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Commuter Choice Initiative

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Office of Policy Development
Federal Transit Administration
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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Background	i
Introduction	i
CCI Scenarios	ii
Findings and Conclusions	iii

INTRODUCTION BY FEDERAL SPONSORS

Employer Survey	1
Analysis Methodology	2
Symposia	4

CHAPTER 1 - Transportation Benefits

Background	5
Current Tax Code	7
Tax Administration Issues	7
National Survey of Employer Provided Transportation Benefits	8
Parking Valuation Analysis	8
Developing a Parking Valuation Tool for Individual Employers	9

CHAPTER 2 - Scenarios

Scenario Criteria	11
Description of Scenarios	12
Scenario #1: Elimination of in lieu of and constructive receipt	14
Scenario #2: Carpool Benefit	14
Scenario #3: Voluntary Parking Cash Out	16
Scenario #4: De Minimum and Indexing	18
Scenario #5: Mandatory Parking Cash Out	19
Scenario #6: Increase Benefit Levels	21
Focus Group Meetings	24

CHAPTER 3 - Conclusions and Recommendations

Findings	25
Conclusions	27
Recommendations	29
APPENDIX A - Steering Committee	31
APPENDIX B - Task Force of the Public Policy Council	33
APPENDIX C - Parking Valuation Techniques and Methodologies	35
APPENDIX D - Report on Focus Groups	41

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Background

We are pleased to make available the Association for Commuter Transportation (ACT) report of the proceedings of the Commuter Choice Initiative (CCI). CCI was the result of a cooperative agreement among ACT, the U.S. Department of Transportation's Federal Transit Administration (FTA) and Federal Highway Administration, and the U.S. Environmental Protection Agency (EPA). The conclusions of the report are those of ACT and do not necessarily represent the views of FTA, FHWA, or EPA. Following this Executive Summary is an Introduction by Federal Sponsors which provides further information on the study and summarizes the sponsoring agencies' view of the methodology and assumptions used in the study.

Introduction

The main objective of the CCI was to analyze transportation commute choices and travel options and to select one or more options according to their potential to reduce the use of single-occupancy vehicles (SOVs).

In 1992, the State of California enacted a parking cash-out program designed to require certain employers to offer the market value of parking, in cash, to their employees as an alternative to subsidized parking. Because the Federal tax code changed several months after California enacted its own cash out law, the State has not enforced the requirement. As part of President Clinton's Global Climate Change Action Plan (CCAP), the concept of cashing out employer-provided parking was introduced as a market-based mechanism to induce commuters to travel in non-SOV modes. The CCAP includes Parking Cash Out as a specific transportation measure the Administration committed to implementing. Legislation to correct the 1992 change in the Internal Revenue Code (IRC) was introduced as a revenue raising measure to offset the costs of implementing the General Agreement on Trade and Tariffs (GATT) but was never submitted to a vote by Congress.

It is within this historical context that the CCI project was developed. Federal agencies needed more and better information about employer-provided parking and other employer-provided transportation benefits. They needed information about the costs associated with providing these benefits and about the options available to employers for expanding the nature of benefits they could provide. In addition, the Federal agencies sought information about the potential expansion of employee commute benefits and the potential impacts on congestion, air quality, and Federal tax revenues.

The CCI analyzed how modifications in the treatment of transportation commute benefits in the IRC (specifically contained in §132(f) on the "qualified transportation fringe benefit") could assist employers in the provision of these benefits to their employees. The CCI was a study of transportation commute benefits that are either currently offered to

employees by their employers (i.e. transit passes) or proposed transportation commute benefits (i.e. parking cash-out). This study was conducted by Government Relations Incorporated, the Project Director, on behalf of ACT, and a consulting team led by KPMG Peat Marwick LLP.

Further, the intended result of the CCI was to recommend ways to level the playing field among effective transportation commute benefits so that both private and public sector businesses and commuters may make the commuting choices that are best-tailored to their individual situations.

CCI Scenarios

In order to explore how changes to the IRC would prompt shifts from SOVs to non-SOV modes, it was decided that alternative scenarios would be developed. The analysis of these scenarios would include the revenue impacts of various changes in the IRC and estimates of changes in commuting mode as a result of expanded transportation benefits being offered by employers. A set of four scenarios was originally developed. The set was later expanded to seven based on comments received from study participants. Three threshold criteria were used to select scenarios for evaluation. These were: 1) revenue neutrality for the U.S. Treasury; 2) the ability to meet the accounting and documentation requirements of the IRC in a manner which concurrently seeks to achieve ease of administrative burden for employers; and 3) cost effectiveness for employers and employees.

Prior to performing the Federal revenue impact analysis, each scenario was first examined according to certain factors: the percentage of SOV reduction expected; which transportation modes were added (as well as those which could not be added) to expand the number of tax-free benefits that employers could offer to their employees via IRC §132(f), the portion of the IRC pertaining to transportation commute benefits; the treatment of parking benefits, specifically the setting of a non-taxable parking cap and the inclusion of parking cash out, and the treatment of other §132(f) benefits in relation to parking benefits and the parking cap; and the status of specific tax administrative issues within §132(f), namely the in-lieu of compensation provision and constructive receipt. In addition, with respect to revenue implications for the U.S. Treasury, each of these factors was examined individually and in combination within each scenario.

Many of the factors mentioned above, such as the inclusion of additional tax-free modes to §132(f) and parking cash out, could not be included within the scenarios unless the tax administration issues of in-lieu of compensation and constructive receipt were first reconciled. The "in-lieu of compensation" clause provides that no benefit will qualify as a "qualified transportation fringe" benefit which may be excluded from the employee's taxable income unless such benefit is provided in addition to (and not in lieu of) any compensation otherwise payable to the employee. The effect of this provision is that employers may not offer the choice between receiving taxable wages and non-taxable benefits such as transit passes or parking. If such a choice is offered, all of the transportation benefits become fully taxable. Under the principle of "constructive receipt," an employee may not choose between taxable and non-taxable compensation. If an

employee could receive taxable compensation, then the employee is taxed on that compensation even if he chooses not to receive it.

For example, if the in-lieu of compensation clause is eliminated, the principle of constructive receipt would have the same effect as in-lieu of compensation. Therefore, if there is a desire to permit employers to design benefit arrangements whereby employees could choose between taxable cash and non-taxable transportation benefits, it will be necessary to add a statutory override to the constructive receipt principle, in addition to eliminating the in-lieu of compensation clause. With these factors in mind, all of the CCI scenarios except for one were designed to include the elimination of these tax barriers.

Findings and Conclusions

CCI Research Activities

As part of the research phase of the CCI, a national telephone survey of 603 employers was conducted in May and June 1995. The primary purpose of the survey was to gain an understanding of employer practices with respect to transportation benefits. Key findings of the survey included the following:

- 1) Over 81% of employers offer transportation benefits to their employees;
- 2) All of those employers offer at least parking benefits and larger employers are more apt to provide it;
- 3) Nearly all parking (99%) owned by employers is offered free to employees, with a value of \$35 billion nationwide;
- 4) 56% of employers own their parking facilities and 40% lease them;
- 5) Transit benefits are provided by less than 1% of employers who provide an average discount of \$22 on transit media sold and \$28 on vouchers provided to employees;
- 6) Good to excellent transit service is provided to 30% of employer locations;
- 7) Vanpool and carpool benefits were provided by 5% of employers at an average benefit value of \$29; and
- 8) Employers are generally not aware of the tax implications of providing transportation benefits or of what their options are as employers with regard to these benefits.

A second step of the research phase involved the development of a methodology to estimate, on a macro-scale, the value of parking nationwide. Through this process, the KPMG Team examined and reported on parking factors such as: what an average parking space costs and how the type of lot (surface level, underground garage or above ground structured parking) determines its cost. While the CCI did not include the development of a micro-scale tool for employers to use to estimate the value of parking at individual worksites, it did briefly address issues pertinent to the development of such a tool, including: the cost of land, the depreciation schedule for capital assets, the interests of private employers versus those of public employers, zoning requirements and labor agreements. The CCI determined that these are all components of the decision to provide parking and, as such, must be assessed at the individual employer and worksite level.

CCI Outreach Activities

Phase II of the CCI, the public outreach tasks, included two regional symposia and two focus group meetings, which served as a means of soliciting comments from various stakeholders in the transportation commute benefits process. The symposia results revealed that most participants identified the following positive attributes to exist within the scenarios presented:

1. The elimination of the in-lieu of compensation clause and constructive receipt;
2. The existence of flexibility and choice;
3. Increased breadth of commute options;
4. Significant SOV reductions; and,
5. From an overall perspective, voluntary (as opposed to mandatory) commute options for employers.

On the negative side, symposia participants voiced the following concerns:

1. A decreasing of the parking cap poses a disproportionate burden on cities;
2. Changes in and additions to §132(f), e.g. the addition of new modes, increases administrative burdens and costs to employers;
3. Mandates, e.g. parking cash out, are neither acceptable nor politically feasible;
4. No resolution exists for what to do with abandoned parking spaces if and when mode shifts occur; and
5. Limited SOV reductions within the proposed scenarios.

CCI Focus Group participants, representing both downtown and suburban employers, revealed the lack of awareness of current transportation commute benefits on the part of employers. They also expressed the need to reach a better understanding of the unique issues faced by urban and suburban employers and the need to distinguish between them in the implementation of future transportation commute benefits policies. As in the case of the symposia, focus group participants stated their support of the elimination of the in-lieu of compensation clause and constructive receipt as a means of providing employers with an expanded list of choices regarding transportation commute benefits. Finally, the focus group sessions highlighted the need for a more detailed examination of the relationship between land use and transportation commute benefits.

General Conclusions

Based upon survey responses and participation in the outreach process, it became apparent that many employers are unaware of the current provisions of the IRC as they apply to transportation commute benefits. It was also learned there is little empirical data available on parking supply and employee travel behavior. In addition, local land use policies, which are very influential in determining whether an employer provides parking, and other local policies must be examined in more detail with regard to transportation commute benefits. Parking valuation tools must also be developed with local input. In order to reconcile the issues outlined above, outreach programs should be developed for

employers and local government officials and should cover a wide range of transportation commute benefit issues, including the promotion of transit voucher programs.

Scenario Conclusions and Recommendations

The scenarios considered the most favorable during the course of the study were those that would result in incremental changes to the provision of transportation commute benefits. Therefore, the scenarios which have been recommended for further consideration and analysis would provide for incremental tax administration modifications and the addition of more tax-free benefits and non-SOV modes to §132(f). With these factors in mind, two scenarios were deemed most favorable by the stakeholders. Scenario #1 would eliminate the in-lieu of compensation clause and constructive receipt. In order to offset revenue losses associated with the elimination of these tax provisions, this option would also require a lowering of the qualified parking cap to \$135 per month. Transit and vanpool benefits could be offered by employers to their employees for up to \$60 per month and parking benefits for up to \$160 per month, as is currently permitted under §132(f). Scenario #6, which, as its most prominent characteristic, increases the level of transit and vanpool benefits to \$85 per month, was the second most favorable option. Scenario #6 would also create a de minimis provision of up to \$20 per month which would be offered to car-poolers, bicyclists, and walkers without the need for substantiation of expenses. In addition, this option requires a lowering of the parking cap to \$135 per month.

In keeping with the guidelines set by the evaluation criteria, both scenarios have the potential to generate revenue for the U.S. Treasury within the first few years after implementation and could continue to generate revenue if the reduced parking cap was maintained at \$135 per month. In addition, both scenarios result in SOV reduction.

INTRODUCTION BY FEDERAL SPONSORS

This introduction is intended to focus attention on certain aspects of the CCI study, both to ensure that certain findings of the study are properly understood, and because the Federal sponsors of the CCI study feel that certain assumptions and methodologies employed in the study have critically influenced its results. The sponsoring agencies feel that it is important to highlight these assumptions and methodologies. Areas covered in the introduction are the employer survey, the CCI study analysis methodology, and the public symposia.

