

Reducing Barriers to Entry for Informal Transit Service

| Overall effect on California petroleum use | | Affects Petroleum Demand Through Intermediate Indicators: | |
|--|--|---|-------------|
| Magnitude | Low | Primary | Mode Choice |
| Certainty | Medium-High | Secondary | |
| Applicable Level of Government | State, Local | | |
| Relevant Laws or Cases Affecting Factor | Public Utilities Code §5353(h), §5371, §12067(c), 23 U.S.C. 166(b)(3) | | |
| Overall Time-Horizon of Reversal | Near-term, with regulatory changes at the state and local level | | |
| Relevant Topics | Jitneys, dollar vans, entrepreneurship in mass transportation | | |
| Summary | California law requires informal transit operators to obtain a state or local license in order to operate. The licensing and insurance requirements serve as barriers to entry for informal transit services, such as jitneys, which frequently compete on cost. Reducing or eliminating regulatory barriers to jitney service would likely formalize existing, unlicensed operations in the state. However, increases in informal transit services would attract passengers otherwise served by existing shared transportation services or who are currently unserved, negating any petroleum-related benefits. | | |

Introduction

Globally, informal transit is a popular form of transport in places where government fails to meet the basic mobility needs of lower-income individuals. Such places demonstrate a high demand for mass mobility services, and typically have the economic drivers necessary for entrepreneurs to serve this demand. Individually owned and operated transit vehicles can use decentralized decision-making to more responsively serve customer demand - such as identifying new routes or service spans and providing value-added services.

We define informal transit as privately-provided, unsubsidized five-or-more passenger vehicles that operate in fixed or semi-fixed routes. Jitneys, share taxis, and dollar vans, are all examples of informal transit services. In California such services could potentially fill gaps between existing mass transportation services: Charter-Party Carrier Act-licensed services, locally-regulated taxicabs, publicly-subsidized transit services, and employer-based or publicly-subsidized vanpool and shuttle programs.

Widespread adoption of such services faces several constraints in California. Because informal transit is privately held and unsubsidized, entrepreneurs must be capable of profiting in order for the service to exist. While existing regulations may permit some types of informal transit service, they serve as barriers to entry, by increasing fixed costs for individual entrepreneurs, the primary suppliers of informal transit service.

Informal transit in the U.S.

Informal transit services operate elsewhere in the U.S., where they augment or replace publicly-managed transit services.

In Atlantic City, a nearly-century old association manages service provided by over 190 individually owned and operated jitney buses (The Atlantic City Jitney Association, 2013). Since 1997, the Association has used funding from New Jersey Transit to provide a rail shuttle connection (New Jersey Transit, 2007). Three additional, unsubsidized routes operate throughout the city.

In New York City, dollar vans operate in the outer boroughs, primarily catering to immigrant passengers who are familiar with informal transit. Only some of the vehicles are licensed and insured, and all are prohibited from picking up passengers at curbs (Margonelli, 2011). Powered by decentralized decision-making, the individual entrepreneurs operating the dollar vans can offer value-added services, such as waiting for a mother and child to arrive safely at their destination before proceeding with the route (Margonelli, 2011).

Informal transit in California

While California has a rich history of urban jitney service, only one licensed vehicle continues to operate in San Francisco. Jitney Number 97, a 1978 GMC minibus, connects San Francisco's Market Street with the Caltrain station for a \$2 fare. A 1997 newspaper feature on the service and its owner-operator, Jesús Losa, suggests that profits are slim (Fernandez, 1997).

History of informal transit in California

In Los Angeles, unregulated Jitneys competed with privately-owned and operated streetcar services in the mid 1910's. In 1917 Los Angeles voted to heavily regulate Jitney service, and service mostly disappeared by 1918 (Roger & Nerner 1986).

Los Angeles's modern-day jitney experiment began in July of 1982, when the California Public Utilities Commission approved a pilot project. Roger and Nerner (1986) studied this experiment.

The timing of the experiment, months before the Public Utilities Commission approved the pilot project, the California Supreme Court upheld Proposition A, a half-cent sales tax for transit that provided substantial new operating subsidies. This slashed Southern California Rapid Transit District (RTD) base fares from \$0.85 to \$0.50, making it more difficult for unsubsidized private jitneys to profit.

The jitney experiment lasted approximately seven months. Roger and Nerner made several findings from their study. Many of the jitney drivers and riders were Latino, and Latinos demonstrated loyalty for the jitneys over RTD buses. Many of the drivers were willing to invest with no guarantee of return because they had few other options to generate income.

Riders holding monthly RTD passes were far less likely to use the jitneys, as the jitney fare would impose an additional cost. Others used jitneys if they perceived time savings or an opportunity to have a seat for their trip. The jitneys' average speed was faster than public buses because the smaller vehicles made fewer stops and were more maneuverable. Jitneys diverted 3% of RTD passengers on the six affected routes.

The modern-day jitney experiment discovered at least one service gap that informed RTD's provision of public transit service. The jitneys demonstrated demand for additional public transit service on Gage Avenue.

