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STUDY OF THE APPROPRIATENESS OF AN ALLOCATION SCHEME FOR LIMOUSINES IN CLARK COUNTY, NEVADA: A REPORT IN RESPONSE TO A.B. 518

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ABSTRACT

A.B. 518 called for a study of the appropriateness of an allocation scheme for limousines regulated by the Nevada Transportation Services Authority. This report summarizes our findings from the information provided by the carriers in the Annual Reports of Motor Carriers (doing business in Clark County) as reported to Transportation Services Authority of Nevada. NAC706.401905-706.401995.

Evidence shows that the limousine industry in Clark County expanded significantly since 2000. Limousines and sedans increased 9.1 percent; and, vans and buses increased 15.2 percent. Not surprisingly, revenues declined, following closely the decline in passenger activity at McCarran Airport. Net incomes for reported for 2001 and 2002 were in deficit positions. The mixed category of operators, the category with the largest number of vehicles, incurred the largest losses. Also, we found a 8 operators had their certificates revoked, a lack of insurance was cited as a major cause. The weakness of the industry was further apparent from the voluntary cancellation of certificates that could not be sold. Limousines, not operating with an allocation arrangement, faired poorly in comparison with taxicabs which are operated with an allocation scheme.

The arguments advanced for establishing an allocation scheme are: (1) ensuring market entry to provide service; (2) ensuring adequate, safe, and timely service; (3) maintaining the adequate quality of service; (4) setting fares in line with efficient service; and (5) maintaining balance among alternative ground transportation services.

Concerns for using an allocation scheme for limousines are the same as for any regulatory scheme. Namely, regulating creates the following concerns: (1) markets reveal information, and the best decisions are made by those who are best informed; (2) markets need to be well designed; (3) regulations can be swayed by political and industry forces that create inefficiencies in the regulation process.

There are differences between taxicabs and limousines, to be sure; however, these differences are not sufficiently significant to take substantially different approaches to regulation schemes. The arguments point to strengths and weaknesses of an allocation system. On balance, however, the evidence of the past few years, to be sure, a limit period, does nonetheless suggest that an allocation scheme would have keep a more orderly state of affairs, as was the case with allocation of taxicab medallions.

The current regulatory scheme for limousines without allocation resulted in a wider variance between the number of vehicles on the road and the basic need for service. The industry recorded a weaker economic performance than would have been expected with an allocation scheme. Regulation, whether with an allocation system or not, runs the risks of inefficiencies, misplaced incentives, and the lack of and transparency, In short, the expansion of the regulatory environment to include an allocation scheme has inherent weakness; but, these weaknesses aside, allocation , even if flawed, seems to offer a better solution than the current arrangement and would help level the playing field between taxicabs and limousines.

I. INTRODUCTION

Each year about 36 million visitors arrive in Las Vegas to spend a few days. About half of those that visit will come by air and will use some form of local ground transportation services. Not surprisingly, ground transportation, in large measure serving the tourists, numbers more than 1,700 taxicabs and about 1,000 limousines, sedans, vans and buses operating in Clark County.

The contribution of the transit and ground transportation sector to the Clark County economy is large to say the least, resulting in an average of 9,752 jobs in 2002. (See http://www.nevadaworkforce.com/admin/uploadedPublications/1089_2002EmploymentandPayrolls.pdf) Economist, however, also measure the contribution of a given industry to a local economy on a relative basis. The most often used relative measure is the location quotient, defined as the percentage of jobs in a given industry for a region relative to the same industry percentage for the nation. On this basis, southern Nevada's jobs in local ground transportation is twice the national average, only the hotel sector shows a greater contribution. Three sectors (hotels, ground transportation, and construction) show coefficients that are 2 or greater. Indeed, transit and ground transportation is part of the broader category of travel and tourism, the export-base of the local economy.

Ground transportation includes taxicabs, buses, limousines, and rental cars. These are the likely choices that a visitor might make on arrival at McCarran Airport in getting to a hotel. To be sure, differences distinguish each transportation form, but a traveler will select one of these forms of transportation and evaluate one option with the other. In short, we believe that these transportation forms are relatively close substitutes for each other; this is further verified by the presence of firms that operate in more or more of the ground transportation areas, with rental cars being an exception. For our purpose, therefore, we make note of a large car rental business, but give this alternative transportation form no further consideration.