Employer Survey

As part of the CCI project, ACT conducted a nationwide telephone survey of businesses to gather data on employer-provided transportation benefits. This survey, conducted by the market research firm of Elrick and Lavidge (E&L) for ACT, consisted of 603 telephone interviews with businesses obtained from the Dun & Bradstreet files, a national commercial database of employer information.

The sampling group was chosen to provide national representation by employer size, employer type (e.g., institution and non-institution), employer location (e.g., urban and suburban), and employee classification (e.g., blue collar and white collar). One additional criterion which the contractor indicated was used in the sample selection process was to include large businesses (e.g., those with 100 or more employees) geographically located in ozone non-attainment areas (as classified under the Clean Air Act Amendments (CAAA) of 1990.) This request was made by members of the ACT Task Force to the CCI project, who expressed a desire to adequately sample those businesses which might be subject to the Employee Commute Option (ECO) requirements defined within the 1990 CAAA.

As a result of the selection criteria, employers in certain geographic areas were oversampled while those in other geographic areas were undersampled. Elrick and Lavidge indicated that such oversampling and undersampling was corrected through a weighting procedure which divided the number of establishments in each geographic region from the current sample by the total number of establishments in each geographic region from the complete Dun & Bradstreet employer files. This procedure ensured a nationally representative sample of business establishments.

Using this information (the weighted employer establishments by region) and the survey responses on the number of employees currently working for each employer, the researchers at KPMG/Peat Marwick generated an estimate of the total number of employees (and therefore, workplace commuters) nationwide by geographic region. They then compared this total estimate to that derived from the 1995 edition of the Employment and Earning Report published by the U.S. Department of Labor to ensure a national representation of commuters.

With a nationally representative sample on employer-provided transportation benefits and an estimate of the total number of commuters by region of the country, researchers were able to estimate the total value of parking nationwide, the amount of employer-provided parking, transit, vanpool, and carpool benefits offered, and administrative costs of such benefits. All of this information was used by KPMG in subsequent analyses as part of the CCI project.

Analysis Methodology

The following discussion is included to give the reader who may be unfamiliar with analyses of changes in commute benefits a sense of what other studies in this area have found, and to give the more knowledgeable reader a description of some of the unique aspects of this analysis.

The primary goals of the analytic portion of the CCI were to estimate the travel impacts and the Federal tax revenue effects of the tax policy scenarios developed by the ACT Steering Committee. Each scenario combines two tax provisions: 1) a change in the Federal tax treatment of employer-provided parking; and 2) the creation of tax benefits for commute modes such as for walking and carpooling not before mentioned in the relevant section of the tax code (IRC §132; see Chapter 1, Current Tax Code). The scenarios analyzed in this study have not previously been considered in the general discussion of cashing-out employer-provided parking; the reader is cautioned to pay close attention to scenario definitions to avoid comparing unlike policies.

Travel Effects

There are three points regarding the ACT methodology that should be considered when evaluating the results of the CCI scenarios. First, the methodology used to evaluate the scenarios does not adhere to common travel demand modeling practice. Second, the analysis is conservative in its estimates of commuter acceptance of an offer to trade free or subsidized employer-provided parking spaces for the after-tax cash value of the spaces (often referred to as "parking cash-out"). Finally, the analysis is extremely conservative in its estimates of mode shift effects.

1) Conventional Approach

A conventional approach to estimating the percentage of auto commuters who would accept a cash out offer examines how cash out changes the price of auto travel. For example, if a commuter who parks in a space worth \$100 per month rejects the cash out offer, s/he foregoes the after tax value of the space, about \$63.50 per month or \$760 per year. With the cash out offer, the price of parking, previously zero, becomes in effect \$63.50 per month or \$2.88 per day for that commuter. This change more than doubles the cost of auto commuting, which includes both the parking cost and the cost of operating the automobile (roughly \$0.10 per mile, or \$2.20 per day for the average 11 mile commute). Applying an empirically estimated price elasticity of demand for auto travel then produces the change in auto travel. In this approach, the change in single occupant

vehicle (SOV) travel and the percent of commuters who accept cash out are equivalent, because accepting cash for the parking space requires giving up the parking space. This price elasticity is typically estimated in the economics literature to be from -0.1 to -0.3.¹

2) CCI Approach - Acceptance of Cash Out Offer

In the CCI study, unlike other studies, the choice of whether or not to accept the cash value of the parking space in lieu of the space, and the choice of whether or not to change commute mode are modeled as entirely separate phenomena. First, the commuter's decision of whether to accept or refuse a cash-out offer is estimated as a discrete choice of whether or not a commuter chooses to use an automobile as a single occupant vehicle.

The study defines a unique concept, not employed in the travel demand analysis literature, called the "modal breakpoint." This modal breakpoint is defined independently of economic variables such as the value of the parking space or the income of the commuter. If a commuter falls above the breakpoint, s/he will accept the cash out offer; if below the breakpoint, s/he will reject the offer.²

3) CCI Approach - Estimation of Mode Shift

Second, once the decision to accept or reject a cash offer is made, the resulting mode shift is estimated by treating the income gained from accepting the cash value of the parking as a reduction in the price of transit. A transit price elasticity is then used to estimate the increase in transit riders (and corresponding decrease in auto commuters). The transit price elasticity employed (-.03 estimated from the survey data) is at the lower end of values for this elasticity estimated by studies in the travel demand literature. This helps explain why this study's conclusions about travel effects from all the policies examined are conservative, and should probably be considered a lower bound. Most transit planners use elasticity values of -.3; the American Public Transit Association supports the use of -.4³. Other analyses, using more traditional models that are described briefly below, have found much larger responses.⁴

4) Other Analytic Issues

An implicit assumption in the ACT study's methodology is that circumvention of the intent of cash out will be very common, commuters will take the cash, give up their free employer-provided parking space, *but continue to drive to work*. This implies that they

¹ Carol Dahl and Thomas Sterner, "Analyzing Gasoline Demand Elasticities: A Survey," *Energy Economics*, July, 1991. These elasticities are also in line with those used to forecast the Annual Energy Outlook (Department of Energy, Energy Information Administration) and by private forecasters such as DRI/McGraw Hill.

² There is another condition that governs cash out acceptance in addition to the above: the relative level of dissatisfaction with the travel mode must be lower than before taking cash out. As is true of the "modal breakpoint" discussed above, the "relative level of dissatisfaction" with travel mode is a concept unknown to conventional travel demand analysis.

³ Lago, Armando M. and Patrick D. Mayworm, "Transit Fare Elasticities by Fare Structure Elements and Ridership Submarkets", *Transit Journal* 7, Spring 1981, 5-14 and "Fare Elasticity and its Application to Forecasting Transit Demand", American Public Transit Association, August 1991

⁴ Shoup, Donald, "Cashing Out Employer-Paid Parking," U.S. DOT, FTA, Office of Technical Assistance and Safety, December, 1992; Donald Shoup, "The Income Tax Exemption for Employer-Paid Parking," Draft, July 1995; Elizabeth Deakin and Greig Harvey, "Transportation Pricing Strategies for California: An Assessment of Congestion, Emissions, Energy, and Equity Impacts," California Air Resources Board, 1996; EPA Office of Policy Development, "Unified Commute Benefits," October 1995

will park in some other free space, such as on the street or at a shopping mall. That appears to be the primary reason the decision to accept or reject cash out and the decision to drive or use another mode are modeled entirely separately.

More traditional models posit instead that such opportunities for alternate free parking are limited and decline as the value of parking increases, until they are virtually nonexistent in the central business districts of large cities. Parking is expensive in such places precisely because there are few if any free parking spaces. Thus those whose parking has the highest value have the most incentive to accept cash out, and the least opportunity to continue to drive and park for free. Even in suburban areas, however, all-day free parking is not necessarily common, particularly as more parking areas restricted solely to residents are created.

Revenue Estimates

When comparing the revenue estimates in this study to those in other studies of the effect of changes in parking prices, the reader should be aware that in this study the revenue impacts of two very different policies are coupled, so that it is impossible to separate out the revenue effects of each policy. Cash out type policies raise Federal tax revenue by trading a now tax-free benefit for taxable cash. Offering new tax-free benefits lowers Federal revenue. Although as a policy matter these two scenarios are independent, the revenue effects are reported together in the ACT report.

Symposia

An important component of the CCI was to solicit the input of a wide range of interests concerned with the Federal tax treatment of commute benefits. ACT conducted two symposia to assess the opinion of the scenarios of a wide range of stakeholders. One was held in Washington, DC, and the other in Oakland, California. A summary of their reactions to each scenario is included in the report. We highlight a few of the most important points here; important because they point the way to policy approaches that a wide constituency could possibly support.

The Symposium participants voiced significant support for the simplest approach: eliminating the in lieu of compensation prohibition and the constructive receipt problem to make voluntary changes in parking policy cost-effective for employers. Many symposium participants voiced support for a voluntary cash out program.

Support for voluntary approaches was coupled with fervent opposition to mandatory policies that would impose new requirements on employers. Finally, there was recognition that the administrative burden of offering flexible commute benefits may be smaller than had previously been thought.

TRANSPORTATION BENEFITS

Background

Over the past twenty years, there has been a growing interest in and focus on commuting trips and the impact they have on congestion, air quality and energy consumption. This focus began during the energy crises of the 1970's where, due to short gasoline supply and rapidly increasing prices, employers began encouraging employees to use transit, rideshare, and vanpools in order to conserve energy and reduce costs of commuting. It was during this period of time that some of the first regional ridesharing organizations in the U. S. were created, as an outgrowth of private employers' attempts to assist their workers in finding reliable and economical alternatives to driving alone to work. These efforts to encourage ridesharing and increased transit use resulted in some employees at least experimenting with alternative modes of commuting. Subsequently, some of those employees continued to utilize alternate modes for commuting after the energy crises ended.

During the economic boom of the late 1970's and throughout the 1980's, suburban office developments were being built at record pace throughout the fringes of urban areas and comprise much of the new office development built during the past twenty-five years. The zoning and financing requirements for these facilities often required the builder/developer to build sufficient parking to make the facilities attractive for lessors and to deter off-street parking by employees and visitors. Zoning requirements have resulted in many such office developments having three or four parking places per 1,000 square feet of office space, and even more where retail uses are mixed with commercial uses. This parking has been traditionally offered by employers to their employees at no charge, and is perceived by developers and employers as a resource to be allocated to their lessors and workers respectively. While free parking at the worksite had been, before the building boom of the 1980s, a long-standing tradition in the United States, it was not codified into the IRC as a tax-free employee benefit until 1992. Thus, prior to 1992, there was no limitation on the value of employer-provided tax-free parking.

For the first time, in 1982, an employer could, at his discretion, provide a \$15 per month transit subsidy to his employees; the employer could take the cost as a business expense and his employees would not have to report the subsidy as taxable income. In 1986, this amount was increased to \$21 per month to take account of increasing costs of transit and to reinforce a Federal policy thrust to encourage transit use and vanpooling for commuting purposes. In the National Energy Policy Act of 1992 ("the Act"), vanpool subsidies were added to the IRC as a non-taxable employee benefit up to \$60 per month. Transit subsidies were increased at the same time to \$60 per month and the tax-free parking cap was established for the first time at \$155 per month. An indexing mechanism was also incorporated into §132(f) of the IRC resulting in a current cap of \$160 per month.

