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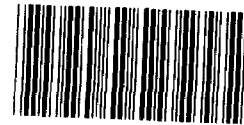
Subcommittee on Compensation and Employee Benefits
Committee on Post Office and Civil Service
House of Representatives

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MASS TRANSIT

Federal Participation in Transit
Benefit Programs

Statement of Kenneth M. Mead,
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Development Division



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Madam Chair and Members of the Subcommittee:

We are pleased to have the opportunity to testify on federal agency and employee participation in transit benefit programs. Section 629(a) of the Treasury, Postal Service and General Government Appropriations Act of 1991 authorizes federal agencies to participate in state or local government programs that encourage employees to use public transportation. That authority expires on December 31, 1993.

We reviewed federal participation in transit benefit programs, as required by the act, and issued our report earlier this month.¹ Our testimony today presents the results of our work and addresses the extent of federal participation, how participation affects employees' commuting behavior, and the costs of federal participation. Our work was based on surveys of participating and nonparticipating federal agencies and of randomly selected federal employees in participating offices, as well as visits to 16 participating federal offices in 4 cities. We focused on participation in the nation's 25 largest metropolitan areas.

In summary, we found that:

- As of April 1993, 75 federal agencies and organizations out of about 150 participated in transit benefit programs, including parts of 7 of the 14 Cabinet-level departments. About one-third of employees at participating federal agencies accepted transit benefits. Participation ranged from a high of 88 percent in New York to a low of 4 percent in Kansas City. Three-quarters of all participating employees nationwide were located in the Washington, D.C., metropolitan area.
- Three out of four of the federal employees who accepted transit benefits used public transportation as their primary means of commuting to work before benefits were offered. On the other hand, 21 percent of the federal employees receiving transit benefits changed their primary means of commuting to work to public transportation because of the availability of a transit benefit--around 60 percent of these employees were former single-occupant vehicle commuters. Since the enabling legislation did not contain specific goals for increasing the use of public transportation, there is no clear measurement for whether the shift in federal employees' commuting patterns justifies continuing federal participation. Furthermore, the benefits of federal participation in terms of improved air quality and lessened traffic congestion are localized and difficult to measure.

¹Mass Transit: Federal Participation in Transit Benefit Programs (GAO/RCED-93-163, Sept. 1, 1993).

- If the goal of the Congress is to increase federal participation, we found that employees' use of public transportation and the number of new transit riders would increase if federal agencies offered the \$60-per-month tax-free benefit authorized by law since January 1993. For example, according to our survey, federal employee participation is currently 33 percent but could increase to as much as 49 percent.

- As to the costs of federal participation and the possible sources of funding, GAO estimates participation will cost \$8 million to \$10 million in fiscal year 1993. The Congress expected federal agencies to absorb that cost from their existing budgets. Many federal agencies told us they do not participate because they are unable to absorb the cost of providing \$21-per-month benefits; most told us they could not absorb the costs of a \$60-per-month program. Our report examines three funding options: continuing to require federal agencies to absorb the costs; appropriating funds specifically to support federal participation; and amending existing law to allow, as OMB has suggested, federal agencies to retain parking fees to fund their participation. The implications of each of these options are complex and contentious, as they potentially require reductions in other programs, additional federal spending, or new or increased fees on individual federal employees. For example, most federal employees we surveyed who receive parking from their agencies do not pay to park today, and market parking rates in Washington, D.C., range from about \$65 to \$165 per month.

In addition to these issues, our report asked the Congress to consider, if it chooses to reauthorize federal participation, establishing a central coordinating authority to provide guidance to federal agencies participating or considering participating in transit benefit programs. This would help to solve a problem we noted where federal agencies have experienced difficulty interpreting the rules for participation.

Before providing the details on these issues, let me provide a brief background.

BACKGROUND

Three laws affect federal participation in transit benefit programs. The first set of laws--the tax code--affects participation by providing the amount of transit benefits employees can receive tax-free. While employer-provided benefits are generally taxable to the employee, Internal Revenue Service (IRS) regulations interpreting the Deficit Reduction Act of 1984 established employees' transit benefits as a tax-free benefit, providing it did not exceed \$15 a month. IRS regulations raised this exclusion to \$21 a month in July 1991, and the Energy Policy

Act of 1992 again raised it to \$60 per month, effective January 1, 1993. These provisions affect both private and public employers and employees.