The close economic relationship between taxicabs and limousines is further shown in studying the possible allocating limousines, a procedure that has been used for some time in Clark County for taxicabs. The Nevada Legislature passed A.B. 518 during the last legislative session. A.B. 518 called for a review of "the appropriateness of an allocation system for the issuance of certificates of public convenience and necessity for limousines" in Clark County.

This study focuses on the current status of the limousine industry, offering an opinion about the use of an allocation scheme for the limousine industry, though this report does not consider the problems that would arise; and, as such, we note that the final assessment of such a scheme depend on assessing benefits and costs.

The study begins with a review of the reasons that ground transportation and limousines services have been regulated for some time and in major U.S. communities. We follow this discussion with a statement of reasons for the use of allocation schemes in regulation of limousine services. Next, we turn to an assessment of the recent financial status of the limousine industry in southern Nevada, based on data submitted to the state of Nevada Transportation Services Authority. This discussion shows a decline in airport traffic during 2001 and 2002, the last years that we have data available. To be sure, southern Nevada also experienced a slowdown because of the national recession in 2001. Also, the events of September 11, 2001, with the stoppage of air flights, stepped up surveillance, greater time delays at airports, and increased concern for safety, referred to as "cocooning," acted in unison to slowdown travel into Las Vegas. Indeed, it was highly likely that Clark County would have seen 36 million visitors in 2001 without the terrorist attacks. Two years later, visitor volume remains below 36 million. A 24.2% increase in the number of limousines, sedans, vans and buses, however, occurred while the nation experienced a recession. So, a national recession and concern for safety worked to limit visitor volume while the number of vehicles expanded rapidly. Not surprisingly, income losses were reported.

II. REASONS FOR REGULATING GROUND TRANSPORTATION AND LIMOUSINE SERVICES

Whether market or public organization best fits a good or service comes after evaluating conditions for market failure. Economist almost always begin with the premise that markets work best. In short, as identified by Adam Smith in 1776, decisions made in the self-interest of enterprise come closest to coinciding with the public welfare of society as a whole. Markets do malfunction, however, as shown in the efforts to move to a more deregulated market electricity, to control for over fishing between Canadian and the U.S., and implementing proper pollution controls.

The identification and assessment of malfunctions constitutes the base on which public regulation rests. Stated differently, the benefits of a regulatory allocation scheme for limousine service should exceed the costs of regulation, that is, the compliance cost to providers , administration costs of the regulators, and any change in transportation costs to riders that might be associated with a regulatory environment. In short, the case for regulation rests on identified and measurable weakness in market organizations; we present and discuss three key reasons giving rise to regulating ground transportation and limousine service.

Information Mismatches Create a Reason for Regulation

A departure from the conditions of an efficient market might arise out of information imbalance between demanders, that is, the customers of ground transportation (overwhelmingly visitors to Las Vegas) and the suppliers, that is, local owners and drivers of limousines, sedans, vans, and buses.

Visitors are almost always at a decided disadvantage in assessing the safety of a vehicle, the most direct route to their destination, the prevailing price, and whether or not a driver will do them bodily harm. The rider's disadvantage is clear –the rider has never met the driver before and has no idea whether he or she will be safely driven to their destination or be rob and harmed.

Most people lack the ability to measure the safety and security of ground transportation. Ask yourself, on arriving at a new destination, as you search out directions to find ground transportation: Do you know directions to your destination? Do you know the prevailing prices for services? Is the vehicle you select safe? Is it safe to get into this vehicle with this driver (having traveled by air you were unable to transport some of the more ominous means to defend yourself)?

In localities where locals use ground transportation at a greater rate, for example, New York City, the information mismatch between riders and providers tends to lessen. For one, a frequent New York cab rider more likely knows the prevailing price and the direct route to a given destination than a visitor to Las Vegas. In comparison, one finds a stronger case for regulation of ground transportation in Las Vegas than in New York. Simple adoption of either market or regulatory schemes, or some combination, needs to account for information differences.

Still, the issue of safety overarches the market relationship and accounts for the reason that transportation has been regulated by the public at national, state, and local levels, both in the U.S. and other countries.

Failure to Account for Adverse Impacts Creates a Reason for Regulation

Another possible market malfunction arises when ground transportation providers do not take into account the adverse impacts that they might have on others, whether another provider, other local consumers, or other local firms. These adverse impacts arise out of the complexity of markets. Congestion from a "free-for-all effort" to pick up passengers, results in increased costs to riders arising out of time delays. Those riders preferring a more orderly process that saves them time and money for which they would willingly pay instead must bear the added costs of the inefficiency in such a"free-for-all" market system.

