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Taxi and Limousine Commission
Office of Legal Affairs
40 Rector Street, 5th Fl
New York, NY 10006

NYC Taxi Lease Cap Review Submission

In March 2007, Stax Inc. independently launched a study of the NYC taxi market. The intent was to conduct an independent, statistically valid and unbiased analysis of fuel consumption and the potential cost-benefit of hybrids. Upon proving conclusively that a hybrid taxi has a dramatically lower total-cost of ownership (vehicles + gasoline) than a Crown Victoria, we continued our research and analysis to understand what was keeping the market from changing to hybrids. We sought to understand incentives, potential mis-alignments of incentives, and provide NYC with a fact-based set of analyses as to what could unlock the potential savings provided by a hybrid and distribute the savings amongst drivers and medallion owners. The following summary of our analysis, originally shared with the TLC in Fall of 2007, details our recommendation that NYC raise shift prices for hybrid vehicles.

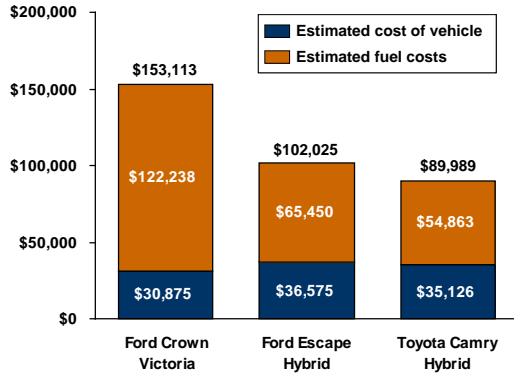
The work was initiated by Stax and entirely funded by Stax. At the time of publishing and to this date, Stax has no affiliation with a taxi service or automotive company and no paid consulting arrangement with NYC. Stax has been working with Boston, LA, Phoenix, Denver and Chicago to leverage these findings for their efforts in improving their transport systems.

Stax Inc. is a consulting firm focused on market strategy, business strategy, and due diligence for acquisitions. Stax clients include Fortune 500 companies and the largest private equity firms in the world. They leverage Stax's expertise in these kinds of analyses, before making large investments.

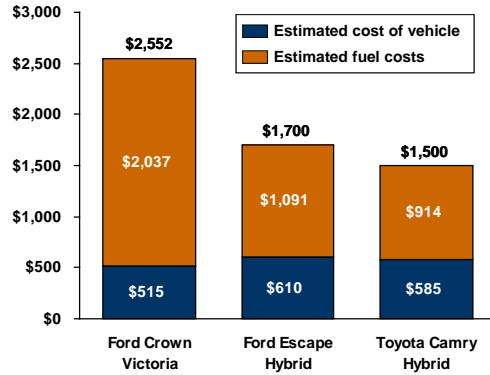
Results of the study:

Based on our independent research and analysis, the savings from reduced fuel consumption when driving a hybrid taxi far exceeds the higher cost of a hybrid vehicle over a Crown Victoria over the life of the vehicle and on a monthly basis. At \$3 per gallon of gasoline, the five year savings are approximately \$50,000—a monthly savings of \$800–\$1,000. See chart.

Total 5-Year Cost of Vehicle and Fuel for an NYC Taxi



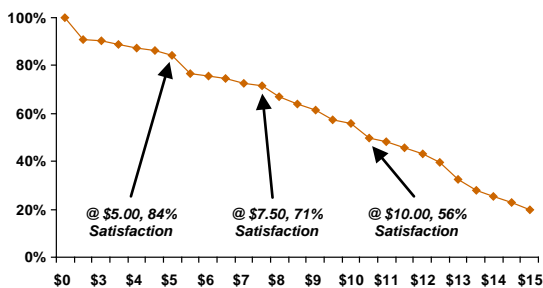
Total Monthly Cost of Vehicle and Fuel for an NYC Taxi



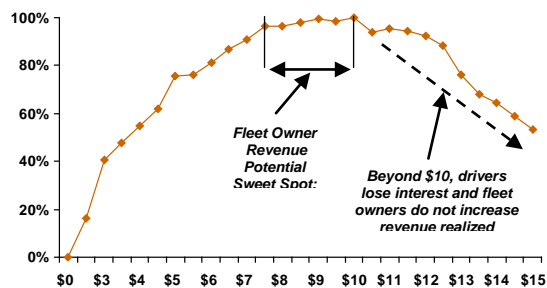
With this kind of savings, one expects that taxis would be turned over. This depends on incentives. The roughly 4,000 independent owner/operators who drive their own vehicles for six shifts per week and lease the vehicle out the rest of the week should have the most interest in switching, as they can personally realize savings from the gas that they would put into the tank every day. However, those who never drive their vehicles—the 4,000–8,000 vehicles owned by large fleets/leasing companies (depending on how defined)—have no financial incentive to switch to a hybrid, as the hybrids cost more to buy and maintain and the price at which these vehicles can be leased to drivers is fixed. The changes in policy mandating a conversion to hybrids provide a cost to the large fleet owners and a massive benefit to the drivers—but leave no opportunity for fleet owners to recoup any of their added costs or for drivers to share their savings with the fleet owners.

Understanding this issue, we hypothesized that drivers would be willing to spend more money per shift to lease a hybrid if it could prove to save more money per shift than their increase in rental rates. In the Spring/Summer of 2007, we conducted a price sensitivity study, in which 200 NYC taxi drivers participated. Stax found taxi drivers are willing to share in the savings from fuel-efficient vehicles by paying more money per shift for a vehicle that consumes less gas—and ultimately leaves more money in their pocket at the end of every shift.