The second law is the Treasury, Postal Service and General Government Appropriations Act of 1991 (P.L. 101-509). Section 629(a) permitted federal agencies, but does not require them, to participate in transit benefit programs offered by state or local governments. This authority expires on December 31, 1993. The act covered federal executive branch civilian employees, and legislative and judicial branch employees, but did not include uniformed personnel in the Department of Defense and other agencies. The Office of Management and Budget (OMB) issued guidance to federal agencies limiting the benefits federal agencies can provide their employees to the tax free amounts provided for in the tax code. OMB's guidance, as well as guidance published by the General Services Administration (GSA), also advised agencies to establish procedures to limit participation to eligible employees, and to ensure that funds are properly accounted for and that programs are properly evaluated.

The third law that affects federal agency participation is the Clean Air Act Amendments of 1990. Among the nation's largest 25 metropolitan areas, 8 designated as severe or worse for ozone pollution must require employers, including federal employers, with 100 or more employees to implement trip reduction plans by November 1994. Three other metropolitan areas that are not required to include trip reduction plans in their implementation of the Clean Air Act have nevertheless also done so. Transit benefits are one of several mechanisms available to employers to bring about trip reduction. The Comptroller General has ruled (B-250400, May 28, 1993) that, under the authority of this act, if appropriate state or local authorities require employers to offer financial incentives, federal agencies may use appropriated funds to do so. This authority is separate and distinct from the authority provided under section 629(a) of the Treasury, Postal Service and General Government Appropriations Act of 1991, and unlike that authority, has no sunset provision.

FEDERAL AGENCIES' AND EMPLOYEES' PARTICIPATION

Federal participation extends across all three branches of government and to each of the nation's largest 25 metropolitan areas. The 75 participating federal agencies included parts of 7 of the 14 Cabinet-level Departments. The Departments of Transportation (DOT) and the Treasury had the largest number of participating offices and employees--39 DOT offices in 17 cities and 43 Treasury bureau offices in 22 cities. In the legislative branch, participants included two agencies--the Congressional Budget Office and the Office of Technology Assessment--as well as some U.S. Senators' and Senate committees' staff, and personnel employed by three special courts. Most agencies provided \$21-per-

month benefits to their employees as of April 1993; only DOT and three smaller federal agencies--the Office of the Nuclear Waste Negotiator, the U.S. Trade and Development Program, and the Harry S. Truman Scholarship Foundation--provided \$60-per-month benefits.

Federal agencies that responded to our survey--as of October 1, 1992--provided transit benefits to about 18,500 out of about 59,000 eligible federal employees. According to federal employees' responses to our survey, around 33 percent of the people employed by participating federal agencies accept transit benefits from their agencies. Employees' participation rates were highest in Chicago and New York, where 80 percent and 88 percent, respectively, of the people employed in participating federal agencies received transit benefits. Employees' participation rates were lowest in Kansas City, where 4 percent of the employees participated. Three-quarters of the participating agency employees were located in the Washington, D.C., metropolitan area, where 28 percent of eligible employees participated.

Many Factors Contribute to Agencies' and Employees' Participation Decisions

Our report examined the factors contributing to federal agencies' and employees' decisions to participate in transit benefit programs. Over one-half of the participating federal offices we surveyed cited employee-related factors as the most important reasons for participating in a transit benefit program. In particular, these offices most often said that the single most important factor in their decision was that it would enhance employees' recruitment, morale, and retention. They also said that other federal offices provided transit benefits and that they wanted their employees to have the same benefits. In addition, their employees wanted or lobbied for the benefit. Federal agencies that did not participate in state or local transit benefit programs most often cited funding constraints as the primary factor precluding their participation. Sixty-four percent said that funding was not available, while another 16 percent said that participating in a transit benefit program was either not an efficient use of limited agency resources or was too costly or complex to administer.