Other market failures include price gouging, nondirect routes, and the failure of the carrier to have adequate insurance. In the case of price gouging and longer routes, the rider pays more than would otherwise be the case in an efficient market. In the latter case, the lack of insurance coverage puts the rider at risk. The adverse impacts of these activities arise out of self-interest decisions of a provider that spillover to consumers and other providers. This creates a burden for both consumers and other providers.

Riders do not get what they expected; more costs are imposed. And, these costs, falling on visitors, may be hard to identify. To the degree that these practices become known, the greater community may be adversely affected, resulting in fewer future visits and greater reliance by the visitor on their own vehicles in the future. So, these adverse impacts are likely to reduce future revenues, generate more congestion, and perhaps more pollution, and surely increasing the risk of more accidents associated with drivers' not knowing where they are going. All in all, higher transactions costs create inefficiencies.

Failure to Efficiently Provide the Rider Alternatives Creates a Reason for Regulation

One sees market efficiency when suppliers compete with each other. For example, a street corner with four gasoline stations is more likely to have lower prices than another location with one provider and no nearby competitors. Having several ground transportation providers available for me at the airport such that I might be able to check about price and quality, even if I were knowledgeable to do so, does not seem to be a technical feasibility at a busy airport, even with many providers. Thus, markets fail to offer competitive choices for identical transport. The search and information cost to the rider of securing transportation in a congested and unfamiliar environment is higher than otherwise would be for efficiency conditions.

III. REASONS FOR USING AN ALLOCATION SCHEME FOR LIMOUSINE SERVICE IN LAS VEGAS

Ground transportation is regulated to protect public safety, ensure that the public need is provided for, and that public convenience is taken care of. Adopting an allocation scheme for limousines is a furtherance of this aim and covers, as with other forms of ground transportation, five key reasons. These reasons are: ensuring market entry to provide service, ensuring adequate, safe, and timely service, maintaining the adequate quality of service, setting fares in line with efficient service, and maintaining balance among alternative ground transportation services.

1. Ensuring service for customers is the reason for market entry and franchise regulation.

In an unregulated competitive market environment, many firms compete without direction. Enlightened self-interest works wonders in getting the goods and services we want efficiently. But, in so doing, there are no legal constraints that providers of goods or services will provide service to all individuals and at all times. It is only self-interest that would guide the provision of service in an unregulated market. As a result, many visitors could be caught without service if providers elected not to provide service, or joined to withdraw service. The presence of many visitors creates a possible risk that significant asymmetric understanding of information exists that might puts the visitor at risk.

Two critical roadblocks create difficulties for unregulated ground transportation markets. These difficulties are asymmetric information and the lack of sufficient penalties for carriers who shortchange customers.

A visitor would not always know if a turn out of the airport into the tunnel was made to lengthen the trip and add to a rider's cost or not. Buyer beware does not give the visitor adequate protection. Where there are many market transactions, people come to know each other and reach a comfort level with the service they can expect. Clearly, a visitor has an informational disadvantage, what economist refer to asymmetric information problem.

Inefficient and unreputable providers do poorly, and yes, even go out of business, in unregulated market-oriented transactions where information generated by repeat transactions is widely available. The lack of knowledge and repeat business places the visitor seeking ground transportation services at a distinct disadvantage relative to the providers. An unregulated market environment generates an inefficient outcome when providers having an advantage similar to a monopoly market situation–that is, each provider looks out for her or himself, but the final outcome is less than desired.

There is no assurance that firms operating in a noncompetitive market would forecast the demand for public transportation nor provide services in unison with the public interest.

Under a regulated environment, "common carriers" serve anyone who is ready to pay. Carriers are, however, held to a service standard. In exchange they receive some assurances of opportunities to thrive in a workably competitive market.

