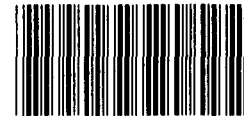
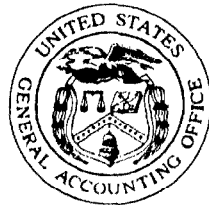


September 1992

MASS TRANSIT

Effects of Tax Changes on Commuter Behavior



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RELEASE

**Resources, Community, and
Economic Development Division**

B-249441

September 8, 1992

The Honorable Thomas M. Foglietta
The Honorable Charles B. Rangel
The Honorable Robert T. Matsui
The Honorable Jim McDermott
House of Representatives

Urban traffic congestion imposes large costs on society. The time spent sitting in traffic results in lower productivity, excess fuel consumption, and increased pollution. Because of congressional concern that urban traffic congestion may be exacerbated by aspects of the current tax law, the Congress is considering bills to change the tax treatment of parking and mass transit benefits provided by employers.

In response to your March 13, 1991, request and as subsequently agreed with your offices, we examined the role tax policy plays in commuting decisions. Specifically, our review focused on (1) contrasting the tax treatment of mass transit and parking benefits, (2) describing how the current tax treatment influences commuter behavior, (3) assessing whether proposed tax law modifications might encourage mass transit use, and (4) identifying alternative efforts to discourage drive-alone commuting and encourage mass transit use. To address these issues, we reviewed studies that examine factors affecting commuter behavior and interviewed employers and transit officials in eight cities. The findings from these studies and interviews may not be representative because of sampling limitations and other methodological concerns discussed in appendix I. In addition, you asked us to review whether the current tax treatment of parking and transit benefits favors higher-income workers. This information is discussed in appendix II.

Results in Brief

On the whole, federal tax law currently favors employer-provided parking over employer-provided transit benefits, and thus encourages driving rather than taking mass transit to work. Parking benefits are tax exempt for the employee, while transit benefits are taxable income to the employee if the monthly value exceeds \$21. The difference in the tax treatment of parking and transit benefits reduces the cost of commuting by auto relative to taking mass transit and thereby encourages people to drive to work.

Bills currently before the Congress would increase the allowable amount of tax-exempt transit benefits to \$60 monthly and begin taxing employer-provided parking. Other proposals would increase the tax-free limit for employer-provided transit benefits up to \$100 per month. Employers that provide the increased transit benefits would effectively lower the cost of riding transit for those who receive the benefits. Such proposals could increase transit ridership because, in some cases, the benefit, if offered, would cover the full transit fare. However, the size of the potential increase in transit ridership is unknown mainly because it is unclear how many additional employers would offer the benefit or how many employees would take advantage of it.

Employers consider many factors in deciding which transportation benefits to offer their employees. In addition to considering cost, employers might consider the effects on productivity, the needs and preferences of employees, and the need to reduce pollution and congestion. Employees also weigh many factors in addition to travel cost in choosing how they will get to work, including the convenience, reliability, security, and comfort of transportation alternatives. Both employers and employees will evaluate changes in the tax treatment of transportation benefits in the light of these other factors.

Some proposed changes in the tax law would treat the value of employer-provided parking that exceeds \$145 or \$160 per month as a taxable fringe benefit. While these tax policy changes could effectively raise the cost of driving for commuters in some cities and might discourage them from driving alone, relatively few drivers would be affected because most parking benefits are worth less than \$145 per month.

Other efforts to discourage drive-alone commuting and encourage mass transit use are under way at the federal, state, and local levels. Employers in some areas will be required by the federal Clean Air Act Amendments of 1990 to reduce drive-alone commuting by employees. Some areas have sought to discourage drive-alone commuting and encourage greater reliance on mass transit by restricting the number of parking spaces available. Other more general means that raise the cost of driving and, thus, discourage driving include congestion pricing and gasoline taxes.

Background

Most Americans commute to work by car. About 87 percent of commuters in the United States commute by private auto, compared with only 5

percent taking mass transit.¹ Moreover, a recent Department of Transportation (DOT) survey shows that 94 percent of commuters who drive to work pay nothing for parking.² Outside of downtown locations, plenty of parking is available, and the market value of this parking is usually low. In places where parking is more scarce, many employers offer free or subsidized parking to their employees.

