Review of Transportation Allowance Programs

KIRAN BHATT

Innovative transportation allowance programs that are increasingly being considered and adopted by localities to increase ridesharing among commuters are reviewed. The focus is on programs that go beyond traditional and straightforward transit and parking subsidy programs for employees by incorporating innovative elements aimed at enhancing high-occupancy vehicle use or developing innovative administrative procedures. The review addresses transit and vanpool scrip allowances, carpool parking allowances, parking allowances varying with automobile occupancies, and general travel allowances that commuters can use as desired. The review suggests that while some, but not all, of these innovative programs generate additional costs, they hold the promise to bring about significant shifts from solo driving to ridesharing among commuters. The acceptance by employers and employees affected by many of these innovative programs has been slow but positive in particular situations. When the desire and need to reduce solo driving among employees are strong, many of these transportation allowance programs offer potential solutions.

Transportation allowance programs can be found at numerous employment sites around the country, although experience with programs other than transit fare allowances is limited and recent. The intent in this summary is not to be exhaustive, but rather to synthesize key information describing the variation in the programs and the administrative and implementation experience. For this purpose, examples have been selected that provide lessons that could provide guidance to ridesharing agencies for developing such programs across the country.

Travel allowance programs provide subsidies to employees in one form or another and include transit fare allowances or subsidies, vanpool fare allowances, parking allowances or free parking, and general travel allowances that can be used by the employees toward any mode they choose or for any non-transportation purposes (including salary boost substitutes for parking or transit subsidies).

Transit fare subsidies (typically by subsidized passes, but sometimes by direct employer payments to employees) have been around for some time. Vanpool fare or cost subsidies have become more common over the past decade.

Parking subsidies have been around for decades, although differential subsidy programs that increase subsidy amounts as the carpool occupancy increases are much more recent. General travel allowances are relatively more recent and the experience with them is limited.

The focus of this review is on transportation allowance programs that go beyond traditional and straightforward transit and parking subsidy programs—programs that incorporate certain innovative elements aimed at enhancing high-occupancy vehicle use or develop and implement innovative administrative procedures.

K. T. Analytics, Inc., 103 Baughman's Lane, Suite 176, Frederick, Md. 21701.

TRANSIT AND VANPOOL ALLOWANCES

These programs are relatively well understood and accepted around the country. The administrative procedures and costs are reasonably well recognized. Two of the relatively more comprehensive regional programs are described in the following paragraphs.

Transitcheck

Transitcheck is a regional transit fare allowance program in the New York City area (*1*). This program is run by a quasi-public transportation organization called Transit Center. It administers a transit voucher program in which employers can purchase regional transit vouchers for $15. The vouchers can be given to employees who can use them to purchase tokens, tickets, and passes from any of the region's public and private transit operators. This program is a simple way for employers to provide transit fare subsidies to employees. All the administrative and accounting requirements are handled by the Transit Center and its contractors.

Commuterbucks

This vanpool voucher program is run by VPSI, a national private vanpool operating company (*2*). Vouchers are available to employers in various denominations and can be redeemed towards VPSI-operated vanpool fares. Like Transitcheck vouchers, these vouchers provide a convenient means to the employers to provide vanpool subsidies to employees. VPSI handles the major administrative and accounting chores.

PARKING ALLOWANCES FOR CARPOOLS

Pacific Northwest Bell Company

This firm achieved a low solo-driving mode share of 19 percent among its employees (when solo shares at comparable sites nearby were around 55 percent) by providing free parking to carpools with three or more persons and reduced-cost parking to carpools with two persons and charging solo drivers full parking rates in excess of $50 per month in downtown Bellevue, Washington, a suburb of Seattle (*3,4*). No administrative or cost details are available.

State Farm

This firm's office with nearly 1,000 employees at South Coast Metro (a mixed-use activity center) in Orange County, California, has recently increased vehicle occupancy among its employees from 1.21 to 1.55 (implying a reduction in solo driving share from 70 to 40 percent) by an innovative carpool subsidy program in which an allowance is offered to carpoolers in lieu of parking charges (*4*).

DIFFERENTIAL ALLOWANCES FOR TRANSIT, RIDESHARING, AND PARKING

Atlantic Richfield Company (ARCO)

ARCO, Los Angeles, at its downtown location has an elaborate allowance program that includes reduced fare transit and commuter rail passes and parking allowances that increase with vehicle occupancy (*5,6*). The program covers over 2,000 employees. Transit allowance for various bus services and vanpool allowance is $15 per participating employee per month. Rail allowance is one-third of the monthly cost, not to exceed $25. Solo drivers have one-third of their parking costs (rates are approximately $120 per month) subsidized. Carpools with two persons have two-thirds of the cost subsidized whereas carpools with three persons or more have their parking costs fully covered. ARCO has a transportation office whose staff spends considerable time to coordinate and administer the program, determine eligibility, process requests for changes and monitor legitimate uses. Because the transit and vanpool allowance is limited to $15 per employee per month, it is treated as a tax-free reimbursement to the employee. Solo driver and carpool allowances are tax free to employees because they are parking subsidies.