2. Ensuring coverage of target areas, both time and place, is a service need.

This standard recognizes the importance of providing transportation in an efficient fashion at the time and place needed. In an unregulated environment, firm and driver self-interest must come together at a place and time to have service available. Failure to get driver and firm interests in unison with rider interest can happen, that is, behavior in the interest of the firm may be adverse to the interest of the driver. Adverse differences might easily arise over determination of place and time of service to the detriment of the person seeking service, that is, the public. With much of the region's economy dependent on travel and tourism, the risk of an adverse situation could have substantial consequences. As such, it is not surprising that Clark County, Nevada and other areas use regulation to ensure that the public's interest is taken care of and risks avoided. To be sure, the current system provides services to large numbers of passengers; and, by anecdotal comparison, the system works reasonablely well. An allocation system might, however, offer some greater assurances.

Ground transportation providers, the umbrella for which limousine services are but one form of transportation, compete for the use of local streets. As charter buses have been used increasingly, there is a benefit to the community for a limited resource. Congestion is increasingly a problem for a growing community. The collection of a range of providers compete for the same resource, along with public transportation and private automobiles. Congestion is another reason to invite regulation. For otherwise, there would be no limit on the number of vehicles on the street, a problem easily noted in less developed foreign countries. And, meeting temporary needs such as major conventions, where traffic congestion is noteworthy around the Las Vegas Convention Center, is yet another reason to be able to have authority to address public congestion and ground transportation.

Without adherence to the standard of "public convenience and necessity," carriers would be free to pursue strategies that are not in the public interest. It would be more difficult to identify problems; and would, as a result, likely create added problems. Meeting fitness standards becomes important for carriers, otherwise they risk the loss of their certificate.

Also, by regulating companies rather than individuals, the administrative costs of regulation are less than in the case of regulations given to individuals.

3. Encouraging quality service with adequate returns to carriers is important for southern Nevada's primary industry.

The quality of service may be more efficient under government regulation because of reduced information costs. One would expect few visitors to have the time, inclination, or knowledge to make an informed judgment about the quality of a limousine service. This thinking is the same as why health inspectors frequent eating establishments to ensure and encourage quality service. Indeed, coverage of restaurant inspections in local newspapers points to the benefit of public scrutiny and dissemination of information.

4. Maintaining a fare structure that provides an appropriate standard of living for drivers and a conducive environment for carriers ensures greater efficiency in service.

As noted above, awarding certificates to firms rather than individuals is likely to reduce the administrative costs of compliance. On the other hand, a limited number of firms would also exhibit greater relative economic power, that is, the industry would find it easier to compete with the drivers in economic relationships. Under a regulated structure, balance can be struck, yielding wages more in line with what a competitive market might reach with many demanders and suppliers while ensuring an adequate rate of return on investment for providers.

5. Maintaining balance in ground transportation avoids discord and disruptions.

Taxicabs offer ground transportation services on a different fee structure than the hourly rate structure of limousines; otherwise, the services are often similar. Economists refer to this situation as goods that are close substitutes. In the interest of maintaining balance between alternative transportation forms, then use of allocation criteria for taxicabs with no such scheme for limousines is prime for economic friction.

One might expect friction when one segment of ground transportation services uses an allocation scheme and the other does not. Since the two are close substitutes, the effort of regulation by one provider could be overridden by another. To be sure, some of the other ground transportation modes such as rental cars may be less of an issue. They are poor substitutes for taxicabs and limousines. At a minimum, the close substitutes between taxicabs and limousines makes a strong case that what is done for one is likely to be the best for the other. Having said that, there still remain differences between the two forms that might result in different allocation schemes, only further analysis will answer that question.

IV. FINANCIAL STATUS OF THE SOUTHERN NEVADA LIMOUSINE INDUSTRY

Using the information available from the state of Nevada Transportation Services Authority, hereafter also referred to as the TSA, we measured the revenues of certified carriers during the last few years and the status of limousine operations. We classified the limousine operators to show market segments. The classification reflects our assessment of key limousine markets. See Table 1.

Table 1

Classification Scheme for Nevada Limousine Operators

Type of Carrier	Definition
Under Half Million*	Limousine carriers with less than $500,000 in annual revenue
Half Million to One Million*	Limousine carriers with $500,000 to $1 million in annual revenue
Over One Million*	Limousine carriers with more than $1 million in annual revenue
Difficult to Evaluate**	Carriers identified with measurement difficulties
Non-Traditional	Includes carriers using limousines, but bulk of service is tour or shuttle
Mixed Operation	Includes carriers with taxicabs, shuttles, and traditional limousine service
Not Certified in 2000	New limousine carriers since 2001