In addition, some firms also subsidize their employees' use of mass transit. All of the 20 largest metropolitan areas in the United States have transit pass programs that allow employers to purchase tokens, passes, vouchers, or other fare media to distribute or sell to their employees.³ In some programs, known as "employer-outlet" programs, employers provide a convenient, on-site location where employees can purchase fare media at the full or a subsidized price. Not all employers participating in these programs subsidize mass transit. In other programs, known as "transit voucher" programs, employers purchase vouchers that employees exchange for fare media. Employers use the vouchers to subsidize employees' transit trips.

Factors Important to Commuting Decisions

Commuters weigh many factors in deciding how they will get to work. The relative cost, especially out-of-pocket cost, and the relative time it takes to get from home to work by auto versus mass transit are very important in deciding how to commute, but other less quantifiable factors—such as reliability, convenience, security, and perceived comfort—also are important considerations.⁴ A survey of commuters with access to public transportation in 17 metropolitan areas found that convenience and travel time were perceived advantages of commuting by car.⁵ Another survey of households in southern California found that the same two factors were considered most frequently when commuters chose how to travel to work.⁶

¹About 7 percent of commuters walk to work or work at home, and 1 percent travel by other means, according to the 1990 census by the U.S. Bureau of the Census.

²1990 Nationwide Personal Transportation Survey, Department of Transportation, 1991.

³Appendix III describes the transit pass programs that we reviewed.

⁴Out-of-pocket costs include items such as fuel, tolls, fares, and parking fees. Travel time includes the time spent in the vehicle, the waiting time, the time it takes to get to and from the transit stop, and the time it takes to get to and from the parking lot to the place of work.

⁵Factors Related to Transit Use, Center for Urban Transportation Research, University of South Florida, Oct. 1989.

⁶C. Collier and T. Christiansen, 1991 State of the Commute, Commuter Transportation Services, Inc., 1991.

Many commuters drive to work rather than take mass transit because driving generally provides more flexible transportation and is often quicker as well. A survey of households in the Seattle area found that nonriders most frequently said they did not ride mass transit because travel was faster by car.⁷ Others prefer to drive because of the security and privacy it affords. Still others drive because they lack access to public transit. Finally, some drive because it is sometimes cheaper, especially if costs are shared through carpooling.

Furthermore, employers provide parking for their employees for various reasons. When employees are expected to work irregular hours or at night, employers may provide parking to enhance productivity and/or to ensure safety. Other employers provide parking because the spaces are already included in the building lease and it would be difficult to trade them in or lease them to others. Still other employers offer parking because mass transit is not available to many employees.

Federal Tax Policy Favors Drive-Along Commuting

Federal tax policy favors employer-provided parking over employer-provided transit benefits and indirectly encourages driving alone. Federal tax regulations classify transit benefits of up to \$21 per month as a *de minimis* fringe benefit—a benefit of such small value that accounting for it is unreasonable or administratively impractical. An employer may provide \$21 per month in transit benefits to an employee tax free.⁸ However, if the employer provides more than \$21 in monthly benefits, the entire transit benefit becomes part of the employee's taxable income. On the other hand, the tax code classifies employer-provided parking as a working condition fringe benefit, which is not considered taxable income to the employee regardless of its value.⁹ Thus, employees do not pay income or other taxes on the parking benefit, and employers do not pay payroll taxes on the value of the parking provided.

For equal benefits above the \$21 *de minimis* level, employers are better off providing parking rather than transit benefits because taxes must be paid

⁷1990 Rider/Nonrider Survey, prepared by Marketing Advertising Communications Specialists, Inc., for Seattle Metro, Jan. 1991.

⁸The Internal Revenue Service increased the *de minimis* level from \$15 to \$21, effective July 1, 1991.