Los Angeles's modern-day jitney experience suggests that a two-tiered system where fixed-route jitneys compete directly with publicly-subsidized transit is unlikely to succeed. Jitneys require a minimum demand threshold in order to provide cost-effective service. Many corridors where transit demand exceeds this threshold already offer public transit service - meaning that jitneys must compete head-to-head with publicly subsidized service. In such cases, they will compete on price, either slashing fares or by attracting low-wage workers who often have few alternatives for income-generating work (Roger & Nerner, 1986). In 1982, RTD's 35 cent fare decrease precluded the former strategy.

Jitneys, or other informal transit, may be more successful in markets with significant gaps in publicly-subsidized transit service, or markets in which public subsidy is not customary.

One study examined Latino's use of *camioneta* minivan services. While the *raiteros*, or entrepreneurial owner-operators, offered some intra-city commuter services, they primarily provided intercity and international trips (Valenzuela, et al., 2005). In these markets, licensed and unlicensed transport services compete with privately-provided Greyhound-like scheduled, fixed-route services. The researchers found that "entrepreneurs within the immigrant community in Los Angeles have spotted a poorly served group in the travel market and capitalized on it" (Valenzuela, et al., 2005, 909). In the views of users, the *camionetas* offered several advantages over Greyhound-type services, including Spanish-speaking drivers, route-deviation, lower price, and Spanish language entertainment.

Regulation

Commute trips are exempt from the most stringent state regulations. Public Utilities Code §5353(h) allows individuals to collect fares in order to transport passengers between home and work, provided that the primary purpose of the service is not to make a profit. *Raiteros*, who offer fare-based commute services, may not meet these requirements, and thus may require a license to operate. Public Utilities Code §5371 requires all private passenger transportation services not meeting this and other exemptions to obtain a license from the Public Utilities Commission.

California regulations provide a path for informal transit service, but only between unincorporated areas and cities in San Diego County (PUC §12067(c)). In this provision, California defines "passenger jitney service" as "every corporation or person engaged as a common carrier, for compensation, in the ownership, control, operation, or management of a passenger transportation service by motor vehicles of not more than 15 passenger capacity, excluding the driver, which operate between fixed termini and over a regular route and generally on short, nonscheduled, headways" (PUC §12067(c)).

Any informal transit service would lack at least one mobility privilege afforded to publicly-sponsored transit systems. Informal transit service would be prohibited from deadheading, or traveling to and from revenue services, in HOV lanes on the federal highway system.

While Federal law (23 U.S.C. 166(b)(3)) allows public transit vehicles to deadhead, it does not afford this opportunity for private mass transportation services not operated under contract with a public agency.

How do informal transit barriers affect California petroleum use?

In this section, we consider a reduction in costs associated with obtaining state licenses (insurance, knowledge, time). We exclude community-based rideshare programs focused on commute trips, as few regulatory barriers to such services currently exist. We find that it's unlikely that relaxing barriers to entry for informal transit services would lead to a large increase in mass transit use in California.

Informal transit is likely to be most viable in areas of California where publicly-subsidized transit doesn't exist or substantially fails to meet the mobility needs of the poor. This includes the aforementioned *camioneta* service, grocery shuttles, or where publicly-subsidized routes are so consistently crowded that informal transit options offer the only guarantee of a seat. Where informal transit co-exists with adequate publicly-subsidized transit, it's likely informal transit will compete on cost – both fares and drivers' wages.

The greatest opportunity for reducing barriers for informal transit is likely in intercity and interregional trips. Publicly-subsidized mass transportation does not exist in many of these markets, and it's possible that individual and organized entrepreneurship will lead to more intercity services. The additional market for such services is likely small - between those already using unlicensed services and individuals who can afford private mobility or would prefer to utilize licensed services. Expanding the informal transit market for intercity trips would likely serve the mobility needs of those not currently traveling, leading to net increases in petroleum demand. Reducing barriers to entry would formalize existing unlicensed services, providing a non-petroleum benefit to service operators.

We also find limited opportunity in the commuter services market. Commuter vanpools whose driver is also transporting himself or herself to employment are exempt from state licensing requirements. State licensing costs are not currently a barrier to premium, employer-based shuttles, which are provided as a fringe benefit to higher-than-median-wage workers. Publicly-subsidized transit is expanding into areas that are traditional strongholds of informal *camioneta* or *raitero* services – agricultural worker transportation. The California Vanpool Authority and Agricultural Industries Transport Service offer a publicly-subsidized vanpool model for agricultural worker trips – both daily commute trips and long-distance repositioning. The expansion of such services limits the opportunity for changes in licensing costs to affect informal, for-profit commuter services.

Informal transit largely serves as a substitute for existing transit service rather than private automobiles. Because of this, we forecast that reducing barriers to entry for informal transit use will have a negligible effect on statewide motor vehicle fuel use. This doesn't mean that informal transit service can't play a role in California's future mobility. When increasing transit fares, government could relax enforcement or allow a pilot program for jitney-type services to enable the potential emergence of lower priced transit for low-income Californians, albeit not without consequences.

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