price ridesharing service, in 2012, and Lyft only began a national expansion in early 2014.<sup>4,5</sup> Today, 'ride-sharing' is a household term, and 'Uber' is a verb.

From an economic perspective, ridesharing through peer-to-peer networks presents an opportunity for economic growth by lowering the cost of high-speed, high-quality transportation and making more efficient use of the nation's motor vehicle capital stock.

Recent evidence suggests that the popularity of TNCs rests largely on speed and convenience when compared to taxis and especially public transportation. Evidence from San Francisco shows that 92 percent of Uber and Lyft

users waited 10 minutes or less for a weeknight ride, while only 16 percent of those who called for a taxi waited less than 10 minutes.<sup>6</sup> Perhaps even more telling, 37 percent of those who called for cabs waited more than 20 minutes or the cab never showed.<sup>7</sup> That happened to only 1 percent of TNC users.<sup>8</sup> While much of that speed is based on the use of information technology, innovations in pricing also enable TNCs to provide speedy service. Uber, for instance, charges variable rates that are higher during peak demand hours. Higher prices incentivize potential riders whose time-opportunity costs are low to wait for non-peak periods, and simultaneously incentivizes Uber's mostly part-time workforce to provide additional capacity.<sup>9</sup>

Aside from speed, TNCs provide convenience and reportedly high levels of service. App-based payment via smart phones is a feature that is very popular among users and is common to all TNCs, while traditional taxis often struggle to integrate credit cards as a method of payment.<sup>10,11</sup> Moreover, TNCs utilize a symmetrical rating system, where riders rate the performance of drivers, and vice versa. This system promotes consumer and driver protection by creating data on the level of service provided, behavior of the driver/rider, etc. In short, TNCs allow both riders and drivers to make more informed decisions on who they do business with.

The enhanced mobility TNCs provide has the potential to benefit Missouri's cities by making them easier places to get around. In both Kansas City and Saint Louis, population density is low compared to other major cities, and destinations are spread across a wide geographic area.<sup>12</sup> Low population density, dispersed employment, and population clusters make it difficult for public transportation agencies to provide service that is a feasible alternative to personal vehicles.<sup>13</sup> TNCs take advantage of automobile-oriented environments and provide on-demand service, which may allow them to more effectively compete with personal cars and complement urban transit systems. Such an advantage can be critical for urban entertainment districts, because customers may only choose to patronize those areas if a convenient and cheap alternative to personal vehicles exists.<sup>14</sup> Furthermore, with increased non-personal vehicle mobility, dense urban environments may become a more appealing place to live or set up a business.

TNCs do more than enhance mobility; they can also revolutionize the supply of for-hire vehicles and drivers. Traditional cab companies maintain a separate fleet of commercial vehicles. In contrast, TNC services, by definition, partner with drivers using their own personal vehicles. In essence, TNC drivers are using their existing assets to earn income and provide mobility, making use of an asset that might otherwise sit depreciating in a garage or parking lot. This is an important opportunity for Missouri, where the latest census numbers show that almost 93 percent of households have access to a personal vehicle, and 59 percent have access to more than one.<sup>15</sup> In both Saint Louis and Kansas City, almost 60 percent of households have access to two or more personal vehicles.<sup>16</sup>

The supply of drivers is likely to increase as well, as TNCs open the door to part-time driving, which is often not economical in the traditional taxi industry. According to the Bureau of Labor Statistics, only a quarter of traditional cab drivers work part-time and only one in seven has a variable schedule.<sup>17</sup> The story is different with TNCs. For example, 81 percent of Uber drivers work part-time (fewer than 35 hours a week); TNC drivers choose when and if they work.<sup>18</sup>

Creating more for-hire vehicle demand and making better use of existing capital may create new employment opportunities for Missouri. Some critics claim that ridesharing will destroy the ability to earn income from driving taxis. Although TNCs may drive down demand for traditional taxi service and hence taxi drivers, TNCs create more employment opportunities for the for-hire vehicle driver labor pool in general. Evidence from other cities indicates that Uber drivers may be paid even more than traditional cab drivers on an hourly basis, meaning these new opportunities do not represent lower-quality jobs. In Chicago, for instance, part-time drivers can make as much as \$15.60 per hour, while the hourly wage of a normal taxi driver is \$11.87.<sup>19</sup> The average cost of operating the vehicle may mean that TNC drivers net less per hour than traditional cab drivers, but the compensation is likely comparable.<sup>20</sup> If TNCs induce more for-hire vehicle demand, then there will be more jobs at an hourly wage comparable to what cab drivers make today, to the benefit of those who want to work as for-hire vehicle drivers in general.

TNCs also provide additional benefits to economically and socially depressed urban areas, where traditional taxis are known to underserve. In fact, evidence suggests TNCs respond to rider requests in depressed urban areas in half the time, and at nearly half the price, as traditional taxis do.<sup>21</sup> This has led urban civic leaders, like St. Louis NAACP President Adolphus Pruitt, to pressure local regulators to allow TNCs to operate more easily in urban areas.<sup>22</sup>

The bottom line on TNCs is that they can increase mobility, likely create jobs, and make cities easier places to live, work, and play. In fact, economists estimate Uber alone generates some \$6.8 billion in social benefits annually.<sup>23</sup> What's more, they do it through consumer choice and private investment.