⁹A working condition fringe benefit is any property or service that an employer provides to an employee that, if the employee paid for it, would be allowed as a deduction. Although an employee would not generally be allowed to deduct parking costs, the tax code considers parking provided at or near the premises of the employer a working condition fringe benefit.

on the value of the transit benefits.¹⁰ For example, if a firm provides an employee with a parking space that has a market value of \$100 per month, the cost to the employer may be close to \$100. If, instead, the employer provided \$100 in transit benefits, the employee would have to pay income and other taxes on the \$100 benefit, and the employer would have to pay payroll taxes of 7.65 percent on the amount provided. Thus, the transit benefit would cost the employer more than \$100, and the employee would get less than \$100 after taxes.

Tax Policies' Effects on Commuter Behavior

The current tax status of parking and transit benefits lowers the cost to the employer of providing these benefits, and the cost to the employee of commuting by car or transit is reduced when employers provide these benefits. In the case of parking benefits, however, the cost of commuting by private auto can be reduced substantially more than the cost of transit because there is no limit to the amount of parking benefits that can be provided tax free. By contrast, only \$21 per month in transit benefits can be provided tax free.

Although the current tax treatment effectively encourages auto commuting, more people drive alone to work because of other factors—such as flexibility and travel time—that affect the decision to drive alone or join a carpool. A study of suburban workers in Orange County, California, found that the flexibility and freedom allowed by driving alone was the reason most often cited for not carpooling.¹¹ A study of households in a Honolulu suburb found that over one-third of the auto commuters objected to carpooling as being too time-consuming and unreliable.¹² Finally, a study of employees of companies in southwestern Connecticut found that nearly half of all solo drivers cited flexibility as the main reason for driving alone.¹³

Because we identified no studies that isolated the effect of the tax treatment of transportation benefits on commuter behavior, we looked at studies that examined how employer-subsidized parking affects the

¹⁰This method presumes that employers are choosing between only two types of transportation benefits and that they are not considering leasing the parking spaces to third parties.

¹¹L. Glazer and D. Curry, "Ridesharing Market Analysis Survey of Commuter Attitudes and Behavior at a Major Suburban Employment Center," Transportation Research Record, no. 1130, 1987.

¹²K. Flannelly, M. McLeod Jr., L. Flannelly, and R. Behnke, "Direct Comparison of Commuters' Interests in Using Different Modes of Transportation," Transportation Research Record, no. 1321, 1991.

¹³C. Angell and J. Ercolano, "Southwestern Connecticut Commuter Transportation Study: An Analysis of Commuter Attitudes and Practices on Connecticut's Gold Coast," Transportation Research Record, no. 1321, 1991.

decision to drive alone. A study of downtown Los Angeles commuters found that 24 percent fewer employees drive to work alone when they have to pay for parking than when employers provide free parking.¹⁴ A survey of downtown Seattle employees found a similar result.¹⁵ Finally, a study of Washington, D.C., area work sites found that the percentage of commuters driving alone was 11 to 47 percent less when employers did not pay for parking than when they did pay.¹⁶

Significance of Tax Changes on Commuting Behavior Is Uncertain

Several bills introduced in the Congress in early 1991 proposed increasing the tax-free limit on transit benefits from \$21 per month to as much as \$100 per month (see app. IV). Other legislation calls for taxing the value of employer-provided parking that exceeds \$145 or \$160 per month. According to an estimate by the Joint Committee on Taxation, increasing the tax-exempt limit for transit benefits to \$60 per month would result in a loss in federal tax revenues in excess of \$300 million over the first 5 years. The effect on revenue and transit ridership of increasing the tax-free limit on transit benefits will depend on the level of employer participation and the extent to which employees who receive the benefit respond to the lower commuting cost. Since employer and employee response is uncertain at this time, the effect of these changes will need to be monitored if the legislation is passed.

Employer Response to Transit Benefit Tax Changes Is Uncertain

While employer participation in transit pass programs has grown in the last few years, it remains low in the cities we reviewed (see table 1 and app. III for further details). In New York City, which has the oldest and largest transit voucher program, about 40,000 commuters receive transit vouchers from 1,825 participating employers—only 6.2 percent of employers with 10 or more employees in Manhattan's central business district.¹⁷

¹⁴R. Willson and D. Shoup, The Effects of Employer-Paid Parking in Downtown Los Angeles: A Study of Office Workers and Their Employers, prepared for Southern California Association of Governments, May 1990.