In the early 1990s, two key Federal legislative actions created additional impetus for consideration of the implications of the IRC on commuting and on the choice of commute mode. The enactment of the CAAA and the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) put new pressures and requirements on employers and public agencies to take actions to reduce congestion and emissions from automobiles, and to manage the existing transportation infrastructure more effectively. For the first time ever, the Federal government, through the CAAA, mandated the implementation of employer-based trip reduction programs in fourteen urban areas throughout the country. This provision of the CAAA, the Employer Trip Reduction (ETR) program, (subsequently named the ECO program), was required to be implemented in the nation's severe and extreme ozone nonattainment areas.⁵

ISTEA required public agencies deciding upon transportation investments to seek alternatives to building new highway capacity to address congestion. In those urban areas classified as severe or extreme nonattainment status for ozone, ISTEA prohibited the addition of new SOV lanes, except as part of an overall congestion management system. Because transportation agencies are seeking ways to manage the transportation infrastructure more efficiently, public agencies and employers are looking for new ways to effectively address CAAA and ISTEA objectives. Finally, there is a growing recognition among transportation and environmental professionals that market-based inducements may be required to substantially impact driving behavior and that requirements or prescriptive approaches are of limited effectiveness. The pricing of parking is viewed by many as a way to begin to introduce market-based inducements to changing travel behavior.

In 1992, the State of California enacted a parking cash-out program designed to require certain employers to offer the market value of parking, in cash, to their employees as an alternative to subsidized parking. Because the IRC changed several months after California enacted its own cash out law, the State has not enforced the requirement. As part of President Clinton's CCAP, the concept of cashing out employer-provided parking was introduced as a market-based mechanism to induce commuters to travel in non-SOV modes. The CCAP includes Parking Cash Out as a specific transportation measure the Administration committed to implementing. Legislation to correct the 1992 change in the Federal tax code was introduced as a revenue raising measure to offset the costs of implementing the GATT but was never submitted to a vote by Congress.

Federal agencies recognized the need for better information about employer-provided parking and other employer-provided transportation benefits. They needed additional information about the costs associated with providing these benefits and about the options which could be made available to employers for expanding the nature of benefits they could provide to their employees. In addition, the Federal agencies sought further information about the potential use of expanded benefits if they were to be offered to employees and the impacts on congestion, air quality, and Federal tax revenues.

⁵ The National Highway System Designation Act of 1995 repealed this requirement.

Current Tax Code

The use of qualified transportation fringe benefits is governed by provisions contained within §132(f) of the IRC. The transportation commute benefit, as it became known after passage of the Act, raised the non-taxable limit on employer-provided transportation fringe benefits, including employer-provided transit passes and vanpools, to \$60 (currently at \$65 per month with indexing) per month, regardless of the total value of the benefits. Furthermore, the provision stipulated that the maximum amount of qualified parking that was excludable from an employee's gross income was \$155 per month (currently at \$160 per month, with indexing). By increasing the exclusion from gross income for transit and vanpools, and limiting the exclusion for employer-provided parking, the law makes strides to level the playing field between parking and other transportation commute benefits (mass transit and vanpools). In order to understand the implications of the Act on transportation commute benefits offered by employers to their employees, it is important to examine the three components separately.

Qualified parking is arguably the most important element of the Transportation Commute Benefit because it provides the means by which the other transportation benefits are supported financially. Due to the creation of the \$155 per month "cap" on qualified parking, revenue was generated to support increases in the allowable exclusion for the other two elements of the benefit, namely mass transit and vanpooling. As mentioned previously, the Act raised the cap on transit and vanpool benefits from \$21 per month to \$60 per month. By increasing the excludable limit for employer-provided transit and vanpool benefits to \$60 per month, mass transit and vanpools are now a financially viable option for commuters who previously relied on SOV use and parking only. Finally, with the passage of the Act, commuter highway vehicles (vanpools and commuter buses) could be provided by employers to their employees with up to \$60 per month in vanpool or transit benefits. Previously, tax benefits were only available to those who parked in or near their place of business or rode mass transit. The recognition of vanpools and commuter buses as tools for energy conservation, clean air, and congestion relief served to equalize the entire transportation benefit by increasing commute alternatives as much as possible.

Tax Administration Issues

In order to discuss the implementation of the IRC changes proposed by the CCI alternative scenarios, it is important to have a thorough understanding of the following tax administration issues regarding §132(f):

In-Lieu of Compensation Clause: IRC §132(f)(4), also referred to as the "in-lieu of compensation clause," provides that no benefit will qualify as a "qualified transportation fringe" benefit which may be excluded from the employee's taxable income unless such benefit is provided in addition to (and not in lieu of) any compensation otherwise payable to the employee. Therefore, an employer may not offer an employee the choice between receiving taxable wages and non-taxable benefits such as transit passes or parking. If such a choice is offered, the transportation benefits are fully taxable.

Constructive Receipt: Under the principle of "constructive receipt" found in the regulations under IRC §451, an employee may not choose between taxable and non-taxable compensation. If an employee could receive taxable compensation, then the employee is taxed on that compensation even if he chooses not to receive it. This general principle can be specifically overridden, however. For example, IRC §125 permits employees to make non-taxable choices under cafeteria plans (typically for health and other benefits) rather than receiving taxable cash compensation.

Implications of the Tax Administration Issues for CCI Scenarios: If IRC §132(f)(4), the in-lieu of compensation clause, is eliminated the principle of constructive receipt would have the same effect as §132(f)(4). Therefore, if there is a desire to permit employers to design benefit arrangements whereby employees could choose between taxable cash and non-taxable transportation benefits, it will be necessary to add a statutory override to the constructive receipt principle, in addition to eliminating §132(f)(4), i.e., the "in lieu of" compensation clause.

The application of these tax administration issues to the individual CCI scenarios will be outlined in further detail in Chapter 2.

National Survey of Employer-Provided Transportation Benefits

The CCI national survey of 603 employers regarding employer-provided transportation benefits found that employer-provided parking is a widespread employee transportation benefit. Most employer-provided parking is located in facilities owned or leased by the employer as shown in Table 1. The survey also showed that most parking is in surface lots and, with the exception of urban core parking, is valued (if at all) at substantially less than the \$160 per month parking cap. Further, a large number of employers were not aware of the tax cap on qualified parking or of the provision of other transportation benefits in the IRC. Further findings from the survey are found in Chapter 3.

Table 1: Type of Employer Parking

TYPE OF PARKING	TOTAL EMPLOYEES	1-4	5-25	26-99	100-499	500+
OWNED	3,240,066 45.7%	1,757,308 41.7%	1,087,478 48.1%	300,873 62.5%	75,535 61.5%	18,872 86.1%
PART OF BULDING LEASE	2,311,394 32.6%	1,634,682 38.8%	529,797 23.5%	108,582 22.6%	36,478 29.7%	1,855 8.5%
THIRD PARTY LEASE	201,626 2.9%	0 0.0%	148,399 6.5%	44,704 9.3%	6,572 5.4%	1,951 8.9%
REIMBURSES EMPLOYEE FOR OFFSITE PARKING	16,167 0.2%	0 0.0%	12,413 0.5%	2,880 0.6%	0 0.0%	874 4.0%
NO PARKING BENEFIT	1,337,349 18.8%	820,228 19.5%	483,672 21.4%	26,868 5.6%	6,265 5.1%	316 1.4%

Given the near universal (95%) provision of free parking as a long-standing benefit to employees, the CCI recognized that the scenarios which would be developed and studied would have to investigate incremental actions that could achieve SOV reductions while taking into account the difficulties associated with wholesale changes in IRC provisions.

Parking Valuation Analysis⁶

A methodology was developed to estimate, on a macro-scale, the value of employer-provided parking nationwide. KPMG Peat Marwick prepared a report, *Parking Valuation Techniques and Methodologies* contained in Appendix C. In summary, KPMG determined what an average parking space costs (exclusive of the cost of property), whether it is a surface level parking lot, underground garage, or above ground structured parking. They associated costs with each type of parking described above to assess the "value" of parking nationwide.

Issues Associated with Developing a Parking Valuation Tool for Individual Employers

The CCI did not include the development of a micro-scale tool for employers to use to estimate the value of parking at individual worksites. However, if parking policy changes were to occur in the form of mandates to "cash-out" parking, developers and employers will need the ability to assess the "market-value" of their parking in order to understand how much cash would be required to offer their employees instead of the parking space they currently offer. There are many difficulties in developing such a micro-level model, some of which are discussed below.

Cost of land: The cost of land on which parking is built is highly variable and dependent upon local real estate values. For example, land can be very expensive in certain sections of downtown urban cores and relatively cheap only a few blocks away. Central cities have undergone dramatic changes in the past twenty years and the cost of land is tied to many different factors, both in the cities themselves and in the surrounding suburbs and the region.

Depreciation schedule for capital assets: The schedule under which parking is depreciated for tax purposes can be different in various settings. For example, under the IRC prior to 1986, certain amortization and depreciation rules applied. Since 1986, new rules apply. Thus, the year the parking is put in service may dictate, for tax purposes, how the employer values the parking. The replacement cost of the parking versus the market-price of the parking causes inequities in the tax treatment of parking, depending upon when it was placed in service. The impact on the taxes of a private business, for example, might be different under each scenario and the employer may have two types of parking placed in service at different times and under different tax rules.

⁶ See Appendix C, "Parking Valuation Techniques and Methodologies," prepared by the KPMG Barents Group, has been provided as Appendix C to this document and may also shed more light on this topic.

Private vs. Public Employers: Public sector or non-profit employers operate under different tax rules than private sector businesses. The cost of parking, the "tax value" of parking and consequences of offering it or not to employees is therefore different for public and private sector employers.

Zoning requirements: Many development agreements require the builder of new, especially large, office complexes or mixed-used commercial and retail complexes to provide adequate (i.e., a specified minimum quantity) parking. This policy is reinforced by the financiers of new development because the facility must be marketable to lessors. In addition, adequate and secure parking is often a required condition of employers seeking office space. Land use control is primarily a local issue and typically, local governments require parking minimums be provided. For example, x spaces per y square foot of office/commercial must be provided by the developer/owner as a condition to receiving the building and/or occupancy permit for the facility.

Labor agreements: Where labor agreements exist, the provision of adequate parking at no cost to employees is either implicitly assumed or explicitly provided for as an employee benefit. In a situation where the employer is required to "cash-out" parking, he may have to comply with the labor agreement provisions on parking and may be required to continue to provide the parking, whether or not the employees use it, even after "cash-out" has been offered.

SCENARIOS

Scenario Criteria

In order to explore changes to the IRC which would prompt commute mode shift to non-SOV modes, scenarios were developed and analyzed. The threshold criteria by which the scenarios would be evaluated were as follows:

1) Revenue Neutrality

Given current Federal budget reduction efforts, and the need to reduce the Federal deficit, the CCI had to reconcile any revenue losses estimated in this analysis with revenue generating offsets. Therefore, it was decided that each scenario should identify a mechanism to generate revenue so as to offset revenue losses caused by the provision of new or expanded benefits to employees. While there are many conceivable options to raise revenues, such as an increase in the gas tax or an increase in truck weight fees, a guiding principle of the CCI project was that lowering the parking cap would be the sole option used in this analysis.

2) Meet the accounting and documentation requirements of the Internal Revenue Service

It was decided that any scenarios presented for possible future action must demonstrate compliance with the various IRS accounting procedures and documentation requirements while, at the same time, maintain as much ease of administration for employers as possible. As a practical matter, any recommended change in the IRS which would affect individual and/or corporate tax filings would need to demonstrate compliance with anticipated IRS accounting and documentation requirements. However, whenever possible, the scenarios were constructed as to encourage as little new administrative interference or burden for employers as possible. This criterion was particularly important in the consideration of Scenarios 6 and 4, in which matters of substantiation and documentation were manipulated to produce varying effects upon the employer, in an administrative sense.

3) Cost Effectiveness for Employers and Employees

The third criterion was that all scenarios should be cost-effective to employers and employees affected by the scenario. Thus, some consideration of administrative expense and burden to employers would have to be considered in developing scenarios because this would impact how they would respond to changes in the IRC relating to employer-provided benefits.