ARCO Transportation Company

Located in Long Beach, this company charges solo drivers full parking rates. Two-person carpools receive free parking. Carpools with three or more persons get free parking plus each member gets additional allowance of $15 per month. The company pays fully for transit passes. Those who walk or bicycle receive an allowance of $15 per month (*7*).

Nuclear Regulatory Commission (NRC)

NRC (1,400 employees) in suburban Maryland in the Washington, D.C., area has high parking charges for solo drivers but provides some subsidies for carpool parking and for transit users. Solo share was reduced from 54 to 42 percent as a result of these allowances (*3,4*).

Twentieth-Century Insurance Company

This company in the Los Angeles area used to provide full parking subsidy of $45 per month to all its employees who drove to work. Several years ago, they implemented a comprehensive allowance program. The parking allowance for solo drivers was reduced and set at $30 per month. Carpool parking allowance was kept at $45 per month (full subsidy). Transit and vanpool allowances also were introduced. The allowance program increased the average vehicle occupancy from 1.10 to 1.46 (solo share dropped from 90 to 55 percent) (*3,7*).

San Diego Trust and Savings Bank (SDTSB)

SDTSB with 550 employees provides parking allowance of $55 per month to solo drivers (monthly rates are in the range of $80 to $120), $70 per month to two-person carpools and $100 to carpools with three persons or more. Transit-riding employees receive full reimbursement of transit fares plus 25 percent to cover the income tax bite. The solo shares for SDTSB employees is 55 percent, whereas it averages 80 percent at nearby sites. The bank management believes that the allowance program costs much less than subsidizing parking fully for all employees (Commuter Computer of San Diego. *Nomination for 1989 Governor's Award.* Internal memorandum, San Diego, Calif., Aug. 29, 1989).

Bank of America (BA)

BA in the Los Angeles area offers its employees a transit or carpool allowance of $15 per month. The company is planning to increase the allowance so that the after-tax subsidy would amount to at least $15 for the employee.

South Coast Air Quality Management District (SCAQMD)

SCAQMD in the Los Angeles region provides a carpool allowance of $55 per month to each carpooling employee. The carpool driver also gets free parking worth about $25 per month (*8*).

Bellevue City Hall, Washington

This agency started charging solo drivers full cost ($30 per month). Carpool vehicles received free parking (an allowance equal to $30 per month). Transit riders also received full subsidy. Solo driving declined from 75 to 58 percent (*3*).

GENERAL TRAVEL ALLOWANCES

These allowances can be used as desired with few restrictions.

City of West Hollywood, California

The city, in 1986, incorporated a travel allowance program for its employees. Employees who use modes other than solo driving and relinquish their parking space can receive in-lieu travel allowance of $45 per month (the cost of leasing a parking space). The parking use declined 15 percent as a result of the program (*7*).

Commuter Computer

In order to encourage alternative mode use among its 100 employees, Commuter Transportation Services (CTS, commonly known as Commuter Computer) provides monthly travel allowances to cover employee transportation costs. A monthly allowance of $55 is added to employees' gross pay on the first paycheck each month. It is taxed as ordinary income, except in the case of employees parking at employer-provided paid parking. For these, the allowance is free of taxes. Each employee can use the allowance as they choose (except that those who want to use it as a tax-free allowance must use it to park at the company-provided spaces—if they are given a place). Each employee fills out a form by the twentieth of each month designating the use of the allowance for the next month for accounting and payroll purposes. Vanpoolers can use all for the vanpool or pocket a part. For transit users, the company will buy the pass and reduce the amount to be paid. The rest is pocketed by the employee. For the designated parking facility, there is a waiting list, but for those who are on it, the company will buy the monthly cards and treats the amount as nontaxable. Employees choosing to park elsewhere receive allowance as taxable income. Employees walking or bicycling pocket the allowance. When the allowance program was first introduced, the solo share fell from 48 to 8 percent (*9,10*).