Unfortunately, the very existence of SB 185 denotes that Missourians have not been able to enjoy the full benefits of TNCs and that these companies have had considerable difficulty entering local markets. For example, even after months of negotiation, Uber now operates in Saint Louis in direct opposition to the wishes of the Saint Louis Metropolitan Taxicab Commission (MTC). In fact, Uber and the MTC have been entangled in legal battles since late 2015.<sup>24</sup> A major cause of this state of affairs is outdated and restrictive local for-hire vehicle regulation.

Missouri's largest metropolitan areas, Saint Louis and Kansas City, have traditionally had extensive regulations for their for-hire vehicle markets through the MTC and the Kansas City Regulated Industries Division. Consumer protection is the primary justification for this regulation, which is common to most large American cities.<sup>25</sup> Proponents of regulation have argued in the past that the taxi market has information asymmetries that favor the driver over the rider. Drivers know their way around the city, while riders might not. Drivers also can attempt to take advantage of riders by rigging meters and by tacking on expenses that the rider might not know about. Significantly, because the taxi ride is a one-off interaction, riders cannot know the reputation of the driver or relay their information on the driver to future potential consumers.<sup>26</sup>

But Missouri's for-hire vehicle regulatory bodies did not confine themselves to making sure that riders can depend on choosing a safe taxi with a transparent price. Both Saint Louis and Kansas City instituted market regulation that raises significant entry barriers and controls for-hire vehicle business practices like pricing.

As an example of supply limitations, as of 2014, Kansas City's regulations capped taxi permits to 500.<sup>27</sup> In Saint Louis, there is no statutory cab limit. However, only companies that obtain certificates of convenience and necessity (CCNs) may apply for taxi permits. To obtain a CCN, a company has to prove that there is demand for their services, and the MTC can reject applications at will. Before Uber and Lyft attempted to enter the Saint Louis market in 2014, the MTC was not issuing any new CCNs for cabs while they planned a study of Saint Louis taxi demand, essentially eliminating market entry.<sup>28</sup> It only began accepting new taxi CCN applications in 2016.

In addition to these absolute entry barriers, both Saint Louis and Kansas City had regulations that raise the costs of taxi operations and effectively limit competition and innovation. Both cities required taxis to charge certain prices, drive certain cars, and retain 24/7 dispatch services in the designated localities.<sup>29</sup>

While there are no specific studies on the effects of this regulation on Kansas City and Saint Louis, data from others cities align with basic economic principles: Limiting the supply and restricting the business practices of the cab industry can lead to higher prices and lower levels of service. A Federal Trade Commission report found that, while it might be theoretically justified for a central body to set efficient taxi supply and pricing, regulatory bodies did not have the expertise or incentives to determine those efficient levels. The authors concluded that local taxi regulations often cause an undersupply of cabs, low levels of service (long wait times), and high prices, resulting in the underutilization of taxi services.<sup>30</sup> The beneficiaries of this regulation are not the day-to-day drivers, who often lease their vehicles, but the large taxi companies that own the taxi permits and can extract oligopolistic rent from metropolitan areas.<sup>31</sup>

In the past, the negative impact of taxi regulation may have been justified by instances of market failure in the for-hire vehicle market, although it is possible that the