We also examined factors contributing to individual employees' decisions about whether to use public transportation and accept transit benefits. When asked to cite the most important reason for using public transportation, responding employees most often said that public transportation was less expensive than their other alternatives. Employees also cited the desire to avoid rush hour traffic congestion and the costs and difficulties associated with parking. Sixteen percent said that the availability of a transit benefit was the single most important reason for using public transportation. Income also affects transit ridership. We found that employees with family incomes of less than \$25,000 a year were

nearly twice as likely to ride transit as federal employees with family incomes above \$100,000.

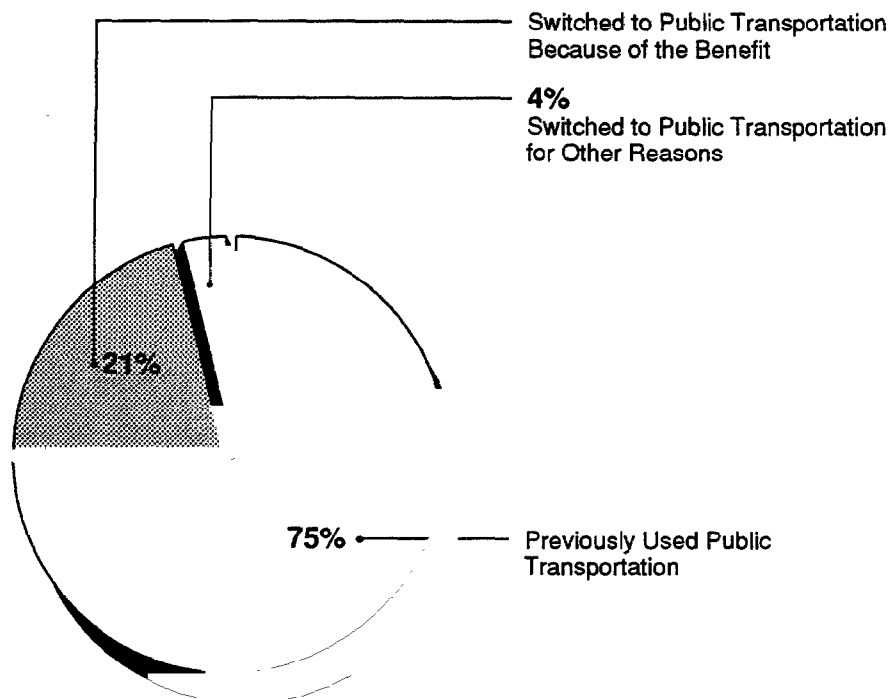
Among employees we surveyed who chose not to use public transportation benefits to commute to work, about 40 percent said either that public transportation was not conveniently located to their homes or that using it would take too much time. Other federal employees stated that public transportation was more expensive than their other alternatives, that it did not fit their working schedules, or that they needed to commute by automobile for personal reasons, such as child care. According to our employee survey, about 70 percent of the employees who receive parking from their agencies receive it free of charge. However, among all nonparticipating employees surveyed, only 3 percent cited the availability of free or discounted agency-provided parking as the single most important reason for not using public transportation. These employees frequently cited lack of proximity of transit to their homes and the fact that commuting by transit would take too much time as more important factors in their decisions.

TRANSIT BENEFITS AFFECT COMMUTERS' BEHAVIOR

As figure 1 shows, according to federal employees' responses to our survey, 21 percent of the employees who accepted public transportation benefits from their agency were, in effect, new transit riders. While some were incidental riders of public transportation before, these employees reported changing their primary means of commuting to work from drive-alone, carpool, and other means of commuting to public transportation because of the availability of a transit benefit. Almost 60 percent of this group previously drove alone as their primary means of commuting to work, while 16 percent were previously members of a carpool or vanpool, and about 19 percent reported they had previously shared a ride with one other person. In contrast, 75 percent--3 out of 4, of the employees receiving transit benefits from their agencies--were already using public transportation as their primary means of commuting to work before the benefits were offered.²

²The remaining 4 percent also reported changing their primary means of commuting to work to public transportation when the benefit was offered but said that they did so for other reasons, such as a change in residence.