CH2M Hill

When this engineering company with about 400 employees moved to downtown Bellevue, Washington, it introduced a general travel allowance program for its employees. All employees started receiving an unrestricted allowance of $40 per month by check to be used as they chose. The company leased parking spaces for $25 per month in the building. Previously, parking had been free. Now, the solo drivers were charged $40 per month to park. Carpools could park for free. Transit users get the $40 allowance plus four 15-transit passes every month. The program reduced solo share from 96 to 67 percent. An employee committee monitors the program, which is simple and low cost to operate (*3,4*).

American Hospital Supply Corporation

The firm in Evanston, Illinois, moved its headquarters to a new building in Evanston. Instead of free parking, it established a parking fee of $30 per month. Employee paychecks were increased by $30 per month. There were no restrictions to the use of the allowance (the company also provided transit passes to employees at 26.5% discount) (*5*).

Latham and Watkins

According to Melinda Sue Noran, a transportation coordinator at the firm (213–485–1234), all employees (300 to 400) at this law firm in downtown Los Angeles receive a general travel allowance of $102 per month (scheduled to go up to $122 this year). The amount is simply added to the salary. There are no other allowances, subsidies, or incentives provided. The average parking rates nearby are $135 per month. It is a simple and virtually no-cost program to administer. The impact on mode shares is not available.

Linowes and Blocher

This legal firm in Silver Spring, Maryland, with 100 employees last year eliminated all free parking and other travel incentives and introduced a general travel allowance. Each employee now receives $75 per month in travel allowance, which can be used as desired. This program was introduced in response to the employer travel demand management requirement introduced by the Silver Spring Transportation Demand Management District (*11*).

HOW DO THE TRANSPORTATION ALLOWANCE PROGRAMS WORK?

Rationales For Setting Up The Programs

These programs have been pursued under a variety of rationales. In some cases, such as Pacific Northwest Bell and CH2M Hill, employers have implemented them at least partly as a measure to control parking costs. In others, such programs have been viewed as making feasible additional economic development because of the freed-up parking or road space. Although some employers who have instituted the programs have pointed out intangible benefits of these programs such as improved employee morale, reduced tardiness, and help in attracting and retaining employees by enhancing employer image, these seldom appear to have been enough to pursue these programs by themselves.

In some cases, such as at Commuter Computer, the programs have resulted from pressures from employees interested in using transit or ridesharing and recognizing the inequity of the traditional employer role that was limited to parking subsidies. In numerous locations, the allowance programs have been realized as a direct result of pressures of meeting the requirements of recently enacted TSM or other growth management ordinances or regulations such as SCAQMD Reg. XV (e.g., several programs in the Los Angeles area). Lastly, in a few cases, more proactive companies have agreed to become "good citizens" by participating in socially and environmentally sound transportation policies (e.g., ARCO and Linowes and Blocher).

Eligibility Requirements

There is considerable variation in how the eligibility requirements are set and enforced. Requirements are generally set to meet certain trip reduction goals—whether explicit or implicit. Local situations regarding parking, road congestion and the environment, and the nature and intensity of pressures from employees and their unions also have sometimes played a role.

The requirements pertain to which modes to include in the allowance program; how to treat equity (the amount of subsidy and tax consequences) across employees using different modes; and how to treat existing versus new employees. Some companies like Latham and Watkins law firm in the Los Angeles area have pursued general travel allowance programs largely to overcome the difficulties of setting most equitable requirements. Such programs are inherently more equitable and fair according to many observers.

Monitoring Procedures and Administration

Monitoring requirements surrounding these programs include ensuring that designated carpools are legitimate and remain so, preventing misuse and transfer of subsidized transit passes, and ensuring that the allowances are accounted properly from the standpoint of taxes. Again, general travel allowances that carry few restrictions with them are the easiest to monitor.

Typically, many organizations play an administrative role in setting up and running such programs. Employers are ultimately responsible for setting up the programs, developing eligibility requirements for their employees and checking proper use periodically, monitoring, and proper accounting. Often, regional public or quasi-public agencies also play a role in administration—particularly in planning and implementation. However, their continued participation is unusual except in case of complex programs such as Transitcheck, which coordinates numerous different passes and services.

In general, the private sector left to itself probably might have a greater incentive to pursue a program, such as a general travel allowance program, with the simplest administrative and monitoring requirements. In fact, among existing programs, where employers have taken full initiative to develop programs, they have largely set up general travel allowance programs.

Tax Consequences

A principal concern with travel allowances pertains to their tax consequences. From the standpoint of employers, the tax consequences are uncomplicated. Costs of travel allowance programs including the amounts of allowances and administrative expenses are fully deductible as business expenses for the employers.