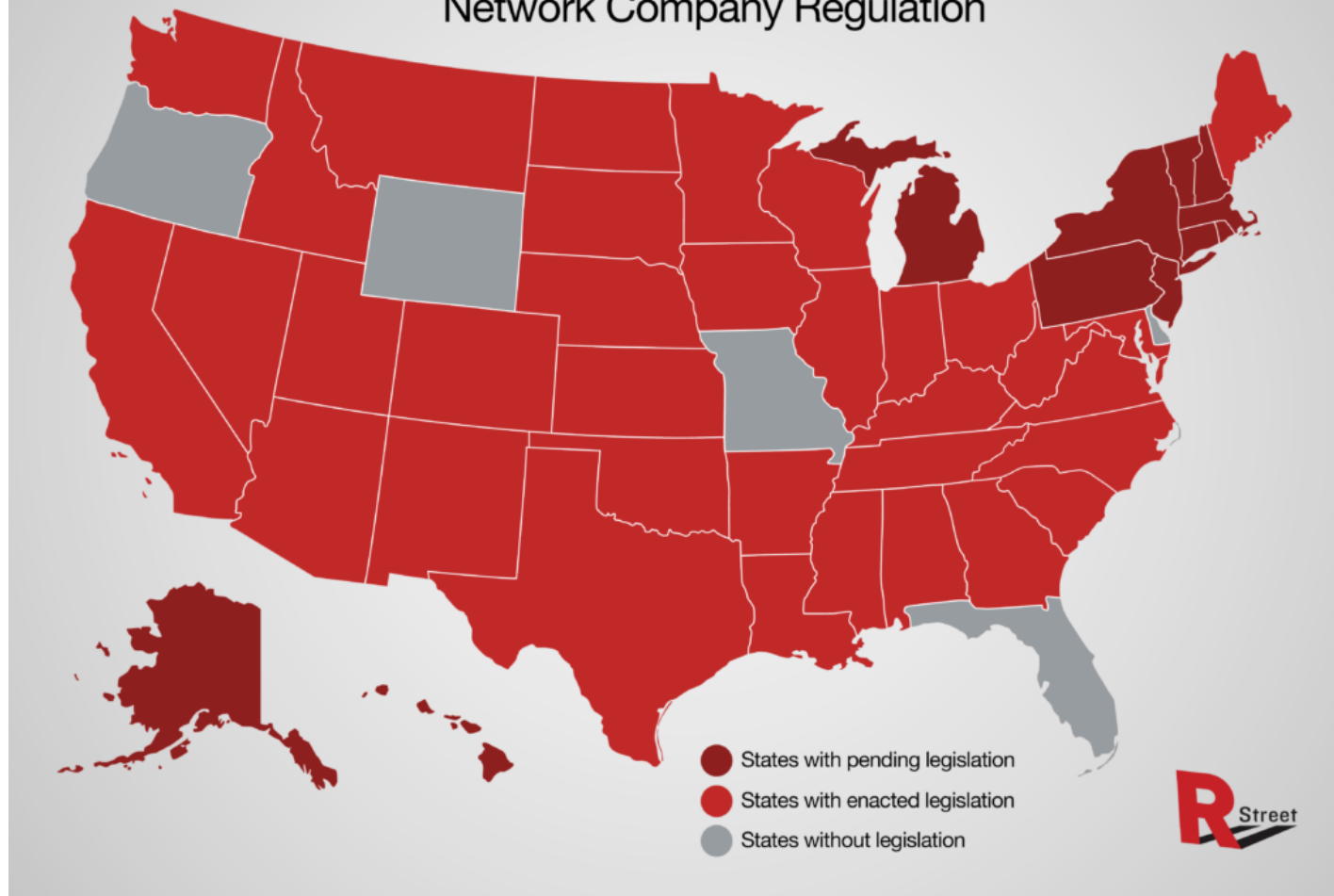
costs of regulation outweighed its benefits. However, new technologies (and especially TNCs) mitigate the market failures that underlie the justification for extensive for-hire vehicle regulation. With TNCs, customers now have access to a wealth of information on drivers and can choose their rides accordingly. The symmetrical rating system utilized by TNCs displays data on previous performances, and those who receive low scores are kicked off the system. In terms of the price of the ride, TNC users have access to maps on their phones, and drivers that attempt to make more money by taking indirect routes are readily identified and kicked off the system.<sup>32</sup> This resource reduces the driver-rider information asymmetry, which weakens the case for strict regulation over for-hire vehicle supply and pricing.

Unfortunately, regulatory regimes have been slow to adjust to these technological opportunities. Kansas City was able to alter its regulations so that Uber, but not Lyft, could enter the market. And since initially approving Uber to operate, regulators have already attempted to place new restrictions on drivers.<sup>33</sup> Saint Louis has failed to achieve even these results. The MTC has moved very slowly and initially only allowed Uber's expensive black car service to enter the market in a tightly controlled manner.<sup>34</sup> And with legal battles still pending, Uber drivers in St. Louis can only operate legally by jumping through burdensome red tape, which Uber claims is unnecessary.

A large part of the difficulty for local regulatory bodies may be that their heavily regulated taxi companies are unlikely to be competitive with less-restrained TNCs. That leaves them with three choices: bar or blunt the entry of TNCs, allow TNCs to freely operate and possibly destroy the traditional cab market, or greatly reduce the economic regulation of the for-hire vehicle market altogether.

Because of large potential benefits of TNCs for Missouri and the regional and statewide impact of local for-hire vehicle regulation, it is appropriate that the state should, in the form of SB 185, set a statewide standard for transportation network companies. The bill provides regulation that is limited to protecting consumer safety (i.e., proper insurance, vehicle inspections, background checks, and fare transparency) while not expanding into economic regulation. Because SB 185 would prevent additional regulation, oversight, or taxation by regional,

## Legislative Map of State-Level Transportation Network Company Regulation



municipal, or other local entities, special interests at the local level would be unable to bar or blunt the entry of TNCs.

Furthermore, SB 185 is modeled after regulation in other states, including California, where ridesharing has shown itself to be both popular and without evidence of endemic safety issues. Many metropolitan areas across the country have had the problem of entrenched local interests using local regulatory bodies to bar or blunt TNC market entrance. The response has been statewide TNC regulation. As of 2016, only five states, including Missouri, lacked statewide TNC regulations, or didn't have regulations pending approval.<sup>35</sup>

TNCs provide an opportunity for increased mobility and greater transportation choice in Missouri's cities. The

proposed regulations of SB 185, focused on safety and transparency, will allow TNCs to bring their services to Missouri without the interference of economic regulations at the local level—regulations that may create suboptimal conditions for transportation innovation.

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**5297 Washington Place | Saint Louis, MO 63108 | 314-454-0647**  
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