Description of the Scenarios

Through the public outreach and initiative development tasks, six scenarios were developed and analyzed for their impacts on the U.S. Treasury and on SOV travel for commute trips. These scenarios, as well as the current §132(f), which has been referred to as the "Status Quo" scenario, have been included in Table 2.

Table 2: COMMUTER CHOICE INITIATIVE SCENARIOS

	Base Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
DESCRIPTION	No change from current law	Cash out permitted. Employers provide transit & vanpool benefits in lieu of salary.	Cash out permitted. Carpool benefit added @\$60 level.	Applies to bundled and third party leases. Adds walking and biking benefits to transit and vanpool.	Cash out permitted. Adds de minimus benefits and indexing.	Applies to third party leases, bundled leases, & owned parking.	Cash out not permitted. De minimus added plus indexing. All benefit levels increased to \$85.
EFFECTS	Employer who offers to trade parking for taxable cash or pre-tax salary for transit pass or carpool benefit loses tax exemption for employer provided parking, transit, & vanpool benefits. Transit pass offered not in lieu of compensation remains tax exempt..	✓ ----- for transit passes	✓ ----- for transit passes or carpool benefits	✓ ----- for transit, carpool, bicyclists, & pedestrians up to \$60/month	✓ ----- for transit, carpool, bicyclists, & pedestrians up to \$60/month	✓ mandatory for employers offering free parking ✓ for transit, carpool, bicyclists, & pedestrians up to \$60/month	Employers may offer, but are not required to offer, tax exempt commute benefits to eligible employees.
CASH OUT ALLOWED							
TRADE PRE-TAX SALARY FOR BENEFITS NOT NOW PROVIDED BY EMPLOYER							
ASSUMPTIONS		\$125 employers who lease parking will offer cash out. \$125 employers with good transit access will offer transit which is accepted by current users.	\$125 employers who lease parking will offer cash out. \$125 employers will offer transit & carpool benefits which are accepted by current users.	\$125 employers who lease parking will offer cash out. \$125 employers will offer transit, carpool, bike, & walking benefits which are accepted by current users	\$125 employers who lease parking will offer cash out. \$125 employers will offer transit, carpool, bike, & walking benefits which are accepted by current users	All current transit riders, carpoolers, bikers, walker whose employers provide free parking will trade pretax salary for tax exempt benefits up to \$60/month.	All employers who offer transit or vanpool benefits will offer the \$20 de minimus benefit.
ELIMINATE IN LIEU OF/ CONS RECEIPT		✓	✓	✓	✓	✓	
TRANSIT/VANPOOL BENEFIT LEVEL	@\$60	@\$60	@\$60	@\$60	@\$60	@\$60	@\$85
ADD CARPOOL			@\$60	@\$60	@\$60	@\$60	@\$85
ADD BICYCLING				@\$60	@\$60	@\$60	@\$85
ADD WALKING				@\$60	@\$60	@\$60	@\$85
ADD \$20 DE MINIMUS BENEFIT FOR WALKING, CARPOOLING, BIKING					✓ ¹		✓
INDEX ALL BENEFITS	✓				✓		✓
PARKING CAP	\$165	\$135	\$110	\$110	\$100	\$80	\$135
SOV RED %/YEAR	N/A	0.5	0.9	0.9	0.9	6.4	0.3
SOV REDUCTION IN MILLIONS PER YEAR	N/A	109	196	196	196	1,397	65

¹ De minimus is defined as no documentation being required for up to \$20/month benefit payment.

Scenario #1: Eliminate in-lieu of compensation and constructive receipt

This scenario maintains the status quo, as contained in §132(f), except that it eliminates the in-lieu of compensation prohibition and the constructive receipt clause. While no new transportation commute benefits are added to §132(f), the elimination of these tax barriers permits employers to offer the choice of taxable cash for tax free parking, without losing the tax exemption for employees who choose parking. This change would also enable commuters who currently use transit to trade some of their pre-tax salary for a tax-exempt transit pass. In order to achieve revenue neutrality under this scenario, the parking cap would be reduced to \$135 per month.

Assumptions:

- Employers who lease parking from a third party or in a discrete lease and have Section 125 plans will offer their employees cash out. Approximately 2.2% of all employers obtain employee parking through a discrete lease.

Effects:

- While the changes in the IRC are minimal, it is estimated that 0.5 percent or 420,000 trips per day would be reduced or 109 million SOV trips per year.
- Only 25% of transit commuters (4% of all commuters use transit) will trade some pretax salary for a tax-exempt transit pass.

Scenario #2: Carpool Benefit

Scenario #2 would expand §132 (f) to include carpooling as a non-taxable benefit up to \$60 per month. It would eliminate the in-lieu of compensation prohibition and the constructive receipt clause. In order to achieve revenue neutrality under this scenario, the parking cap would be lowered to \$110 per month.

Assumptions:

- Adding carpooling benefits to §132(f) will stimulate more employers to offer carpool benefits. This analysis assumes that the proportion of employers who offer carpool benefits would be similar to the proportion of employers who offer transit benefits, as shown in the survey.
- Employers who lease parking from a third party or in a discrete lease and have a §125 plan will offer cash out. The current percentage of employees nationwide who are offered Cafeteria Plans is approximately 14 percent of employees who work for employers with 100 or fewer employees and 37 percent of employees who work for employers with more than 100 employees. Approximately 2.2% of all employers obtain employee parking through a discrete lease.

Effects:

- With the behavioral responses fully phased in, it is estimated that the annual number of single-occupant vehicle (SOV) trips will be reduced by 0.9 percent or 756,000 daily trips nationwide and 196 million SOV trips per year.

Symposia Participant Input⁷:

Positive Elements:

- **Elimination of the in-lieu of compensation clause and constructive receipt:** The elimination of these tax barriers will allow for more choice between and among transportation commute benefits, therefore promoting the use of non-SOV modes.
- **Adds carpooling as a legitimate alternative:** The addition of carpooling was significant and could prove beneficial for their employees, particularly for those employers located in areas in which transit is not easily accessible.
- **Reduces SOV trips and congestion:** Participants recognized that the promotion of a shift from SOV will aid localities in their efforts to mitigate congestion and improve air quality; this is of particular importance to air quality nonattainment areas.
- **Financial advantage to employers:** Allows employers the ability to offer more tax-free benefits to their employees, at little to no administrative cost to employers.

Negative Elements:

- **Decrease in parking cap poses disproportionate burden on downtown areas and central business districts :** Participants were concerned about the disproportionate impacts associated with lowering the parking cap in central business districts (CBDs) where parking has greater value than in suburban locations. Because CBDs would be impacted sooner and more extensively if the cap were lowered, they felt that such policies may further erode the attractiveness of cities for employers and promote suburban sprawl.
- **Limited SOV trip reduction:** Some participants felt that the changes proposed within Scenario #2 would not induce enough SOV trip reduction.
- **Increases administrative burden/costs for employers:** Particularly with the addition of carpooling as a tax-free alternative, some participants felt that the administrative costs and burden of developing and administering a transportation benefits program would be too great for employers.
- **Does not do enough to narrow the gap between parking cap and transit cap:** Scenario #2 does not do enough to encourage a "leveling of the playing field" between and

⁷ This section entitled "Symposia Participant Input," which is provided for each scenario, lists the comments of the Symposia small group participants. This section does not appear under Scenarios 1, 4, or 5, as they were not discussed during the small group sessions; these scenarios were developed as a result of discussions held in the final sessions at the two Symposia.

among transportation commute benefits because it does not narrow the gap between the parking cap, currently \$160 per month, and the transit and vanpool cap, currently at \$60 per month.

- **Does not include all commute alternatives as tax-free benefits:** Scenario #2 does not include as many non-taxable commute benefits as some of the other scenarios such as walking and bicycling.

Strengthening Elements:

- **Override constructive receipt separately, not via Section 125:** Some participants suggested that limiting the flexibility provided by overriding constructive receipt to employers who provide §125 benefits plans is too restrictive. Therefore, they felt that a mechanism to override constructive receipt outside of §125 should be identified.
- **Pay for scenario in other way than decreasing parking cap:** In order to offset revenue losses caused with the addition of carpooling to Scenario #2, a decrease in the parking cap has been proposed within this scenario. Participants felt the need to explore alternate means of financing these revisions to the IRC.
- **Increase \$60 transit cap, or perhaps have no cap:** Again, in the interest of favoring non-SOV benefits and to promote a leveling of the playing field, participants suggested an increase in the transit and vanpool cap; others favored eliminating the parking cap completely.
- **Eliminate administrative burden by establishing a de minimis level for all benefits at \$20-\$25 range:** By establishing a de minimis level, employers would not be held responsible for extensive record keeping, thereby avoiding what some consider to be a considerable administrative burden. (A de minimis value of \$20 per month has been included in Scenario #4 and Scenario #7.)

Scenario #3: Voluntary Parking Cash-Out

This option eliminates the in-lieu of compensation clause and constructive receipt and expands tax-exempt benefits under §132(f) to include carpooling, bicycling, and walking. Under this scenario, the parking cap would be lowered to \$110 per month to achieve revenue neutrality.

Assumptions:

- Adding carpooling benefits to §132(f) will stimulate more employers to offer carpool benefits. This analysis assumes that the proportion of employers who offer carpool benefits would be similar to the proportion of employers who offer transit benefits, as shown in the survey.

- Because of administrative expenses, adding walking and bicycling expenses to §132(f) will have a negligible impact on the number of employers offering these benefits.
- Employers who lease parking from a third party or in a discrete lease and have §125 plans will offer their employers cash out. The current percentage of employees nationwide who are offered Cafeteria Plans is approximately 14 percent for employers with 100 or fewer employees and 37 percent for employers with more than 100 employees. Approximately 2.2% of all employers obtain employee parking through a discrete lease.

Effects:

- After the behavioral responses have been fully phased in, it is estimated that the annual number of SOV trips will be reduced by 0.9 percent or 756,000 daily trips nationwide or 196 million trips per year.

Symposia Participants Input:

Positive Elements:

- **Additional Options in §125 Plans:** This scenario would allow for employees to increase the benefit options to employees under §125 plans. These plans typically include health and dependent care benefits.
- **Increases breadth of commute options/All alternative modes encouraged:** As indicated in the scenarios mentioned above, participants overwhelmingly supported the addition of other non-SOV modes to the list of commute options.
- **Parking cash-out optional, not mandatory:** Participants favored this scenario over Scenario #6 because of its voluntary nature.
- **Sends the signal that parking is not really free:** Participants pointed out that in providing a cash out option, it becomes apparent to people that there is a value associated with parking, and that parking is not "free" to the employer.

Negative Elements:

- **Market impact limited:** Since this scenario would only apply to employers who lease parking through a third party transaction, it would reach a very limited number of employers since most parking is owned or provided in a "bundled" lease.
- **Adverse effects on center cities:** The offering of a cash out option, combined with the lowering of the parking cap, may have negative effects upon urban areas that typically have the highest parking rates and where the preponderance of the market for this scenario is located.

- **Increased administrative costs, burden/Complicated for employers to administer:** Participants felt that the administrative costs associated with the addition of the cash out option, carpooling, walking, and bicycling would prove too burdensome for employers.
- **Limited SOV impacts:** Because cash out is voluntary in this option, mode shift is not anticipated to be as great in this scenario as in other options.
- **Union Issues:** Where negotiated labor agreements include the provision of parking at no cost to employees, the employer would have to violate its provisions.