¹⁵L. Elder and W. Albert, The Effects of Parking on Mode Choice in Downtown Seattle and Bellevue, draft, Market Development, Seattle Metro, Dec. 1991.

¹⁶The range in percentage of commuters driving alone was affected by the availability of parking and access to transit. G. Miller, The Impacts of Parking Prices on Commuter Travel, The Metropolitan Washington Council of Governments, Dec. 1991.

¹⁷The actual participation rate is less than 6.2 percent since employers with fewer than 10 employees participate in the voucher program.

Table 1: Employer Participation In Transit Voucher Programs In Selected Cities

City	Number of employers in area ^a	Number of employers in program ^b	Participation rate ^c (percent)
Chicago	18,643	271	1.45
Denver	7,258	55	0.76
Los Angeles	16,679	40	0.24
New York	28,990	1,825	6.21
Philadelphia	8,004	60	0.75

^aIncluded only employers with 10 or more employees.

^bAs of spring 1992.

^cThe total number of employers in the program divided by the number of employers with 10 or more employees in the area. Because we have not included employers with fewer than 10 employees, the actual participation rate is lower.

Source: Dialog Information Services, Inc., 1991; discussions with transit program officials.

Because the studies we reviewed did not provide information on why employers participate in transit pass programs, we obtained information from 42 employers in 8 cities. Thirty of the employers participated in the transit pass programs; 12 employers did not participate.¹⁸

The employers offered a number of reasons for participating in the transit pass programs. The reasons most often cited were (1) improving the environment, (2) encouraging mass transit use or reducing single-occupant vehicles, and (3) providing a benefit that is popular with employees. Many employers who did not participate in transit pass programs cited cost as the main reason. One employer also believed it was a problem to provide a benefit that only some employees could use.

The employers currently offering transit benefits had mixed reactions about how they might respond to an increase in the tax-exempt limit. Many employers were unsure if they would increase the amount of benefit. Others said they were unlikely to increase the benefit. Among those who would not increase the benefit, many cited cost considerations as the reason. Some employers told us they would consider increasing the benefit. Even among those employers, not all were certain they would increase the benefit to the full amount. Two employers we spoke with were already providing a benefit greater than \$21 per month in order to fully subsidize their employees' transit commutes.

¹⁸These results may not be representative because of limitations in drawing the sample. Additional information on our scope and methodology is contained in app. I.

In some cities we visited, a \$60-per-month transit benefit would cover or come close to covering transit fares for many commuters. For example, monthly transit passes cost \$40.00 in Sacramento, \$31.50-\$47.00 in Seattle, and \$60.00 in Chicago. However, some forms of commuting may cost more than \$60.00 per month. For example, in Chicago a monthly suburban railroad pass costs \$47.25 to \$172.80.

**Major Impact of Increased
Transit Subsidies on
Transit Ridership Unlikely**

Increasing the tax exemption for mass transit benefits, by itself, is unlikely to have a major impact on either transit ridership or drive-alone commuting. First, it is not clear how many employers would find it in their interest to offer the larger benefits. Few employers currently offer transit benefits (see app. III). Several nonparticipating firms told us that budget constraints precluded them from offering the benefit. Increased costs could discourage some employers from offering the \$60- to \$100-per-month benefit.

Second, not all employees will take advantage of the benefits offered. Employer-provided transit benefits are, in effect, a fare reduction for those offered the benefits. For these employees, the proposed increases in their subsidy would be equivalent to fairly large percentage reductions in fares—in some cases as much as 100 percent. The studies we reviewed indicated that for every percentage point change in fare, ridership would likely change between 0.1 and 0.4 percent (see app. V).¹⁹ These numbers imply that a large increase in transit ridership would occur at employment sites offering the full benefit. For example, a 100-percent reduction in fares could imply a 10- to 40-percent increase in transit ridership by those offered the benefit.²⁰ The actual increase in transit ridership for the entire system, however, would be insignificant if employer participation remains low.

