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Running on Empty:

**How taxi brokers in New York City are evading the
lease caps at the expense of working drivers.**

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SUMMARY

The Taxi and Limousine Commission (TLC) was created in 1971 to regulate New York City's taxi and limousine transportation services. In 1979, the TLC legalized medallion leasing for New York City taxi cabs. Today, approximately 40 percent of drivers lease their cars and medallions through brokers. To the great detriment of drivers, that brokerage system operates in a largely unregulated environment.

While the TLC does enforce a licensing process for brokers, and is therefore very much aware of the intricacies of the system that is in place, the TLC does virtually nothing to regulate brokers' rates or contract terms outside of the \$800 per week taxi medallion lease cap they have imposed.

In the absence of TLC regulation, brokers have been able to systematically take advantage of drivers by circumventing the \$800 cap through usage fees on medallions, hidden costs, and by drastically overcharging for the use of vehicles. Often times drivers who enter into standard, 27-month contracts with brokers for a medallion and Ford Crown Victoria, ultimately pay double the actual public leasing cost of the vehicle over the life of the contract.

Additionally, many taxi drivers are new immigrants who possess little or no knowledge of their legal rights in contract negotiations. The brokers do not allow the drivers to review the contracts with a lawyer or negotiate their terms in any way.

Again, this is not an isolated sector of the taxi driver community, but rather 2 out of 5 taxis on the road. Without a unified union body, these drivers' independent contractor status and lack of collective bargaining abilities has kept them out of TLC regulations, and left them prey to systemic injustices.

Because these contracts are questionable both in their terms and in their administration, the TLC must play a more active role in regulating the brokerage sector of the taxi industry.

WRONGS TO BE RIGHTED

City-licensed brokers are overcharging independent drivers for their medallion and car leases. The TLC has established caps for the lease rates associated with medallions and vehicles that fleet-owners and driver-owners can charge another driver.¹ However, TLC's regulations regarding brokers do not contain a parallel set of price caps.² Far in excess of the rates permitted for fleet-owners and driver-owners, brokers are charging drivers \$800 per week for use of the medallion and an additional \$285 per week for the car. Additional fees, like \$35 per week for indemnification for risk of loss and \$10 per week to cover renting City mandated technologies (global positioning systems, credit card machines and interactive television monitors), are also being charged. According to

¹ TLC Rules for Owners §1-78.

² TLC Rules for Owners §1-78.

the Taxi Workers Alliance, these biased contracts result in the average taxi driver working the first 6 to 8 hours of his/her shift to cover the costs associated with leasing his car and medallion for that shift.³

Even in catastrophic situations, the typical broker's contract contains no reasonable exit for the driver. According to one such contract where the driver needs to terminate his contract early, he will face a lawsuit in small claims court and liquidated damages of up to \$5,000. Most discouraging for the driver in this situation is that the TLC will suspend the driver's license until these damages are paid. Under this scenario, the driver is left with no formal support system through which he can figure out how to earn the money to pay the damages in order to return to the line of work in which he is specially licensed.

The distribution of liability in the event of the car's destruction by a third party unfairly burdens the driver. Where such destruction occurs, a common contract provision will require the lessee-driver to pay a deductible of \$1,000 or more to the broker. This broker-maintained insurance fund is then obligated to supply a new vehicle to the driver within 60 days. During that period of up to 60 days, the driver is still obligated to pay the broker at his contracted weekly rate despite the absence of his leased vehicle. If the replacement vehicle supplied by the broker-insurer is worth more than the original vehicle under the lease, the driver is obligated to pay this increased difference in value. The broker is financially rewarded for using all 60 days to get a replacement vehicle for the driver.

The insurance coverage provided by the broker is not clearly defined in the contract and this often results in unfairly assessed liability to the driver. Under current TLC regulations, the broker is permitted to act as the insurer of the vehicles, so long as the broker indicates this relationship in its leases and in its broker registration. Many brokers do elect to do this and charge a weekly fee for indemnification for risk of loss to the lessee-driver. However, a full description of what that weekly fee is providing the driver in the way of insurance coverage is often left out. Without the terms of insurance coverage clearly defined, the drivers often face additional charges amounts above the weekly fee to cover a situation that was not addressed by the original contract. The lease agreement should include full insurance terms covered under the lease. This would allow drivers to plan accordingly and seek additional outside coverage as necessary.

PROPOSED SOLUTION: A UNIFORM CONTRACT

Requiring all brokers to use a uniform leasing contract with terms established by the TLC will prevent the driver from entering into an unfair obligation. Specifically, the contract would rectify the egregious treatment of the drivers with respect to exiting the contract in light of a catastrophic event, insurance requirements, third-party liability, and pricing

³ See the Unfare Report – prepared by the Urban Justice Center for TWA.

caps. Equalizing the benefits and burdens of the contract between broker and driver will greatly improve the working condition of City taxi drivers and ensure that they are being paid a living wage. Here are some specific issues which should be addressed:

- Set long-term lease cap at no more than \$1,000 per week (\$800 for medallion and \$200 for vehicle financing).
- Forbid removal of medallion before car reaches retirement age or becomes inoperable.
- Require release of title to driver's name once all vehicle payments have been completed.
- Require exit clause in contract for drivers.
- Allow drivers to substitute someone else on the lease if one driver leaves unexpectedly.
- Stop arbitrary meter shut downs by garages and brokers.
- Forbid garages and brokers from pleading guilty for summonses which are driver responsibility.
- Forbid garages and brokers from passing on owners' summonses to drivers.