Strengthening Elements:

- **Direct tax deduction/credit to employee:** As was the case with a number of CCI scenario small group discussions, participants felt that the addition of market-based incentives for employers, i.e. tax credits, might do more to encourage employers to participate in expanded transportation commute option programs
- **Possibility to make zoning changes in the long term:** As employees begin to accept and participate in cash out situations, and as less people require parking, zoning and building requirements could be amended to favor alternate uses for land.
- **Need outreach efforts to educate employers and employees:** Participants commented that greater outreach is needed regarding transportation commute benefits; a large number of employers nationwide are still not aware of the benefits which currently exist or of how to administer benefit programs.
- **Create equity in provision of transportation benefits:** Participants voiced the need to do more to level the playing field between and among transportation commute benefits, and that non-SOV modes need to be supported by incentives.
- **Too limited to deal with employers - need to find a means to get to individual taxpayers:** Participants felt that transportation commute programs might enjoy more support if they were offered directly to employees, rather than having to do through employers and causing them greater administrative burdens.

Scenario #4: De Minimis and Indexing

The in-lieu of compensation clause and constructive receipt are eliminated. Scenario #4 expands non-taxable benefits under §132(f) to include carpooling, bicycling, and walking. This scenario establishes a de minimis provision which allows up to \$20/month to be reimbursed to employees for carpooling, bicycling, and walking and these costs do not have to be documented. In addition, up to \$60 per month is allowable (with documentation) for carpooling, bicycling, or walking expenses. An indexing mechanism is established for all 132(f) benefits. The parking cap is lowered to \$100 per month to achieve revenue neutrality.

Assumptions:

- Employers who lease parking from a third party or in a discrete lease and have §125 plans will offer their employees cash out. Approximately 14% of employers with 100 or fewer employees and 37% of employers with more than 100 employees offer cafeteria plans. Approximately 2.2% of all employers obtain employee parking through a discrete lease.

Effects:

- While the changes in the IRC in this option are minimal, it is estimated that 0.9 percent or 756,000 SOV trips per day would be reduced or 196 million per year.

Scenario #5: Mandatory Parking Cash-Out-Complete

Scenario #5 requires employers who provide parking benefits, whether leased, owned, leased from a third party, or reimbursed, to offer the market value of that parking in either cash or non-taxable benefits. This is achieved through an elimination of the in-lieu of compensation prohibition and constructive receipt. It also expands §132(f) to include carpooling, bicycling, and walking as non-taxable benefits (up to \$60 per month with documentation). Therefore, employers with all types of parking would be mandated to offer a choice among a wide range of transportation commuting benefits, and employees would have the ability to select from this wide range of benefits. In order to achieve revenue neutrality under this scenario, the parking cap would be lowered to \$80 per month.

Assumptions:

- Employers would be mandated to offer a choice of cash or other benefits in lieu of parking. Tax exempt benefits will be extended to employees currently using modes other than driving and parking.
- The employer responses will be phased in over three years. (Based on experience in Seattle from 1978 to 1981, this analysis assumes that 50 percent of behavioral changes will occur in the first year after enactment, 38 percent in the second year, and the balance in the third year after enactment.)

Effects:

- It is estimated that 6.45 percent of employees currently receiving employer-provided parking will elect to receive alternative tax-free benefits or taxable cash. It is further estimated that SOV trips will decline by 5.4 million trips per day or 1.4 billion trips per year.
- Because employers are required to offer tax-free benefits for all forms of commuting, all of the employees switching travel modes will accept tax-free benefits up to the value of

the parking space they abandoned or the \$60 per month cap, whichever is less. This leaves only the amount above the cap to be treated as taxable cash.

- Because employers are required to offer several new tax free benefits, the parking cap must be lowered to maintain revenue neutrality.

Symposia Participant Input:

Positive Elements:

- **Achieves highest SOV diversion of any scenario:** Since employers with all types of parking are mandated to offer the cash out option as well as all of the other commute benefits to their employees, it is assumed that more employees will be encouraged to switch to non-SOV modes than in any other CCI scenario.
- **Administration is eased by eliminating in-lieu of compensation prohibition and constructive receipt:** Since the elimination of these tax barriers allows for the offering of a number of tax-free benefits (up to the \$60 cap), employers would not be subjected to extensive record keeping requirements.
- **Local zoning requirements would potentially be affected by changes in the IRC:** Since it is assumed that Scenario #6 would encourage a large number of employees to switch to non-SOV travel, it is also assumed that local zoning and building requirements would be amended in response to a reduced demand for parking.
- **Levels the playing field among commute benefits:** By offering more benefits, and particularly by offering more employees the opportunity to cash out their parking, this Scenario #6 offers employees a greater choice among non-SOV options.
- **Diverts resources to transit:** Particularly in urban areas, this scenario encourages greater use of transit options.
- **Eliminates the in-lieu of compensation clause and constructive receipt:** The elimination of these tax barriers will allow for more choice between and among transportation commute benefits, therefore promoting increased use of non-SOV modes.

Negative Elements:

- **Mandates are not acceptable:** At both CCI Symposia, employers and others resoundingly expressed their opposition to mandates, particularly for those who already own or lease their parking and who would be forced to offer their employees the cashed-out value of their parking spaces.
- **Owned and leased parking not being utilized produces an additional cost to the employer in a cash out situation:** These employers would not only have to offer their employees the cashed-out value of their space, but they would also have to continue to

pay for the maintenance and upkeep of their parking lots/garages, many of which would go vacant.

- **Carpooling, walking, biking mandate is not politically feasible to employers:** Many participants felt that these commute options, which are not as popular or as widely utilized as transit, vanpooling, and parking, will not be acceptable to employers or to legislators.
- **Increased administrative costs:** Participants felt that the increased administrative costs associated with the addition of the cash out option, carpooling, walking and bicycling would prove too burdensome for employers.
- **Spillover effect:** If there is ample spillover or alternative parking available to employees near their place of employment, employees may receive the cashed-out value of their space and may continue as SOV commuters.
- **Contrary to local zoning requirements:** The effects of an increased number of employees accepting a cash out will run contrary to current zoning requirements, which would have to be amended.

Strengthening Elements:

- **The addition of market-based incentives for employers such as emission reductions credits:** Participants felt that the addition of market-based incentives for employers, i.e. tax credits or emission reductions credits, might do more to encourage employers to participate in expanded transportation commute option programs.
- **Remove biking and walking as non-taxable benefits:** As mentioned above, some participants felt that these options were politically and administratively unfeasible and should be eliminated from the scenario entirely.
- **Eliminate employer-owned parking or make the cash out optional:** Eliminate the mandate placed upon employer-owned parking or make it optional for employers who own their parking to participate in a cash out. (This would create an exemption for an enormous portion of those who would otherwise be affected by this mandate.)

Scenario #6: Increase Benefit Levels

This scenario increases the non-taxable amount that an employer can offer for the transit and vanpooling from \$60 to \$85 per month phased in over five years and the establishment of a de minimis provision which allows up to \$20 per month to be reimbursed to employees for carpooling, bicycling, or walking without documentation of costs, and up to \$85 with documentation. Therefore, it expands non-taxable benefits under §132(f) to include carpooling, bicycling, and walking and the employer would have to offer the transit or vanpooling benefit if he offers the \$20 de minimis benefit. This scenario also establishes an indexing mechanism for all §132(f) benefits. The parking cap would be

lowered to \$135 per month to achieve revenue neutrality. This scenario differs from the others in that it retains the in-lieu of compensation clause and constructive receipt, thereby precluding the cash out option.

Assumptions:

- All employers who offer transit or vanpool benefits will offer the \$20 de minimis benefit for walking, bicycling and carpooling.
- All employees offered the de minimis benefit will accept it.

Effects:

- The reduction in SOV trips is estimated to be 0.3 percent or 252,000 daily trips or 65 million trips per year.

Symposia Participants Input:

Positive Elements:

- **Is voluntary:** Again, participants favored this scenario over Scenario #4 because of its voluntary nature.
- **Longer list of eligible benefits:** As indicated in the scenarios mentioned above, participants overwhelmingly supported the addition of other non-SOV modes to the list of commute options.
- **De minimis reduces/precludes need for extensive documentation:** In general, anything that worked to ease the administrative burden for employers was deemed favorable by participants.
- **Could preclude need for capital investment:** If employees took advantage of new commute options, employers may reduce the need to expand parking in situations where their business expands.
- **Reducing the parking cap and increasing commute alternatives cap work together to encourage SOV trip reduction:** Participants recognized that the promotion of a shift from SOV use, achieved by reducing the parking cap and increasing the cap for non-SOV modes, will aid localities in their efforts to mitigate congestion and improve air quality.
- **Legislatively realistic/cheap:** The elimination of the in-lieu of compensation clause and constructive receipt are incremental, realistic changes, from a legislative standpoint, and would not be expensive to promote or to achieve.

Negative Elements:

- **Limited incentives for employers to offer benefits:** As in other scenarios mentioned above, no incentives currently exist to encourage employers to offer transportation commute benefits.
- **Retaining in-lieu of and constructive receipt:** For this scenario, most participants felt that the retention of these, while necessary for this option, provided a deterrent to choice.
- **What to do with vacated parking spaces:** Participants recognized that once cash out had been put into effect, there would be a need to find alternative uses for cashed-out parking spaces.
- **Impact may be on relatively small number of employers if current treatment/provision of transit and vanpools continues:** Further outreach is needed concerning transportation commute benefits, or the proposed scenarios will have little to no effect at all.
- **Negligible reduction in SOV trips:** In the opinion of some, it was assumed that this scenario would bring about negligible SOV reduction only.
- **Cost to employer/higher administrative costs:** Employer will have to incur costs to equal subsidy and will incur higher costs due to the mode substantiation requirement for carpooling, bicycling, and walking.

Strengthening Elements:

- **Set parking cap based on regional market values of parking:** Further studies should be performed to determine values of parking in different regions of the country. Once this has been completed, parking caps should be set regionally based on these values.
- **Emission reductions credits for offering benefits/Tax credit to employers:** Again, in this scenario, participants felt that incentives for employers might be necessary in order to encourage them to offer these benefits.
- **Disincentives-gas tax:** Some participants felt strong disincentives, such as a significantly increased gas tax, are necessary to induce mode shift.
- **Parking maximums not minimums:** Some participants suggested that local governments should be encouraged to require parking maximum limits as opposed to current policy which requires minimums to be met, where more parking can be provided. This could slow the growth of oversupply of parking.

- **Further reduce IRS oversight:** Because the de minimis provision is added, it was felt that the IRS oversight would be substantially reduced. Some participants commented that more changes of a similar nature would be welcomed.
- **Parity between parking and commute alternative cap:** As mentioned by participants in other scenarios, public officials should keep working on leveling the playing field and ensuring that equity exists among transportation commute benefits.

Focus Group Meetings⁸

In the interest of ascertaining additional commentary on the CCI scenarios, two CCI Focus Groups were held; suburban employers were represented at a meeting held in North Bethesda, Maryland on October 5, 1995 while the second meeting, held in Washington, D.C. on November 1, was oriented to downtown employers. The summary of the responses from the focus group participants is as follows:

- **Lack of awareness of current transportation commute benefits indicates the need for increased outreach.** It was discovered that employers need to be made aware of the fact that there is a \$60 per month transit and vanpool benefit which may be made available to employees by their employers, as well as the fact that a parking cap exists, per §132(f).
- **Land use is a key element in dealing with transportation considerations.** Opportunities for reducing SOV use are much greater when employment centers are located in downtown areas, where transit is a more realistic option than parking.
- **There are substantial differences between suburban and downtown employers regarding the importance of free parking and transit.** A better understanding of these issues needs to be reached prior to the implementation of further policies which treat different types of employers in the same manner.
- **Both types of employers agreed that the elimination of the in-lieu of compensation clause and constructive receipt as they apply to transportation commute benefits is necessary.** Employers stated that the elimination of these from §132(f) would increase the flexibility of the current system and would allow employers to make better choices regarding the provision of transportation commute benefits to their employees.

⁸ The Final Report on the CCI Focus Group Meetings is contained in Appendix D.