*Carriers sorted by revenue in year 2000. **Difficult to measure because of possible data problems where one firm had operations in both Arizona and Nevada but reported sales in only Nevada. Also, a problem was identified in calculating vehicle depreciation. Source of information on revenues from: Annual Reports of Motor Carriers (doing business in Clark County) as reported to Transportation Services Authority of Nevada. NAC706.401905-706.401995

The revenue streams for the Nevada Limousine Operators in Clark County certificated by the TSA for the three years 2000 though 2002 are shown in Table 2 using the classification of carriers identified in Table 1. In addition, the level of passenger activity at McCarran is also shown for comparative purposes. The last TSA reports are for 2002; information for 2003 will be available later in 2004. See http://taxi.state.nv.us/Historical%20Statistics.pdf for information on taxicabs, which shows an increase in revenues of 7.6 % and a modest decline in rider ship of 1.4% from 2000 to 2002.

Table 2

Annual Revenue from all Sources for Nevada Limousine Operators and Growth Rates, Clark County: 2000-2002

Type of Carrier	2000	2001	2002	Growth Rates	
				2000-2001	2001-2002
Under Half Million*	$315,000	$1,655,000	$3,707,000	425.4%	124.0%
Half Million to One Million*	$1,492,000	$2,009,000	$2,436,000	34.7%	21.3%
Over One Million*	$6,885,000	$7,352,000	$7,801,000	6.8%	6.1%
Difficult to Evaluate**	$1,173,000	$1,463,000	$1,307,000	24.7%	-10.7%
Non-Traditional	$2,091,000	$1,994,000	$2,205,000	-4.6%	10.6%
Mixed Operation	$63,654,000	$57,157,000	$53,034,000	-10.2%	-7.2%
Not Certified in 2000	n.a.	$392,000	$1,382,000	n.a.	252.6%
Total	$75,610,000	$72,025,000	$71,872,000	-4.7%	-0.2%
McCarran Travel Volume	36,865,893	35,180,128	35,009,011	-4.6%	-0.5%
Number of New Certificates	8	4	8		

*Carriers sorted by revenue in year 2000. **Difficult to measure because of possible data problems where one firm had operations in both Arizona and Nevada, but reported sales in only Nevada. Also, a problem was identified in calculating of vehicle depreciation.

Source: Annual Reports of Motor Carriers (doing business in Clark County) as reported to Transportation Services Authority of Nevada. NAC706.401905-706.401995

The key changes during the past three years identified in Table 2 are:

1. The largest increases in revenue growth are among the small carriers.

2. The mixed operation carriers, that is, those that offer limousine service with other ground transportation options, have borne the largest declines, 10.2 and 7.2 percent respectively.

3. From 2000, the market dropped 4.7 % in 2001 and only slightly in 2002.

4. The drop in revenues for limousines in 2001 and 2002 is almost identical with the overall decline in visitor volume. The visitor volume decline was (4.6 %) and (0.5 %) . So, changes in total limousine revenues in Clark County have tracked visitor volume closely over the last few years.

5. During the economic downturn of 2001 and 2002, the number of operators increased . Not surprisingly, a reduction in the demand for ground transportation by the traveling public and an increase in certificated limousine and bus carriers has created adverse economic conditions. During the last 18 months, the TSA reported that 1 limousine carrier and 3 charter bus operators voluntarily cancelled operations.

6. In comparison, the taxicab industry with an allocation scheme faired better, showing modest declines in passengers and with increased revenues.

Yet another view using net income, that is, income calculated after expenses (that is, operating expenses, depreciation, and federal taxes), shows a similar pattern. Net income, see Table 3, shows a similar pattern of change as Table 2. Namely, the drop in the volume of visitors has reduce net income, showing negative numbers for 2001 and 2002. Net income has, however, shown a more pronounced change. As there are a number of firm specific charges, for example, fleet purchases and depreciation. This assessment does, however, merit a further qualification, that is, the information provided for the TSA does not include separate breakouts for limousine operations from shuttle and taxicabs for the mixed operators, the largest component of the data presented. Future reports will breakout separate financials for limousines. Commingling limits current assessments.