**Figure 1: Shift in Commuting Habits
Among Transit Benefit Users**



**\$60 Transit Benefits Would
Increase Transit Ridership**

Our surveys indicate that federal employees' participation and new transit ridership would increase if federal agencies that currently offer \$21-per-month transit benefits offered the \$60 monthly tax-free benefit now permitted by law. We asked federal employees who work in agencies where \$21-per-month transit benefits are available, but who now choose not to take them, whether they would consider changing their primary means of commuting to work to public transportation in order to accept a \$60-per-month benefit.

As table 1 shows, 24 percent said that they probably or definitely would consider it, and 58 percent said that they probably or definitely would not.

Table 1: Whether Nonparticipating Employees Would Consider Joining a Transit Benefit Program if \$60 per month Were Offered

Response	Percent responding
Definitely or Probably	24
Unsure	18
Definitely or Probably Not	58
Total	100

Figure 2 combines the responses of the nonparticipating employees shown in table 1 with the employees who currently participate in transit benefit programs. It shows how increasing employees' benefit levels to \$60 per month in agencies that currently provide benefits might affect employees' participation.

Figure 2: Employees' Potential Commuting Decisions at the \$60-Per-Month Benefit Level

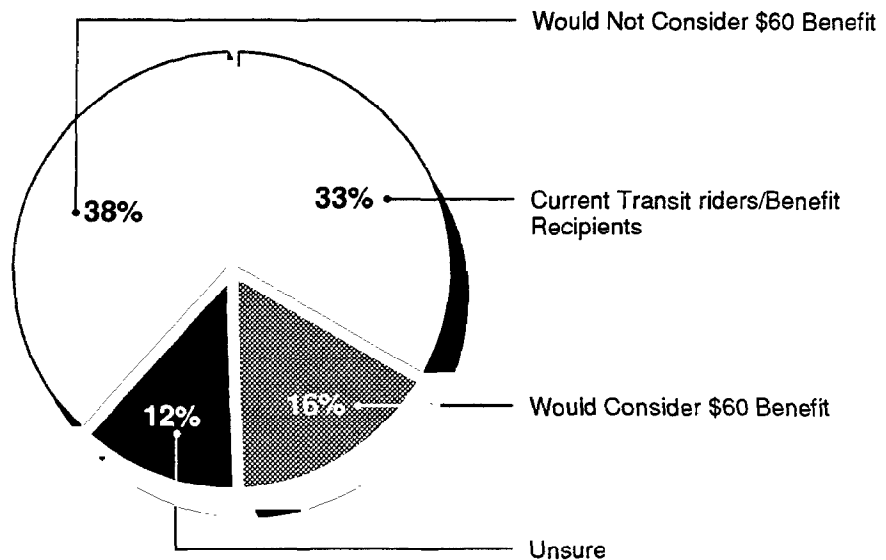


Figure 2 shows the 33 percent identified by our survey as current transit riders and benefit recipients under the \$21-per-month programs. Employees who said they would definitely or probably consider switching to public transportation for a \$60 monthly benefit make up a 16 percent slice of the pie chart. As figure 2 shows, if they did switch, the overall employee participation rate in agencies offering transit benefits would increase from 33 percent to about 49 percent of employees.

These new employees being added to agency transit benefit programs represent new transit riders--employees who are not now using public transportation even though their agencies offer financial incentives to do so. If the employees who would consider participating were added to those who have already changed their primary commuting mode because of the \$21 benefit, our survey suggests that the percentage of participating employees who would have changed their primary means of commuting to public transportation would increase from the 21 percent we cited earlier to as much as 47 percent. Thus under the \$60-per-month scenario, nearly one-half of the federal employees receiving transit benefits could be commuters who changed their primary means of commuting to public transportation to accept a transit benefit.

IMPLICATIONS OF COST AND FUNDING OPTIONS ARE COMPLEX AND CONTENTIOUS

Many federal agencies told us they were unable to absorb the cost of providing \$21-per-month benefits; most told us they could not absorb the costs of a \$60-per-month program. In enacting section 629, the Congress did not appropriate additional funds for federal participation; rather, participating federal agencies were expected to absorb these costs from within their existing budgets.