CONCLUSIONS AND RECOMMENDATIONS

Based upon the analysis, Scenario #1 was found to be most acceptable by the many participants involved in the CCI outreach process. Scenario #1 would eliminate the in-lieu of compensation clause and the constructive receipt provision in the IRC. It would require a lowering of the qualified parking cap to \$135 per month to maintain revenue neutrality and is estimated to reduce 420,000 SOV trips per day or 109 million SOV commute trips per year. The analysis shows that these changes would create modest revenues in the first two years of implementation and could continue to generate revenue if the parking cap were maintained at the newly lowered rate of \$135 per month. Likewise, a revenue neutral approach could be taken which would raise the cap on an indexed basis mirroring current IRC provisions. Further, if the phase-in period were assumed to be longer than three years, as is assumed in this analysis, the revenue impacts would be less in the early years and likewise would show adjustments in the fourth and fifth years.

Scenario #6 also received substantial support and merits consideration. This scenario would create a de minimis provision of up to \$20 per month which could be offered to car-poolers, bicyclists, and walkers without the need for substantiation of expenses. In addition, it raises the transit and vanpool subsidy to \$85 per month from the current \$60 cap. This scenario is estimated to reduce 252,000 SOV trips daily or 65 million SOV commute trips per year. This scenario would also require lowering the qualified parking cap to \$135 per month and also has revenue generation potential after the first year if the cap were to remain at \$135 rather than indexing up.

Findings

As part of the research phase of the CCI, a national telephone survey of 603 employers was conducted in May/June 1995. The primary purpose of the survey was to gain an understanding of employer practices with respect to transportation benefits. Key findings of the survey found in Table 3 included the following:

- Over 81% of employers offer transportation benefits to their employees;
- All of those employers offer at least parking benefits and larger employers are more apt to provide it;
- Nearly all parking (99%) owned by employers is offered free to employees, with a value of approximately \$35 billion nationwide;
- 56% of employers own their parking facilities and 40% lease them;

- Transit benefits are provided by less than 1% of employers who provide an average discount of \$22 on transit media sold and \$28 on vouchers provided to employees;
- Good to excellent transit service is provided to 30% of employer locations;
- Vanpool and carpool benefits were provided by 5% of employers at an average benefit value of \$29; and
- Employers are generally not aware of the tax implications of providing transportation benefits or of what their options are as employers with regard to these benefits.

Table 3: Commute Benefits by Size of Employer

WEIGHTED TOTALS FOR BENEFITS	TOTAL EMPLOYEES	1-4 EMPLOYEES	5-25 EMPLOYEES	26-99 EMPLOYEES	100-499 EMPLOYEES	500+ EMPLOYEES
Employer offers commute benefits	5,756,999 81.1%	3,391,991 80.5%	1,775,081 78.6%	451,279 93.8%	116,998 95.3%	21,650 98.7%
Employer does not offer commute benefits	1,339,660 18.9%	820,228 19.5%	483,672 21.4%	29,748 6.2%	5,735 4.7%	277 1.3%
Employer offers parking benefits	5,746,427 81.0%	3,391,991 80.5%	1,765,674 78.2%	451,279 93.8%	15,872 94.4%	21,611 98.6%
Employer offers transit benefits	48,112 0.7%	0 0.0%	9,408 0.4%	30,867 6.4%	4,927 4.0%	2,810 12.8%
Employer administers car/vanpool program	353,240 5.0%	288,080 6.8%	10,159 0.4%	11,485 2.4%	34,653 28.2%	8,863 40.4%

Although the CCI did not include the development of a micro-scale tool for employers to use to estimate the value of parking at individual worksites, a second step of the research phase involved the development of a macro-scale parking valuation methodology. Through this process, KPMG examined and reported on parking factors such as: what an average parking space costs, how the type of lot (surface level, underground garage or above ground structured parking) determines its cost, and so forth. The CCI did address issues pertinent to the development of a micro-scale tool, which include: the cost of land, the depreciation schedule for capital assets, the interests of private employers versus those of public employers, zoning requirements and labor agreements. The CCI determined that these are all components of the decision to provide parking and, as such, must be assessed at the individual employer and worksite level.⁹

⁹ The KPMG Peat Marwick report on parking valuation is included in Appendix C.

Conclusions

1) Need for Incremental Actions

This study analyzed the complex interactions between individual behavior, employer behavior, and government policies affecting mode choice. SOV reductions were estimated for each scenario and range from 0.3 % to 6.4% daily reduction in SOV trips. This amounts to 252,000-5.4 million trips nationwide per day or 65 million to 1.4 billion SOV trips reduced per year. While these numbers may be small in the overall context of 83.8 million daily one-way SOV trips nationwide, they are not inconsequential.

The scenarios analyzed would affect the work commute or peak period travel. Even small decreases in trips during the peak period can have significant benefits in congestion reduction, transportation system efficiency, and air quality. SOV trip reductions of as little as 5 percent during the peak period can substantially reduce auto congestion. In addition, any action taken to reduce these trips will increase the efficiency with which the road system is used and thereby reduce the need for additional capacity. Lastly, reductions in SOV trips result in reductions in the emissions of ozone pre-cursors through fewer cold starts during a critical portion of the day, the morning commute.

This project recognizes that the preponderance of employer-provided parking is provided free and on-site to employees but has identified scenarios and incremental actions which present options to parking. These scenarios would promote more efficient use of the existing transportation network and infrastructure by expanding viable alternatives to SOV travel.

2) Employers Need A Better Understanding of Current Transportation Benefit Options Under the Tax Code

Many employers are unaware of the current provisions of IRC§132(f) as it applies to transportation benefits. This may partly explain the relatively small numbers of employers that provide transit benefits (1% nationally) and why so few transit riders (10%) receive benefits. It can also help explain why parking is often valued by employers at zero, when in fact it clearly has monetary value.

3) Local Land Use Policies Heavily Influence the Amount of Employer-Provided Parking

Local land use policies are very influential in determining whether an employer provides parking, and local policies determine standards for the amount of parking that must be provided in commercial settings. It is understandable that local officials do not want retail parking overwhelmed by commuter parking, and do not want residential neighborhoods overrun with commuter parking. In many locations, it is not uncommon for an office building owner to be required to build and maintain four parking spaces for every one thousand square foot of office space. In many instances, this results in about the same amount of space being dedicated to employee parking as to employee office space.

4) Data is Needed on Parking Supply and the Provision of Parking by Employers

There is relatively little empirical data on parking supply and employee travel behavior which could be used in this analysis. When studying this issue from a national perspective, only the most general observations can be made because of so many interrelated factors influencing travel behavior and the provision of parking. For example, variation in the availability of transportation options across regions greatly affects commute mode choice. In addition, the provision of parking is very location-specific and often closely related to local land use policies; the existence, or lack thereof, of government mandates on employers is also a factor in the provision of various transportation benefits.

5) Emission Reduction Credits for Employers May Induce Them to Offer Incentives to Reduce Trips

In the nation's severe ozone nonattainment areas, employers were mandated to implement trip reduction programs at worksites with more than 100 employees. The National Highway System Designation Act of 1995 repealed this mandate. During the symposia, several participants suggested that if emission reduction credits were provided to employers for offering incentives to use non-SOV travel options, more employers might be willing to seriously consider offering alternatives to parking. For example, employers who provide transit passes could generate emission reduction credits based upon the number of employees who use transit and the frequency of transit use. Credits could be used by employers to meet current requirements or could be sold to other employers or banked for future use. In addition, employers could adopt those policies which work best for the worksite, workforce, and circumstances under which they operate. This could provide an effective substitute for mandatory programs and may prove to be a cost-effective alternative.

6) Mandatory Parking Cash-Out is Unacceptable to Employers

Employers consider parking cash-out mandates to be unacceptable public policy options. They appear to be willing to support other alternatives to inducing mode shift, but, due to the many characteristics of parking identified in this report, consider mandatory parking cash-out to be both administratively impractical and politically unacceptable. Employers feel caught between the local land use requirements, which require them to provide parking, and the Federal policy goals to reduce SOV travel and to improve air quality. It is important to note, however, that there appeared to be conditional support expressed for voluntary parking cash out programs at Symposium II in Oakland, California.

7) Parking Valuation Tools are Needed.

This report summarized the difficulties associated with developing an employer-based parking valuation tool. Yet, employers need to be aware of the monetary value of this asset if they are to begin serious consideration of the provision of transportation commute alternatives to their employees. One or more credible and user-friendly methodologies

could be very useful to employers' understanding of the value of parking and associated trade-offs.

Recommendations

1) Pursue changes in the IRC analyzed in Scenarios #1 and #6. Scenario #1, which eliminates the in-lieu of compensation clause and constructive receipt, and Scenario #6, which, as its most prominent characteristic, increases the level of §132(f) benefits to \$85 per month, were the most favored scenarios with regard to the evaluation criteria applied during the CCI. By eliminating the in-lieu of compensation clause and constructive receipt provision, Scenario #1 would make incremental adjustments to the IRC. Under Scenario #1, parking cash out would be permitted but it is assumed that only employers who lease parking and have §125 plans will offer it. This change would also enable commuters who have good access to transit to trade some of their pre-tax salary for a tax-exempt transit pass. In order to achieve revenue neutrality under this scenario, the parking cap would be reduced to \$135 per month. On the negative side, Scenario #1 is anticipated to bring about only a relatively modest reduction in SOV travel.

Scenario #6 would allow for employers to provide for meaningful inducements to car-poolers without placing undue administrative burdens on employers. The de minimis provision in this scenario substantially reduces the administrative burden on employers by eliminating the need for commuting expenses to be documented if they fall within the \$20 per month de minimis threshold. Allowing for employer-provided incentives to carpool could result in positive mode shifts to carpooling by SOV drivers. Since the in-lieu of compensation clause and constructive receipt are not eliminated under this scenario, parking cash out is not permitted.

These two scenarios also received the most support from participants in the CCI outreach process.

2) Implement Outreach Programs for Employers and Local Governments. Initiate a program to better inform employers about transportation benefits they may offer in lieu of or in addition to parking. The survey results showed that very few employers offer benefits other than parking and that most employers place no dollar value on parking. Promotion of transit voucher programs and of fare media that could be used for multiple transit operators could be a part of the program. Local funds could leverage Federal Congestion Mitigation and Air Quality Program funds for these efforts.

While the provision of transportation options, including parking, has national implications with respect to the impact on the U.S. Treasury, the decisions related to parking are, in most states, entirely locally driven. A better understanding of these relationships is needed by local decision makers. Initiating efforts to foster a better understanding of land-use and transportation interactions at the local level is recommended.

3) Consider developing an emission reduction credit program for employers. The CAAA requirement for mandatory trip reduction programs for large employers in severe

and extreme ozone nonattainment areas has recently been eliminated. However, feedback from participants indicated that incentives for employers to provide commute options would be more effective than attempting to force employees to change commute travel modes through mandates. Therefore, it is recommended that EPA consider developing an emission credit program which would allow trip reductions by employers to be counted toward required State Implementation Program emission reductions.

4) Conduct region specific studies on employer provided parking and develop valuation tools. Parking supply information tends to be very location-specific and is often influenced by local parking requirements, zoning ordinances, cost of land, and location of the office setting in the town, city, or suburb. More information is needed to fully assess the effects of individual policy options upon communities and individual employers and must be understood in the context of local conditions. Parking valuation tools may be best developed in the context of local circumstances and are needed to assist employers in understanding their full "costs" and to help them to identify and assess options and trade-offs.

5) Support Improved Modeling Capabilities and Data Collection Efforts on Travel Behavior. The Federal agencies should continue to support modeling improvements and data collection efforts which allow for a better understanding of traveler behavior. This data could be augmented by region and employer-specific data on travel by employees gathered through the EPA's Employer Trip Reduction Programs. Data at this level is potentially very useful in an urban or metropolitan area setting.

