BLOG

Yes to Prop 22? The Future of App-Based Services

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It's rare that the future of an industry relies upon a vote in an election, but that's what seems to be happening with the gig economy. Employers and workers are both anxiously waiting for November 3rd.

Now considered the most expensive ballot measure in state history, California's Proposition 22 is clocking in at $200 million after being bankrolled by gig economy powerhouses like Uber, Lyft and DoorDash. Coined "Prop 22," this ballot initiative would override AB5 and classify app-based delivery drivers as independent contractors (IC) rather than employees.

So, what happens come November 3rd if this measure passes or fails? What's the path forward for these organizations?

If Prop 22 Passes

Offering the "best of two worlds," according to Uber's CEO, Prop 22 will uphold the foundation of these apps, allowing drivers flexibility to be their own boss, but also have protections in place.

Prop 22 and the IC classification would eliminate a company's overhead costs associated with traditional employees, such as unemployment tax, expense reimbursements, benefit coverage, etc. This allows drivers to remain independent and retain the flexibility to set their own hours and routes. Additionally, it would keep app user prices low, allowing consumers to still ride or receive their goods delivered affordably.

It would also provide extended safeguards. Employers would create a program for occupational accident insurance to cover $1 million or more in medical expenses and lost income, plus disability payments of 66% of the driver's average weekly earnings in the month prior to the injury. Employers would also pay stipends to drivers who work a certain number of hours to help them buy private health insurance, rather getting it through an employer-provided health insurance option.

If Prop 22 Fails

If the measure fails, it will be a significant blow to the industry. Driver's would be transitioned to set shifts and schedules under a traditional employment model, eliminating flexibility while increasing employer costs. It could also equate to fewer jobs and layoffs, as shifting the estimated 3 million gig workers to employees on staff seems unlikely in the near term. Also, customer fares or delivery charges would likely rise to offset the extra cost and in turn, hurt demand.

Ultimately, it could drive these app-based services out of the state completely. Uber and Lyft have already threatened to pull out of California if the bill doesn't pass, which would hurt drivers, consumers, and the overall economy in the state. Uber alone contributes $3.2 billion a year to California's economy, according to a report from Economic Development Research Group Inc.

And the adage that California sets the precedent for other states could soon cause a ripple effect and have other states passing similar laws to AB5, resulting in shut downs across the country.

A New Business Model

All that said, if Prop 22 fails and AB5 continues to reign supreme, app-based companies and last-mile delivery businesses will likely work to find a new way forward. The battle between AB5 and Prop 22 is just an early skirmish in a longer, bigger battle. Increasing e-commerce demand isn't going away, nor are consumers wanting affordable, last-mile delivery. With a billion-dollar industry, gig companies will develop new business models that work for them and comply with current laws and rules states have in place.

Our established team of experts at Risk Strategies' Transportation has been hands-on in the evolution of these business models, helping clients to always be prepared for the next up-and-coming trend. Pass or fail, drop our team a line, we're here to steer you in the right direction.

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