Willingness for Hybrid Price Increase



Driver Interest vs. Dealer Revenue (Willingness x Price)



Our analysis shows the ideal rate for fleet owners to maximize revenue to be between \$7.50 and \$10.00, and that an excellent price/ideal for the drivers would be around \$5.00. Beyond \$10.00, too many drivers lose interest, and fleet owners are not expected to increase revenue realized. At \$5.00 84% of drivers would be satisfied with the deal while only 71% would be satisfied at \$7.50.

Stax recommends allowing owners to charge \$7.50 per shift premium rate for hybrid vehicles for the next two years, then moving to a \$5.00 premium for hybrid vehicles. This would provide a strong incentive for early conversion by fleet owners. We don't expect all fleet owners to convert instantly, and by limiting the premium to hybrids drivers will still be able to rent older vehicles at a lower per shift rate—no one will be able complain about having their rates raised in an indiscriminant fashion.

These rates would provide real cost recouping for fleet owners buying the newer technology and provide a return on investment to fleet owners. A fleet owner with a hybrid, charging an additional \$5 per shift x 55 shifts per month would see \$275 in free cash flow with which to cover a higher auto payment (for the more expensive vehicle) and stock a new set of spare parts over the Crown Victoria. The chart below highlights the profit potential and therefore incentive to convert to hybrids if shift pricing is increased accordingly for hybrid vehicles. Note these are all calculated at gasoline at \$3.00 per gallon.

Independent Owner/Operators will be able to charge more per shift when renting and save on gas while driving.

	Difference in Outright Purchase Cost (Hybrid vs. CV)	Difference in Mo. Lease Payment (Hybrid vs. CV) ^a	Monthly Add'l Revenue from Leasing to Other Drivers ^b	Monthly Savings (Gas + Maintenance)	Monthly Bottom Line	Annual ROI on Increased Cost for Financed Hybrid vs. CV	5-Year ROI on Increased Cost of Outright Purchased Hybrid vs. CV
\$5.00 Cap Increase	(\$3,600–\$4,800)	(\$70–\$95)	\$150	\$470–\$550	\$520–\$620	650%–980%	770%–1160%
\$7.50 Cap Increase	(\$3,600–\$4,800)	(\$70–\$95)	\$220	\$470–\$550	\$590–\$700	720%–1180%	860%–1290%

Fleet Owners will have a strong incentive to move toward hybrid vehicles as soon as possible.

	Difference in Outright Purchase Cost (Hybrid vs. CV)	Difference in Mo. Lease Payment (Hybrid vs. CV) ^a	Monthly Add'l Revenue from Leasing to Drivers + Monthly Maintenance Savings ^c	Annual Bottom Line per Vehicle	Annual ROI on Increased Cost for Financed Hybrid vs. CV	5-Year ROI on Increased Cost of Outright Purchased Hybrid vs. CV
\$5.00 Cap Increase	(\$3,600–\$4,800)	(\$70–\$95)	\$315	\$3,800	230%–350%	300%–430%
\$7.50 Cap Increase	(\$3,600–\$4,800)	(\$70–\$95)	\$450	\$5,400	380%–540%	470%–660%

Drivers will still see substantial gas savings while driving hybrid vehicles.

	Savings per Shift	Savings per Month ^d	Savings per Year
\$5.00 Cap Increase	\$12–\$15	\$300–\$400	\$3,800–\$4,800
\$7.50 Cap Increase	\$10–\$13	\$250–\$350	\$3,000–\$4,000

- a. Crown Victoria—5-year fully depreciated lease.
b. Assumes owner-operator leases vehicle 29 shifts per month and drives 26 shifts per month.
c. Assumes 90% vehicle utilization.
d. Assumes driver leases vehicle 6 shifts per week (26 shifts per month).

Some have raised the concern as to how much an increase in the lease cap could cost drivers if the savings from a hybrid drop due to a drop in gasoline prices. With a \$7.50 per shift lease cap increase, gas has to fall to \$1.28 per gallon before a driver would lose money over their current mid-2007 economics in a Crown Victoria. With a \$5.00 per shift lease cap increase, gas has to fall to \$0.85 per gallon for a driver to be out of pocket over their mid-2007 spend per day on a Crown Victoria.

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Increasing the per shift lease cap for hybrids will align incentives by allowing the medallion owner and driver to share the economic benefit of a hybrid. It provides the medallion owner a financial incentive to spend more money to convert their vehicles and maintenance operation.

Other municipalities have identified the incentive disconnect, and the legislative changes appear to be providing alignment. The city of Boston recently enacted a \$5.00 per shift lease cap increase for new vehicles and an additional \$5.00 increase for hybrids. Drivers of hybrids are afforded other benefits, such as preferred access at Boston's Logan Airport (there is a per-shift limit for this benefit). In Boston, hybrids have higher utilization rates than Crown Victorias within the same fleet. San Francisco Mayor Gavin Newsome signed legislation earlier this month to increase the lease cap for hybrid and CNG taxis by Stax's recommended \$7.50 per shift bump. While these efforts are still young, early indications are that the program in Boston has been successful. In San Francisco, there has been backlash among drivers of CNG vehicles, as they do not provide the same economic advantage for the driver as hybrids—incentives for those drivers have been misaligned.

Detailed methodology:

Stax conducted 380 direct interviews with NYC taxi drivers from May 2007–July 2007. Stax chose to collect consumption data from drivers over using traditional MPG statistics, as MPG does not take into account NYC taxi driving conditions: 120 miles in 12 hours, constant stop, start, and idle.

More than half of our interviews included price sensitivity questions, which when analyzed, were able to provide us with a quantitative understanding of driver satisfaction versus potential lease cap increases. Drivers were asked to rate on a 10-point scale their likelihood to lease a hybrid at four different premium price points.

Regards,

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