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PARKING VALUATION TECHNIQUES AND METHODOLOGIES

The Barents Group LLC of KPMG Peat Marwick LLP ("KPMG Barents") prepared this background paper for the Association for Commuter Transportation ("ACT") in support of our analysis of Commuter Choice Initiative alternative policy scenarios. The purpose of this paper is to describe the procedures developed for valuing employer-provided parking, transit and vanpool benefits as utilized in preparation of federal budgetary impact estimates for the scenarios. This paper represents an interim work product as the policy scenarios to be analyzed are not yet fully developed. As a result, these procedures may require further modification when complete specifications become available.

Our techniques resulted in an estimate of total value of parking at \$48 billion. \$36 billion of this amount represents employer-provided benefits, \$32 billion of which are tax-free. The balance of this paper describes the methods we used to arrive at these estimates.

Weighting the Survey

The Commuter Choice Initiative Survey conducted by Elrick & Lavidge consisted of 603 establishments stratified by employment class size, status as an "institution," and location in or out of a certain large set of metropolitan areas. The results were weighted to represent the full population of employees in the United States in two steps. The initial step was to divide the total number of establishments in a particular stratum by the number of sample units in that stratum. The resulting weights are shown in Table A. After this step, an estimate of the total employment was generated for each of eight geographic regions by multiplying the reported employment on each record by the initial weight. Target values of employment in each region were derived from BLS data and the ratio of each target value to the corresponding survey value was calculated. All weights in a particular region were then multiplied by the resulting ratios, which are shown in Table B.

Estimation of the Total Value of Parking

Once the sample was weighted, the estimation of valuation could begin. The value of tax-free employer-provided parking benefits involved making three separate estimates: one of the total value of parking used by employees (whether or not provided by the employer), the total value of benefits provided by the employer, and the amount of those benefits that exceeded \$160 per month. There were three different pieces of information on the survey that aided in estimating the value of parking:

- The reported tax value;
- The amount charged to employees for use of the lot; and
- The reported rates of nearby commercial lots.

Whenever at least one of these values was nonzero, the largest value was assigned to be the value of the space.

The remaining establishments were separated into two groups: those reporting either a tax value of zero or the presence of nearby free parking, and those not responding to any of these questions. The 163 establishments in the latter group were classified into one of 87 geographic regions. The other 440 establishments were likewise classified, and for each region, three statistics were calculated: (1) the probability of an establishment in that region reporting a positive value of parking, (2) the average positive value of parking in that region, and (3) the difference between the minimum and maximum parking value reported in each region. These three statistics were used to impute positive and zero values to the establishments not responding to the relevant questions.

Establishments with reported or imputed parking values of zero and more than ten employees also had values imputed to them. Those with ten or fewer employees were not imputed values because it was assumed that they could be accommodated by nearby free on-street parking. The remainder were assigned a value corresponding with the construction and operating cost associated with a space in the relevant type of parking structure (i.e. either surface or non-surface lots). The national average amounts of \$22 per month for surface lots and \$133 per month for non-surface lots were used as a starting point and some regional adjustment factors were applied, ranging from 1.35 in Manhattan to 0.70 in Georgia outside of Atlanta. These values were phased in for establishments with between ten and twenty employees (because of the presumed availability of free on-street parking), and used without further adjustment for establishments with more than twenty employees.

Table C shows the number of establishments assigned values by each method and the associated values. This shows that although values for only 75 establishments could be directly estimated from the survey responses, the associated values account for 45 percent of the total valuation of the \$48 billion.

Estimation of the Employer-Provided Parking

The next step was to determine the portion of the above calculated value provided by the employer. This was determined by subtracting the amount charged employees from the estimated value. In cases where the employer reported that it provided no parking for its employees, no benefits were assigned. The resulting benefit amounts, classified by the form in which employers provided benefits, are shown in Table D. Of the \$48 billion in valuation, it was estimated that \$36 billion represented employer-provided parking and that \$32 billion of that was tax-free.

Estimation of Transit and Vanpool Benefits

Transit and vanpool benefits were estimated from survey responses. Establishments reporting that they provide benefits, but not providing a value were assigned the mean

value of benefits of reporting establishments in the same employment size class. The results are shown in Table E.

Validation of Survey Using 1990 Census Data

Survey responses covering the number of parking spaces provided, and estimated use of transit were used to generate estimates of the total number of employees using private vehicles and transit to get to work. Based on the Survey, we estimated that 81.1 percent of employees use a parking space at work. If we gross this up by 7.9 percent to account for passengers (consistent with the 1990 Nationwide Personal Transportation Survey), we get an estimate of 87.9 percent of employees using a private vehicle to get to work. According to the Census, the correct percentage in 1990 was 86.7 percent. This provided us with a high degree of confidence that the valuation methods were being applied to the proper number of parking spaces, eliminating that as a source of potential error in the estimate of aggregate value.

The estimated percentage of employees using transit based on the Survey was 6.2 percent. This was based mainly on responses from employers who did not offer transit benefits and who had no incentive to be familiar with this information. Nevertheless, the correct percentage, according to the Census, was 5.1 percent. This was sufficiently close for us to conclude that employers who do offer transit benefits (and who therefore would be more likely to keep close track of this information) provided reliable estimated of the number of employees using transit and receiving benefits. The Survey did not directly ask for the percentage of employees using vanpools, so a similar check could not be performed.

Table A

Establishment Weights

<u>Employment Size</u>	<u>Institutions</u>		<u>Non-Institutions</u>	
	<u>Target Cities</u>	<u>Other Areas</u>	<u>Target Cities</u>	<u>Other Areas</u>
1-4	143878.	21077.	54776.	184346.
5-25	33142.	8240.	13078.	43548.
26-99	24155.	27848.	1393.	2336.
100-499	8100.	23420.	326.	599.
500+	1808.	4264.	55.	144.

Target Cities (including suburbs)

New York City
Boston
Philadelphia
Washington DC
Atlanta
Miami
Cleveland
Chicago
Dallas
Houston
Denver
Los Angeles
San Francisco
Seattle

Table B

Regional Employer Adjustment Factors

Manhattan	0.7771
Rest of Metropolitan New York	0.9209
Western High Transit Service Areas	2.1309
Western Medium Transit Service Areas	3.3029
Other Western Metropolitan Areas	1.8336
Other High Transit Service Areas	1.0962
Other Medium Transit Service Areas	1.1911
All Other Areas	0.8380

Western High Transit Service Areas

Los Angeles, Orange County, San Francisco, Oakland, San Jose

Western Medium Transit Service Areas

San Diego, Portland, Seattle, Phoenix, Denver, Salt Lake City

Other High Transit Service Areas

Chicago, Philadelphia, Boston, Cleveland, Miami, Washington

Other Medium Transit Service Areas

Detroit, Houston, Atlanta, Dallas, Baltimore, San Diego, Pittsburgh, Cincinnati,
Milwaukee, Ft. Lauderdale, San Antonio, Providence, New Orleans, Buffalo

Table C**Valuation of Parking**

<u>Valuation Method</u>	<u>Number of Establishments</u>	<u>Annual Value of Parking (\$billions)</u>	<u>Monthly Average (\$)</u>
Reported Tax Value	17	6.3	37.35
Amount Charged	7	1.3	77.73
Nearby Commercial Rates	51	14.0	57.33
Cost (zero value reported)	365	16.6	22.93
Imputed (no response)	163	9.9	42.77
TOTAL	603	48.0	38.76

Table D**Parking Benefits (\$billions)**

<u>Type of Benefit</u>	<u>Annual Value of Parking</u>	<u>Employer-Provided Benefits</u>	<u>Tax-Exempt Benefits</u>
Employer Owns Lot	29.3	23.7	
Lot Bundled w/ Lease	7.2	5.7	
Lot Leased from Landlord	3.6	3.1	
Lot Leased for 3 rd Party	1.2	1.0	
Employees Reimbursed	2.8	2.3	
No Benefits	4.1	0.0	
TOTAL	48.0	35.8	31.5

Table E**Transit and Vanpool Benefits**

<u>Type of Benefit</u>	<u>Number of Establishments</u>	<u>Value of Benefits</u>	<u>Tax-Exempt Benefits</u>
Discounted Media	13	135.6	
Free Media	1	16.6	
Vouchers	7	52.8	
Reimbursement	6	126.7	
TOTAL TRANSIT	25	331.8	274.6
VANPOOL BENEFITS	18	3.5	3.5

REPORT ON FOCUS GROUPS

FOCUS GROUP #1

October 5, 1995

The Marriott Suites Hotel

North Bethesda

Overview / Summary

Suburban employers with plentiful, owned free parking show little interest in any changes to the present system of transportation commute benefits. They appear to consider the resources available for highway facilities to be relatively unconstrained. However, they caution that the current corporate climate is highly unfavorable toward to the addition of new benefits of any sort.

Free parking was considered very important, to the point of dictating a previous move from the city to the suburbs initially for one employer. Transit was not generally considered a realistic mode option, given existing service levels.

The reaction to the various scenarios was muted. Principles that were embraced included "leveling the playing field" (in those locations where transit was considered more realistic). There was very little concern about lowering the parking cap, because of their parking is bundled with their leases, and they perceived that a mandatory cash out for owned/bundled parking was totally unrealistic.

There was very little awareness of the current system of taxation of employee transportation commute benefits.

Background

The focus group was held at the Marriott Suites in Bethesda, Maryland, which is on the grounds of the office park where most of the participants were located. Six employer representatives attended. They were all located in the Maryland suburbs of Washington, D.C.. One employer of 50 employees was located in a core area of an edge city, and leased parking which is paid for separately from its lease; the rest either owned their own parking or had it bundled in their leases. Most employers provide free parking; one provides a cash subsidy which can be used for either transit or parking. Other employers provide no transit subsidy. All are members of a transportation management association which provides carpool matching assistance and transit and vanpool information.

Employer Attitudes Toward Transportation Commute Benefits

Perceived importance of free parking. There was virtual unanimity among focus group members about the importance of free parking. All the companies except one provided free parking. The one which did not, provided a cash subsidy which can be used for either parking, transit or carpooling; however it was located immediately adjacent to a rail transit line, and the firm does a great deal of work for developers in a county which has a strong growth management tradition, so it was motivated partly by wanting to be "beyond reproach" in its dealings with the County.

The other attendees considered free parking important to their current operations. One firm indicated that it had been one of the main reasons why the firm had left its former downtown location. The appeal of free parking was explained as a number of factors: convenience for employees and employers (no forms to fill out or administrative hassles), necessary because of the lack of transit service, safety (some attendees expressed a perception of a growing crime problem, even in this extremely low-crime area).

The participants perceived no need to change their present system of free parking. They reported no problems with recruiting, given the recent downturn in the DC economy. They did, however, report some problems in retaining employees who were transit dependent and commuted from the District of Columbia. The need to transfer several times during the course of that commute, and the length of the commute as a result, were cited by the participants to explain the turnover problem. However, the problem was apparently not considered serious enough by the firms to merit any changes in their transportation commute benefits. In addition, it was apparent from visiting the area that there was an enormous supply of parking. No one mentioned any problems with undersupply of parking in our discussion.

In addition, there was no perception among most participants of constraints in the funds available to support additional highway development. There was a discussion of their desire for a new exit ramp from the interstate, which would directly serve the park. One executive, who serves on the regional chamber of commerce's transportation committee, was aware of and concerned about the enormous cost of the proposed improvements to the transportation system on the regional level.

Transit not a realistic option. One major contributing reason for the lack of concern about changing transportation commute benefits appeared to be a universal perception that existing levels of transit service to the office park were too low to provide a realistic transportation alternative. This was particularly the case given the diversity of home locations of the employees.