We estimate that participating federal agencies will spend between \$8 million and \$10 million on transit benefits in fiscal year 1993. During fiscal year 1992, most participating federal agencies paid for benefits with funds allotted in their budgets for personnel benefits, such as relocation allowances and employers' contributions to employees' health insurance. Nearly one-half of the federal offices responding to our survey reported having done so without forgoing any other planned expenditures. In contrast, over 60 percent of nonparticipating agencies said that the most significant factor in their decision not to participate was that funding was not available.

While differences exist in the capacity of federal agencies to absorb \$21-per-month benefit levels, few federal agencies appear able to absorb the cost of providing transit benefits to employees at the \$60-per-month level. As mentioned earlier, DOT is the only Cabinet-level or major independent agency to raise its employees' benefit levels from \$21 to \$60 per month. When we surveyed participating federal agencies in late 1992, relatively few

expected to increase their benefits to \$60 per month. For federal agencies, transit benefits will compete with other employee compensation and benefit priorities such as COLAs, locality pay, and bonuses. Furthermore, as federal agencies seek to reduce administrative expenses and face other budget reductions in response to national spending and deficit reduction priorities, existing employee transit benefit programs, if reauthorized, may be candidates for elimination, even at the \$21-per-month level.

If the Congress reauthorizes federal participation, several funding options exist. Each option has advantages and disadvantages and different impacts on budget and fiscal policy. The Congress could:

(1) continue to require agencies to absorb the cost of participation within their existing budgets: The federal agencies that currently participate have been generally able to absorb the cost of providing \$21-per-month transit benefits to their employees. Requiring federal agencies to absorb the costs of participation has the advantage of compelling federal agency decision makers to carefully weigh the importance of transit benefits for employees and the advantages of program participation relative to other agency spending priorities. On the other hand, it may be impractical from a budgetary perspective to expect federal agencies to absorb the costs of a continuing and anticipated expense year after year from within existing resources. Most participating federal offices stated in our surveys that they accounted for the funds needed when they prepared their fiscal years 1993 and 1994 budgets.

(2) appropriate funds to specifically support federal participation. Most nonparticipating federal agencies do not participate because of the unavailability of funds. Removing that barrier would almost certainly induce a number of agencies that do not now participate to do so. It would also contribute to removing some unevenness in the current participation where some agencies participate and others do not. The Congress would have to consider these costs in the context of overall federal spending and deficit reduction goals. Our report provides information on the maximum possible costs to the federal government. We stated that, assuming that transit benefits were available to all 2.2 million full-time, permanent federal civilian employees, costs could be as high as \$720 million for a \$60-per-month transit benefit program.

However, cost estimates differ under various scenarios. For example, according to the Office of Personnel Management (OPM), 265,000 federal civilian employees work in the 11 metropolitan areas where trip reduction ordinances are either required or have been voluntarily adopted under the Clean Air Act. Assuming the continuation of existing participation patterns, we estimate that funding a \$60-per-month employee transit benefit program for the federal agencies in those metropolitan areas would cost around \$84 million a year. Washington, D.C. is not one of the 11 metropolitan

areas that has adopted a trip reduction ordinance. We estimate that funding a \$60-per-month employee transit benefit program for federal agencies in Washington, D.C. could cost around \$92 million a year. It should be noted that the OPM's federal employee data base on which we have based these estimates does not include military personnel, postal employees, judicial branch employees, and many legislative branch employees. Consequently, costs could be higher--particularly if military personnel participated.

(3) utilize parking fee revenues to fund transit benefit programs. While OMB's June 1992 guidance to federal agencies suggested that they fund transit benefit program participation to the extent possible by obtaining funding offsets from agency-provided parking, OMB also recognized that federal agencies are limited by statute from retaining any proceeds from parking charges that exceed the costs of operating and maintaining the parking facilities, unless otherwise authorized by law. Most federal agencies that provide employee parking do not charge for it--71 percent of the federal employees responding to our survey that receive parking from their agencies receive it free of charge. However, the capability of federal agencies to generate funds from parking charges can vary dramatically between agencies.