Table 3

Net Income and Growth Rates for Clark County, Nevada Limousine Operators: 2000-2002

Type of Carrier	2000	2001	2002	Growth Rates 2000-2001	Growth Rates 2001-2002
Under Half Million*	$379,000	-$207,000	-$93,000	-154.62%	-55.07%
Half Million to One Million*	-$212,000	-$545,000	-$755,000	157.08%	38.53%
Over One Million*	-$12,000	-$86,000	$530,000	616.67%	-716.28%
Difficult to Evaluate**	$35,000	$91,000	$14,000	160.00%	-84.62%
Non-Traditional	$152,000	$69,000	$19,000	-54.61%	-72.46%
Mixed Operation	$4,791,000	-$294,000	-$971,000	-106.14%	230.27%
Not Certified in 2000	n.a.	-$89,000	-$317,000	n.a.	256.18%
Total	$5,133,000	-$1,061,000	-$1,573,000	-120.7%	48.3%
McCarran Travel Volume	36,865,893	35,180,128	35,009,011	-4.6%	-0.5%

*Carriers sorted by revenue in year 2000. **Difficult to measure because of possible data problems where one firm had operations in both Arizona and Nevada but reported sales in only Nevada. Also, a problem was identified in calculating vehicle depreciation.

Source: Annual Reports of Motor Carriers (doing business in Clark County) as reported to Transportation Services Authority of Nevada. NAC706.401905-706.401995

V. INCREASED NUMBERS OF LIMOUSINE AND ASSOCIATED VEHICLES PROVIDING SERVICE DURING A PERIOD OF ECONOMIC SLOWDOWN

We reviewed the available information on the number of limousines, sedans, vans and buses over the 2000 to 2002 period. We calculated the increased number of vehicles for two categories: (1) Limousines and Sedans, and (2) Vans and Buses. In addition, this count is identified for each of the categories of the type of carrier used above (see Table 1). This information (shown in the table below) reveals an increase in the number of vehicles, up 9.1% for limousines and sedans and up 15.2% for buses. This strong increase in supply comes at a time in which the demand dropped 5.1% over the same period. Not surprisingly, such a market imbalance has marked effects.

As these two categories of vehicles do not represent the total, one would note that such large increases are effective only in light of a strong increase in demand for these types of vehicles compared with other types, for example taxicabs. The Taxicab Authority reports a slight decline in the number of trips of 1.4% over 2000 to 2002, less than the 5.1% decline in overall McCarran traffic, further suggesting the difficulty experienced limousines and associated vehicles. (see http://taxi.state.nv.us/Historical%20Statistics.pdf for taxicab data.) In addition, the reported revenue to Taxicab Authority over the same period was up 7.6%.

Table 4

Change in Number of Vehicles (Limousines, Sedans, Vans, and Buses) for Selected Categories of Limousine Operators in Southern Nevada: 2000 to 2002

Category	Change in Number of Vehicles	
	Limousines and Sedans	Vans and Buses
Under Half Million*	+7	+32
Half Million to One Million*	+9	+2
Over One Million*	-9	+12
Mixed Operators	+32	+69
Not Certificated 2000	+30	0
Total	+69	+115
Percent Change	+9.1%	+15.2%

*Carriers sorted by revenue in year 2000.

Source: Annual Reports of Motor Carriers (doing business in Clark County) as reported to Transportation Services Authority of Nevada. NAC706.401905-706.401995

IV. CHANGES IN TRANSPORTATION SERVICES AUTHORITY CHARTER CERTIFICATIONS DURING THE PAST 18 MONTHS

Data on recent charter certification activities point to a number of changes ongoing in southern Nevada. Namely, there is continued chartering and at the same time there are voluntary cancellations. During the past 18 months, 4 charters were voluntarily cancelled. As such, there was no buyer willing to take on the business, a sign of industry weakness. In addition, there were a number of certificates that were revoked. This revoking of licenses reflects the failure of carriers to meet regulations. In particular, as one might expect, that during periods of economic stress the regulations that require the immediate cash on hand are among the most likely tied to violations. It is reported that failure to maintain required insurance is a major cause of these revocations. Again, this type of activity might be expected with severe economic conditions.

Table 4

Recent Certifications and Cancellations for Limousines and Buses in Clark County at the Transportation Services Authority During the Past 18 Months

Charter Activities	Number
New Charter Limousines	4
New Charter Bus Certificates	13
Charter Limousines Revoked	2
Charter Bus Certificates Revoked	6
Charter Limousines Voluntarily Cancelled	1
Charter Bus Certificates Voluntarily Cancelled	3

IV. POSSIBLE CONCERNS THAT MIGHT ARISE WITH AN ALLOCATION SCHEME FOR GROUND TRANSPORTATION IN LAS VEGAS

The case for regulating limousine service as outlined above rests on efficiency and effectiveness of services primarily for nonresidents of Clark County. These nonresidents spend significant amounts of money, however; they represent the economic base of the southern Nevada economy.