The participants did indicate a perception that the level and quality of transit service were important determinants of whether it could be considered to be a realistic alternative. They specifically mentioned a previous service between one of the somewhat higher density suburban subdivisions and the office park where most of the participants were located. The service had begun to attract riders when the County Transit operation

switched vehicles and began to use buses which were not considered to be as desirable, and ridership began to decline. The service also was dispatched from the "extra board", meaning that it did not have a regular crew of drivers, and passengers frequently had to tell the drivers what the route was.

Effectiveness of tax policy in changing employer / employee behavior. While several attendees expressed their belief that financial considerations can affect employee commute behavior, they did not see changes to employee transportation commute benefits taxation policy as likely to produce the desired results. One participant argued strongly that tax policy changes were not broad enough and were unlikely to have the necessary systemic effect. He saw the only solution as raising the gasoline tax, which, by increasing the overall cost of driving, would encourage people to live closer to their jobs and to the goods and services which they use in their daily lives.

Lack of awareness of existing tax policy regarding transportation commute benefits. Despite the fact that most of the participants were active members of a Transportation Management Association, and thus presumably better versed in employee transportation issues than most employers, virtually all of the participants confessed that they had been ignorant of several facets of existing tax policy regarding employee transportation commute benefits. Most were unaware of the \$160 cap, above which parking subsidies are considered to be taxable income. In addition, many were unaware that employers could provide up to \$60 per month for transit or vanpool reimbursement, tax free to the employees. At least one employer expressed surprise at the doctrine of constructive receipt, since he currently provides a cash payment which can be applied to parking, transit or pooling, and did not realize that this was considered taxable by the IRS.

Assessment of Various Scenarios

Cost of health insurance overriding other benefits. The participants provided an important context to considerations of changing transportation commute benefits policy through tax policy. They painted a picture with the following key elements:

- Global competition and economic stagnation in the US have pushed employers to slash overhead costs. Even different units of the same employer face serious competition among themselves to trim administrative expenses.
- The skyrocketing cost of health care insurance for employees has soaked up most of the money available for employee benefits in that climate of reduced benefits. Employers have little or no interest in expanding the range of benefits provided, which is how they regard most of the scenarios discussed.

Repeal of both the prohibition against "in lieu of compensation" and "constructive receipt" have some appeal to employers. The two largest employers indicated that they did provide a Sect. 125 "cafeteria benefits" plan for their employees, and that, as such, repeal of in lieu of compensation prohibitions and constructive receipt would be useful in increasing their ability to meet the varying needs of their employees, and allow the

employees to meet some of their commuting expenses with before tax dollars. However, one very large national employer cautioned that their cafeteria plan was so strapped to meet health insurance costs that, "Basically, we offer a choice between holidays and health care insurance."

Leveling the playing field a good concept. Within the context provided above, employers felt that actions which "level the playing field" -- provide less disparity in the tax advantages of one type of benefit over another -- are better in theory. However, their fundamental belief that levels of transit service are inadequate to make mode switches realistic keep them from embracing those alternatives with much enthusiasm.

Concern about the hassles of administering employee transportation commute benefits was quite low. Although specifically queried on this issue, the employers did not express much concern about the administration of transportation commute benefits. However, the TMA staff member who attended explained later that the carpool matching and transit information currently provided is entirely through her office. The employers, with one exception, administer only free parking, and, since the parking is free for all, there is no administrative burden at all. The employer who does provide transportation commute benefits also minimizes administrative hassle by simply providing the same amount of money to all employees, no matter which mode they use.

Concern about lowering the parking cap was very low. Virtually no concern was voiced about lowering the parking cap, because most of the firms had parking bundled with their leases and perceived that it was virtually impossible to impute a value to it. Even if it were possible, they felt that the value of their parking was below the cap. Ironically, given the prevailing opinion about the importance of free parking, one of the firms which has employees located in the downtown area has them in an area with high parking charges but does not subsidize parking. One other firm does have employees in a building with parking costs above the cap; they were not aware of whether or not these employees were declaring this income.

FOCUS GROUP #2
November 1, 1995
Offices of Kirkpatrick and Lockhart
1800 M Street, NW
Washington, D.C.

Overview / Summary

The concerns and attitudes expressed by this group of downtown employers were substantially different from those of the suburban employers, in many respects. They saw free parking as relatively unimportant. Most of the attending employers provided either no or very limited free parking. However, despite the lack of free parking, very few of these employers provided any additional commute benefits. They expressed the same sense as the suburban employers that the present climate was not favorable for the addition of "new" employee commute benefits.

Ironically, all employers spoke of the importance of METRO in meeting their employee transportation needs, but, for the most part, it was felt that the advantages of METRO were so clear that no additional incentives needed to be provided.

Regarding the various scenarios, since most did not provide any substantial amounts of free parking, there was little concern about lowering parking caps, but the concern about adding new benefits outweighed favorable consideration of any scenario other than elimination of the in lieu of compensation prohibition and constructive receipt.

As with the first focus group, there was little awareness of the federal transportation commute benefits taxation issues involved, even among the human resource professionals.

Background

The focus group was oriented to downtown employers, and held on November 1 at the offices of Kirkpatrick and Lockhart, a law firm in downtown Washington, DC. Five employers participated in the session. The attendees represented a diverse array of employers, including the electric utility, one of the largest employers in the District, a public agency, a small association, a large law firm and the downtown office of a Fortune 500 subsidiary.

The public agency and the law firm provide no parking, paid or otherwise. The association and the utility provide a limited amount of free parking for senior corporate officers. The public agency participates in a program offered by the transit agency to enable employers to subsidize transit passes, and it provides carpool matching; no other employers subsidize transit or formally promote pooling.

Employer Attitudes Toward Transportation Commute Benefits

Perceived importance of free parking. There was little concern on the part of the participants about the need to provide free parking in order to attract quality employees. Having to pay for parking was simply taken for granted as an aspect of working downtown. As one participant explained, "When you work downtown you don't expect free parking." In fact, in many instances, not only is the parking among these employers not free, it is extremely limited. At the headquarters building for the utility, for example, there are over 1,700 employees and only 200 parking spaces.

Transit is an accepted option. Every participant viewed public transportation, especially the METRO rail system, as important to their employees being able to get to work. The downtown employer "marketplace" has clearly discovered how to benefit from the region's investment in transit -- locate near a METRO station. In fact, the large law firm, which had recently made a decision to move to new space, specifically mentioned that one of the major reasons for choosing their new building was that it was closer to METRO. The public utility representative said her biggest transportation need was, "Couldn't we get the METRO extended out to Dickerson (an outlying suburb where there is a utility facility)?"

Effectiveness of tax policy in changing employer / employee behavior. While each of the employers indicated that federal tax policy was important in determining what they offered in the way of transportation commute benefits, they were not taking advantage of what is currently available. When asked about this directly, the general response was that the present system was working for them, so they felt no need to change. Ironically, there was a perception expressed that the advantages of transit were so clear that they did not need to provide any additional incentives to their employees to take advantage of it.

In addition, one participant pointed out that, though they might be interested in availing themselves of tax-advantaged employee benefits such as transit subsidies, even with elimination of the in lieu of compensation prohibition and constructive receipt there was what he called "a transition problem." Since the economic climate is such that new benefits are unlikely to be simply added to employee compensation, the way they would most likely be done would be to substitute them for compensation. In order to avoid risking employee antagonism, such benefits would be phased in, instead of salary increases. However, employers face two dilemmas at that point. First, since not all employees would be taking transit, those who do not would likely resent a "payment" of a benefit they find useless, instead of a salary increase. In addition, the cost of a transit subsidy is potentially more than an employer would be willing to provide in the way of a salary increase.

Equity is a potential problem in existing transportation commute benefits policy. While most of the employers at the focus group did not subsidize parking, those who did, provided subsidies to senior corporate officers only, while lower level employees were left to fend for themselves. When asked about it, the attendees felt that it certainly could be seen as an equity issue, but they felt that the policy was so ingrained that it was generally not questioned.

Assessment of Various Scenarios

Economic climate not favorable for the addition of "new" benefits. While these employers did not single out the high cost of health care insurance as directly as the suburban employers had done, several did cite concern over reducing overhead expenses as one of the major reasons why their interest in increasing employee transportation benefits would be limited. As the legal representative put it, "As a partnership, everything goes to our bottom line. Anything that increases our costs reduces our income."

Lack of awareness of existing tax policy regarding transportation commute benefits. Most attendees admitted they had been unaware of the full picture of federal tax policy regarding employee commuting. Some, such as the utility representative, suggested that there was an entire section of her department charged with those types of issues, and that she was sure that they were aware of it. Others made a similar point, but admitted that, although they were involved in making at least some decisions related to transportation commute benefits, they had not fully appreciate the tax aspects. When queried about how they usually received information about these types of issues, two sources cited were the Society for Human Resource Management, a national organization headquartered in Alexandria and the Washington Personnel Association.

Eliminating the prohibition against in lieu of compensation and constructive receipt viewed favorably. There was general agreement that scenarios which eliminated the prohibition of "in lieu of compensation" and eliminated constructive receipt as it applies to transportation commuting benefits had the most merit. For some employers, they were supportive of this change because they felt it helped "level the playing field", and thus made the most sense as public policy. For the law firm, eliminating these two constraints were desirable to improve the overall flexibility of the system, recognizing that some proposed scenario changes were of most use to employers which are corporations, and don't necessarily benefit partnerships or sole proprietorships.

Concern about the hassles of administering employee transportation commute benefits was quite low. Because only one employer provided transit benefits, and the amount of parking subsidization was so low, there was no concern raised about the administrative difficulty of proposed changes in the tax system.

Concern about lowering the parking cap was very low. There was virtually no concern expressed about lowering the parking cap. This is quite understandable, since the only firms which provided any parking subsidy at all did so for their highest paid executives, so requiring these employees to pay some tax on the amount of their parking subsidy exceeding some limit was not viewed as onerous.

FOCUS GROUP CONCLUSIONS

- Lack of awareness of current transportation commute benefits indicates a clear need for increased outreach. This is particularly the case with regard to two elements. Employers need to be more aware of the cap on free parking as non-taxable income, and

of the fact that transit and vanpool benefits can be provided up to \$60 per month without being considered taxable income.

- Land use is a key element in dealing with transportation considerations. Opportunities for reducing single-occupant vehicle dependence are much greater when employment centers are located in downtown areas or clustered around higher density nodes, where transit is a more realistic option. Land use policies which allow acres of free parking to be provided surrounding suburban employment sites distort transportation choices.
- There are substantial differences between suburban and downtown employers regarding the importance of free parking and transit. We should understand these differences better before proceeding with policy proposals which treat all employers the same. In addition, since suburban and downtown employers have such differences in their attitudes toward support for alternatives to single occupant vehicle commuting, it would also be interesting to understand better whether these attitudes derive from their locations, or whether the attitudes come first, and then determine location decisions. It would especially be useful to understand if there is some way to influence the choice of location, like better communicating the true costs of suburban location decisions.
- Both downtown and suburban employers are, however, in agreement that repealing the in lieu of compensation prohibition and constructive receipt as it applies to transportation commuting benefits would increase the flexibility of the current system, and allow them to make better choices regarding transportation benefits policies for their employees. Such an approach would allow employers to choose the most appropriate options for their particular situation, regardless of their size, location, corporate structure or how parking is provided.
- This is a turbulent time for a large number of employers, and the twin issues of pressure to shave overhead costs and runaway increases in health insurance costs predispose employers to resist anything which they perceive as an expansion in benefits cost. In order to convince employers to promote higher-occupancy vehicle use, we will need to be able to show them how subsidizing SOV parking costs them more in the long run. Additional research needs to be done, for example, in how much those bundled parking spaces typically increase the cost of the lease, or what the true cost is of owning, lighting, securing, repaving, snowplowing etc. those "free" parking spaces.

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