Factors such as how much an agency can charge (market prices), and how many parking spaces it has relative to the number of people it employs, have an impact on the effectiveness of parking charges as a revenue source. We found that if federal agencies began charging their employees rates more reflective of market rates and were authorized to retain the proceeds, results would vary. For example, in 10 selected Washington, D.C.-based agencies, we found that by charging 50 percent of prevailing market rates for employee parking (between \$33 and \$83 per vehicle per month), federal agencies could fund \$60-per-month transit benefits for as few as 3 percent or as many as 44 percent of their employees.

Parking charges discourage single occupant vehicle commuting, to the benefit of national environmental, energy, and congestion management goals. However, they can also have a negative effect on federal agencies' operations and employee morale. As federal agencies weigh competing funding demands, the imposition of new or increased fees on employees will be considered in light of other proposed reductions and limitations in federal employees' pay and benefits. Charging for parking may affect other programs designed to reduce congestion and improve air quality. Because of the preponderance of carpool vehicles at federal parking facilities, charging these vehicles is essential to raising revenues.

MANAGEMENT AND ADMINISTRATION

If the Congress reauthorizes federal participation, we believe that it should consider designating a central coordinating authority to provide guidance to agencies both considering and

participating in transit benefit programs. Such a clearinghouse, among other things, could disseminate information and guidance to help to ensure effective implementation of federal participation. A central coordinating authority or clearinghouse could be established in a number of ways--for example, through one of the central management agencies, such as GSA or OPM; through DOT, which has cognizance over federal transportation programs; or through an interagency committee.

A central coordinating authority could be effective in helping federal agencies avoid some of the interpretation problems we noted on such issues as who may participate, which benefits are tax-exempt, and what constitutes public transportation. For example, some agencies provide transit benefits to employees who use vanpools, while others do not. In addition, we noted instances of weaknesses in the management controls that help to ensure that participation is limited to eligible employees, that transit vouchers and tickets are properly accounted for and safeguarded, and that agency participation is properly evaluated. For example, three of the six agencies that we visited had not established an evaluation mechanism to measure changes in employees' commuting habits and other results as required by OMB's guidance. These evaluations will be important to states' and metropolitan areas' efforts to plan for air quality and congestion management, since any shift in commuters' behavior would affect local areas.

CONCLUSIONS

In deciding whether to reauthorize federal agencies' participation in state or local transit benefit programs, the Congress first must look at the central question of whether the legislation has accomplished its purpose of encouraging federal employees to use public transportation. Our surveys indicate that 21 percent switched to public transportation because of the benefit; however, 75 percent of the participants were already public transportation riders. The legislation did not contain measurable goals for program achievement. Thus, in considering reauthorization, there is no clear basis to answer the more complex questions of how much participation was expected and at what cost.

One benefit of encouraging federal employees to change their means of commuting to public transportation is to improve air quality and reduce traffic congestion. Although federal agencies participate nationwide, measuring the federal contribution to improvements in air quality and traffic congestion is difficult, because such improvements are localized. Employer-based measures are, however, expected to continue to play a role in national air quality improvement efforts. Under the Clean Air Act Amendments of 1990, metropolitan areas are encouraged to consider--and in 8 of the 25 largest metropolitan areas are required to implement--employer-based measures to reduce vehicle mileage. Transit benefits are one of several measures available to employers who must comply with

local trip reduction plans required or encouraged by the Clean Air Act. As I noted earlier, authority exists that is independent of section 629 of the 1991 Treasury Appropriations Act that allows federal agencies to use appropriated funds to provide employee financial incentives. However, this authority is limited to situations where the agency is required to do so by appropriate state or local authorities under the authority of the Clean Air Act.

Finally, as the Congress addresses the question of continuing federal participation in transit benefit programs, it will also consider what strategies are available for funding federal participation. The implications of the available options are complex and contentious, as each potentially would require reductions in other programs, additional federal spending, or new or increased fees on individual federal employees. Funding federal employee transit benefits will likely compete with other employee compensation priorities. Future funding will also be limited by budget and deficit reduction priorities in the coming years.

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Madam Chair, this concludes my testimony. We would be happy to respond to any questions that you and the other members of the Subcommittee might have.

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