Markets have been the primary structure for most goods. The necessary information and other conditions for markets have evolved over time. Things that worked were kept, other things that failed or where not needed were left on the junk pile of history. With regulated markets, however, the implementation scheme is critical. Public regulation of markets generally have not evolved to as an effective stage as with markets. The efforts to deregulate electricity in California and Nevada shows the difficulty associated with getting it right. In the case of electricity, the issues is somewhat easier in that the effort was to move from a regulated to an unregulated environment. Still, public-sector regulation is called for only if it works better than the alternative. General concerns for regulating any service, such as ground transportation, are the following:

1. Markets reveal information, and the best decisions are made by those who are best informed.

The process of competition reveals information. What firms reveal in the marketplace invariably is the best information, particularly if the market is dynamic or if there are significant cost-saving innovations occurring. To be sure, electricity generation has been regulated for many years; but, it was the introduction of new generation technologies that gave rise to the efforts at deregulation. Some limousines and taxicab services have recently experimented with deregulation. Most ground transportation remains regulated. In a regulated environment there are fewer assurances that the best information is available.

2. Markets need to be well designed.

The failure to establish well-designed markets is apparent from the failure of the movement of regional electricity markets from regulated to unregulated in California, Nevada, and other states. This failure was for the simplest reason – prices should reflect production costs. Ground transportation has worked fairly well in southern Nevada in a regulated environment. By all accounts, the issue of establishing an allocation scheme for limousines is not as large substantial a change as that associated with the changes in electricity. Ongoing regulation has worked for taxicabs, a close substitute service in the eyes of consumers.

3. Possible "capture of the regulators" by the industry and the political process.

With competitive markets, efficiency, incentives, and transparency tend to occur over the long run. With regulation, the possible erosion of these desired characteristics may fall sway to political "tug-and-pull," resulting in inefficiency and associated increased social cost. (See Edward L. Glaeser and Andrei Shleifer, "The Rise of the Regulatory State," Working Paper 8650, http://www.nber.org/papers/w8650)

VIII. CONCLUSION

Evidence shows that the limousine industry in Clark County expanded significantly since 2000. Limousines and sedans increased 9.1 percent; and, vans and buses increased 15.2 percent. Not surprisingly, revenues declined, following closely the decline in passenger activity at McCarran Airport. Net incomes for reported for 2001 and 2002 were in deficit positions. The mixed category of operators, the category with the largest number of vehicles, incurred the largest losses.

We found that 8 operators had their certificates revoked, a lack of insurance was cited as a major cause. The weakness of the industry was further apparent from the voluntary cancellation of certificates that could not be sold. Limousines, not operating with an allocation arrangement, faired poorly in comparison with taxicabs which are operated with an allocation scheme. There are differences between taxicabs and limousines, to be sure; however, these differences are not sufficient significant to have substantial different approaches to regulation schemes.

The current regulatory scheme for limousines without allocation resulted in wider swings in the number of vehicles and weaker economic performance than would have been expected with an allocation scheme. Regulation, whether with an allocation system or not, runs the risks of inefficiencies, misplaced incentives, and the lack of and transparency, In short, the expansion of the regulatory environment to include an allocation scheme has inherent weakness; but, these weaknesses aside, allocation seems to offer a better solution than the current arrangement, even if flawed.

The destabilization of ground transportation operators has been reported for other cities where limousine operators have not faced controls and regulations but taxicabs have. Again, one might reasonablely expect one industry left at a regulatory disadvantage to be adversely impacted as the other industry, driving by economic incentives, works to capture market share. Maintaining a level playing field seems an appropriate policy in the case of close substitutes. The failure to maintain a level playing with allocation of taxicabs and without allocation of limousines seems an easy problem to identify; there is, however, the additional problem of the difficulty of establishing a level playing field.

In the final analysis, the net benefit of an allocation scheme will await the establishment and implementation of an allocation scheme. Though some issues may call for command and control regulation to assess conditions, check compliance, ensure safety, and enforce rules; it is highly likely that an effective regulation program will focus on using incentive systems similar to those seen in efficient markets, but within the public interest.