The tax consequences for employees are much more complex and significant. Parking allowances or subsidies are treated as nontaxable income to the employees by the Internal Revenue Service (IRS), regardless of the amount, so long as they are specifically provided by the employer to cover parking at or near the employment site and identified as such. The specificity is established by the way in which the employer provides the subsidy. So long as the employer provides or arranges for free (or reduced-price) spaces, or purchases spaces directly from an operator and gives out cards or passes to the employees, the value of these parking privileges (subsidies) is treated as tax free from the employees' incomes.

In contrast, transit or ridesharing allowances or subsidies are treated differently by the IRS. Employer-provided transit or ridesharing subsidies are tax free to employees only if the amount is $15 or less per month per employee. Further, if the subsidy is greater than $15 per month, the entire amount (not the portion above $15) is considered by the IRS as taxable income to the employee.

In consequence, a parking allowance or subsidy of more than $15 per month is much more attractive from an employee's perspective compared with an equal transit or ridesharing allowance.

An unrestricted general travel allowance that an employee can use for any purpose (for transit, ridesharing, parking, or other use) is considered fully taxable income to the employee—regardless of the amount. Thus, such allowances might seem less attractive to employees compared to equal amounts of more specific allowances. However, the plus side is the complete freedom to use it as desired.

There are examples of employers replacing existing parking subsidies with transit or ridesharing allowances and paying a premium to the employees to account for the increased tax burden (see, for example, the Bank of America and San Diego Trust and Savings Bank examples cited earlier). There also are some incidences of employers paying the travel allowance to employees against fictitious but formal requests for miscellaneous expense reimbursement by employees—thus making the allowance tax free. This practice appears to be in violation of IRS regulations.

Many employers feel that the taxability and unattractiveness of general travel allowances is an issue only for existing employees who already enjoy tax-free parking allowances. For new employees this might not be a major issue and it might be more feasible to bring such a program on gradually as new employees are hired.

LESSONS FROM THE NATIONAL EXPERIENCE

Modal Shares

Evidence suggests transit and ridesharing allowances have a modest impact on modal shares at employment sites. When packaged with other TSM measures like information dissemination, preferential parking for carpools, on-site transportation coordinator, etc., such programs have reduced solo driver shares up to 5 or 10 percent (*3*).

Much greater reductions in solo driving shares (up to 30 percent) have been achieved at employment sites where transit and ridesharing incentives are packaged with parking charges for solo drivers or subsidy reductions for employee parking (*3*). At some of these locations, the reductions in parking subsidies or implementation of parking charges for solo drivers have been made feasible by making general travel allowances available to the employees.

In other words, if an employer wishes to reduce solo driving significantly (whether to save on parking spaces and costs, or to comply with local regulatory requirements), parking subsidy reductions or additional parking charges for solo drivers would have to be made a part of any employer-based trip reduction program. Then, transit and ridesharing allowances and carpool allowances or parking discounts could be considered to achieve the trip reduction goals. In some of these situations, general travel allowances in lieu of parking subsidies might become necessary to enroll solo drivers' support for such programs.

Cost Implications

Significant variability has been observed in the costs of transportation allowance programs depending on the nature and complexity of the components and the amount of allowance offered.

Although general travel allowance programs have required considerable planning and promotional efforts during the preimplementation phase, the ongoing administrative costs have been relatively small. For instance, at Latham and Watkins in Los Angeles, Linowes and Blocher in Maryland, and CH2M Hill in Bellevue, Washington, the on-going administrative costs of the general travel allowance programs are virtually zero. Once well established, these are simple programs conceptually and require virtually no eligibility checks or monitoring, because there are no restrictions on use of the money received. The accounting costs are also negligible once the program is set because the allowance is given out to all employees as a bonus. The only significant cost to the employer is the cost of the allowance itself, although in most cases this has been partially offset by the new parking revenues from solo drivers or from the reduction in parking subsidies to solo drivers. Additionally, the reductions in parking needs have sometimes generated savings in maintenance costs and possibly in some future capital requirements.

More targeted and mode specific allowance programs such as transit and vanpool allowances require some on-going administrative effort to monitor eligibility requirements and accounting as the employee base changes. For example, staff at Commuter Computer in Los Angeles, who have considerable experience with assisting local employers set up allowance programs, suggest that once the program is well established, the on-going administrative costs might run in the range of \$5,000 to \$10,000 per year. The allowance itself would be extra.

