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Adjusting the Expense Component of the High-Volume For-Hire Vehicle Minimum Pay Standard

Testimony Submitted to the

New York City Taxi and Limousine Commission

Hearing on

The Proposed Amendments to the
Minimum Driver Payment Rules for High-Volume For-Hire Services

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Summary

Considering that the cost of operating a private vehicle has risen considerably over the past two years, it is essential that the Taxi and Limousine Commission adjust the per mile component of the high-volume for-hire vehicle (FHV) minimum compensation standard.

Past studies by CNYCA and colleagues on the subject supported the implementation of the New York City FHV minimum pay standard, and have verified its beneficial impact to both driver compensation and service delivery. The proposed rule, which would use the transportation component of the regional Consumer Price Index (CPI-U) series to adjust per-mile costs borne by drivers, is actually fairly conservative, but provides for a fair and reasonable adjustment that should be put into place.

Adjusting the Expense Component of the High-Volume For-Hire Vehicle Minimum Pay Standard

Good morning Commissioner Do and Members of the Taxi and Limousine Commission (TLC). My name is James Parrott, Director of Economic and Fiscal Policies at the Center for New York City Affairs at The New School. Thank you for the opportunity to present testimony on the proposed rule change affecting for-hire vehicle (FHV) driver minimum pay.

For most of the past two years inflation has been running at its highest level in 40 years. The recent inflation is mainly due to pandemic-induced supply changes, the Russian war on Ukraine, and other factors. It is encouraging to see the TLC act to adjust the per mile component of the high-volume FHV minimum compensation standard, since the costs of operating a private vehicle have increased much faster than the overall Consumer Price Index.

I strongly support the proposed rule change pertaining to the per mile factor.

Along with Professor Michael Reich of the University of California, Berkeley, I was co-author of the 2018 and 2019 studies that were the basis for the New York City FHV minimum pay standard.¹ Professor Reich and I also prepared a similar report for the City of Seattle in 2020.² The pay standard proposed for New York City, and adopted by the Commission in December 2018, included per-minute and per-mile components to ensure that drivers were compensated for all of their time on the app and also provided reasonable compensation for their vehicle-related capital and operating costs.

¹ James Parrott and Michael Reich, [An Earnings Standard for New York City's App-based Drivers: Economic Analysis and Policy Assessment](http://www.centernyc.org/an-earnings-standard), Report for the New York City Taxi and Limousine Commission, Center for New York City Affairs, July 2018. <http://www.centernyc.org/an-earnings-standard>; and James Parrott, Michael Reich, Jason Rochford, and Xingxing Yang, [The New York City App-based Driver Pay Standard: Revised Estimates for the new Pay Requirement](https://www.centernyc.org/the-new-york-city-app-based-driver-pay-standard-revised?mc_cid=80c36c5e43&mc_eid=f076c27c0e), Report for the New York City taxi and Limousine Commission, Center for New York City Affairs, January 2019. https://www.centernyc.org/the-new-york-city-app-based-driver-pay-standard-revised?mc_cid=80c36c5e43&mc_eid=f076c27c0e

² James Parrott and Michael Reich, [A Minimum Compensation Standard for Seattle TNC Drivers, Report for the City of Seattle](#), Center for New York City Affairs, July 2020.

Professor Reich, Professor Dmitri Koustas of the Harris School of Public Policy at the University of Chicago, and I also co-authored a December 2020 analysis that assessed the impact of New York City's pay standard in its first year.³ Among other things, that assessment found that the minimum compensation policy had the intended effect of raising driver pay, while reducing passenger wait times and maintaining service levels. We found a high rate of compliance with the pay standard and also that driver pay increased about nine percent, or \$1.33 per trip, for an estimated aggregate increase of \$340 million in 2019. Some of the pay increase was passed through to passenger fares, but there was also a significant reduction in effective company commission rates. Interestingly, we note that fares also increased around the same time in Chicago without the implementation of a minimum driver pay standard.

Originally, the TLC rule establishing the minimum FHV compensation standard called for an annual adjustment to reflect changes in the Consumer Price Index. However, we had not anticipated inflation running at more than four or five percent a year at most. Between 2018 and 2022, the NY-NJ-PA metro area CPI-W increased 13.8 percent (annual average 2018 to annual average 2022), with most of that occurring in 2021 and 2022. The transportation component of the regional CPI-U series (the series utilized in the TLC proposal), which is a better indication of the vehicle related costs borne by drivers, increased by 20.7 percent between 2018 and 2022, with rapid increases occurring in the past two years.

The expense factor increase utilized in the proposed rule is, in fact, fairly conservative. The overall transportation cost component of the CPI-U includes public transportation, which is obviously a significant element in the New York area consumer basket of goods and services. Leaving aside public transportation, private transportation costs rose 27.7 percent between 2018 and 2022. Over the same period, new and used vehicle prices rose by 31.7 percent, and gas costs increased by 40.4 percent. Overall, I believe the TLC method for adjusting the per mile component to be sound and reasonable.

Thank you for the opportunity to testify today.

³ Dmitri Koustas, James Parrott and Michael Reich, [New York City's Gig Driver Pay Standard: Effects on Drivers, Passengers, and the Companies](http://www.centernyc.org/reports-briefs/2020/12/8/new-york-citys-gig-driver-pay-standard-effects-on-drivers-passengers-and-the-companies), Center for New York City Affairs, December 2020. <http://www.centernyc.org/reports-briefs/2020/12/8/new-york-citys-gig-driver-pay-standard-effects-on-drivers-passengers-and-the-companies>