More complex programs such as those allowing flexible use of allowance for services provided by many different operators (e.g., Transitcheck in New York) would cost more because of greater administrative, monitoring, and accounting needs and printing of multiple coupons. Other complex programs include different subsidies for different modes (e.g., ARCO in Los Angeles) requiring more effort for monitoring and periodic eligibility checks. Again Commuter Computer, which has considerable experience in this area, suggests on-going annual program costs in the range of \$10,000 to \$20,000 for staff support. In addition, there would be the cost of the allowance itself. The cost of a mode-specific allowance probably would be lower than for a general travel allowance if only a fraction of employees are eligible to receive them.

Reactions of Managers and Employees

The acceptance by employers of the more innovative allowance programs has been slow. Typically, considerable time has been taken up assessing the potential benefits from such programs. In many cases, what finally brought the management around to implement allowance programs was not the benefit cost assessment, but the requirements for trip reductions imposed by local ordinances.

On the benefit side, although the employers have exhibited some appreciation for potential intangible benefits of allowance programs such as increased employee morale, less tardiness, recruitment and retention value, and employer image, the real concern has been with more tangible benefits from these programs such as savings in parking costs and possibilities of expansion at freed-up spaces. Often, the perceived cost of the program has been much greater than actual experience and the value of benefits has been underestimated. In general, the employers also are reluctant to get tied down to another new employee benefit. Employers typically do not like to give away, or even talk about, new benefits outside of union negotiations.

The employers also do not like to take away a benefit that has been given to employees (nor do the employees like to give up). Thus, some employers have excluded existing (or long-tenured) employees from subsidy reductions that typically accompany allowance programs.

Response of employees to transportation allowance programs has been mixed depending on the eligibility requirements and the nature of the program. Transit users and potential transit users have supported transit allowances. Car- and vanpoolers have supported ridesharing and parking allowances. In fact, in many instances, these commuters were instrumental in pushing the employers to adopt these programs. Generally, the existing situation in which solo drivers were receiving the subsidies was viewed as unfair.

General travel allowances are perceived as a mixed bag by employees. Where the allowance has dollar-for-dollar replaced reduction or elimination of parking subsidy, the response has been generally positive, although some solo drivers have exhibited resentment when carpoolers have received the allowance as well as reduced-rate or free parking. For cases in which general travel allowance has only partially replaced the reductions in parking subsidies, the solo driver resistance has been much stronger. This has been the more typical situation with travel allowance programs, because these programs have, at best, set the allowances equal to the solo parking rates, but they have failed to cover the value of subsidized parking lost by the solo drivers who enjoyed a tax-free income earlier. All in all, the implementation process has required delicate negotiations and careful handling of employees by the employers.

IMPLICATIONS FOR OTHER LOCALITIES

Complex travel allowance programs with different subsidies for different modes and specific eligibility requirements will be more expensive to design, implement, and monitor. Both participating employers and the regional ridesharing agencies would incur greater on-going effort. For instance, a ridesharing allowance that targets specific amounts of subsidies directly at different modes (bus, carpool, and vanpool) would be more difficult and expensive to administer than a simple transit fare allowance or a vanpool subsidy. In particular, a program that allows the use of subsidy for many local services in a flexible manner (e.g., a regional voucher valid for bus, rail, light rail, or vanpools—much like the Transitcheck in New York), would probably be much more expensive to monitor and administer than a transit pass program, a program like Commuterbucks, or a general travel allowance such as at Latham and Watkins.

In principle, a general travel allowance program would be the simplest to administer and monitor, although it would probably require more preimplementation planning. Such programs do not require targeting and eligibility checks or significant administrative burdens because generally all employees at a work site are given a flat monthly or yearly allowance (or simply a commensurate salary increase) that they can use as they please.

General travel allowance probably would be linked to implementation of parking charges (at least for solo drivers) to enhance the trip reductions as well as to generate revenues to partially offset the allowance expenses. Because of these features, such programs are likely to encounter opposition from some of the employees, at least at start. The employer also might be apprehensive if the parking rates and supply in the vicinity will threaten the possibility of raising parking revenues from solo drivers to partly offset the allowance costs. Careful assessment of the site would be needed to ensure the financial integrity of the proposed program. In other words, such a program would make financial sense for the employer only if the parking market allowed rates comparable in magnitude to the allowance to be charged at least some of the employees. All in all, such a general travel allowance program might be feasible at employment sites where parking is at a premium (in availability or rates); the existing parking subsidies are high; and where there is considerable pressures to reduce solo driving significantly. Clearly, in order to ensure acceptance and success, the employer also would have to encourage transit and ridesharing by more traditional measures.

Where the goals of shifting employees to ridesharing are more modest and where parking is neither in short supply nor expensive, other transportation allowances (e.g., transit or ridesharing allowances) might make more sense, although they would probably require greater on-going administrative effort than a general travel allowance program.

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