Over time, however, if large transit subsidies become widely available, a larger change in transit ridership could occur. Over the long term, employees might make other changes, such as owning fewer cars and residing in locations closer to mass transit services. In addition, employers could decide to locate places of employment closer to transit services to provide better access to current and potential employees. Also, local

¹⁹Transportation planners often use 0.3 percent as the approximate measure of responsiveness to a 1-percent fare change.

²⁰The results from some of these studies are based on smaller fare changes (increases or decreases), and those results may not apply to fare reductions as large as 100 percent.

transit authorities could increase the frequency of transit services in response to increases in demand for transit.

In the event that ridership increases because of increases in employer-provided transit benefits, the increased ridership will likely come from two classes of commuters: (1) current transit users who choose to rely more on transit or (2) those who normally commute by private auto. Many employers we spoke to believed that transit benefits had resulted in a reduction in auto commutes. Other employers believed that transit benefits had not caused employees to switch to mass transit because, in most cases, almost all employees already rode transit. Transportation analysts with whom we spoke told us that as long as many employers continue to provide free or heavily subsidized parking for their employees, many commuters will be unwilling to give up driving.²¹

Changes to the Tax Treatment of Parking Could Reduce Some Drive-Alone Commuting

The proposed changes in the tax treatment of employer-provided transportation benefits include proposals to tax part of the value of parking benefits. Withholding taxes on the value of parking from the employee's salary, like withholding income taxes, would be equivalent to charging the employee for part of the parking cost. Studies have shown that when employers require employees to pay for all or part of the cost of parking, the number of drive-alone commuters drops significantly. A study of government employees in Ottawa found that drive-alone commuting decreased by over 20 percent after parking charges equal to 70 percent of market rates were imposed.²² A study of commuters at one southern California firm found that solo driving fell from 42 percent of all commutes to 9 percent when market prices were charged for parking.²³ According to several transportation analysts, treating employer-provided parking as a taxable benefit would remove the tax incentive for employers to provide subsidized parking.

However, the current proposals to tax parking benefits would exempt amounts of up to \$145 or \$160 per month and would affect only the most costly downtown areas of a few cities (see table 2). Most of the cities we visited have at least some, if not all, parking valued at less than \$145 per

²¹We currently are reviewing how the commuting behavior of federal employees has changed in response to the transit benefit and will be reporting separately on this issue.

²²The Effects of the Imposition of Parking Charges on Urban Travel in Ottawa: Summary Report, TP291, Transport Canada, Feb. 1978.

²³M. Surber, D. Shoup, and M. Wachs, "Effects of Ending Employer-Paid Parking for Solo Drivers," Transportation Research Record, no. 957, 1984.

month. The effect of these proposals on transit use and driving would therefore be less than if the exempt amount were lowered or the entire value of parking benefits were taxed. Moreover, even if the entire amount of the benefit were subject to income taxes, the subsidy would not be eliminated because the employee would effectively be paying only part of the parking cost. While taxing the entire value of parking benefits would come closer to placing driving on the same footing as other forms of commuting for tax purposes, it could be controversial because taxing parking benefits could result in an effective wage reduction unless employers increased employee compensation to cover the tax.

Table 2: Selected Monthly Parking Costs in Eight Cities

City	Cost of parking
Chicago	\$40 - \$350
Denver	55 - 110 ^a
Los Angeles	140 ^b
New York	27 - 386
Philadelphia	113 - 244 ^a
Sacramento	22 - 92
Seattle	46 - 120
Washington, D.C.	97 - 165 ^a

Note: The data are from 1989 or later except those for New York, which are from 1985. These are the most recent data available for these cities.

^aCosts based on daily rates. Monthly contract rates could be lower.

^bAverage parking rate.

Sources: Interviews with local transit and city officials and parking surveys.

Taxing parking could also affect government revenues. Several estimates have been made of the cost to the federal government of the current tax-free status of employer-provided parking; they range from \$1.5 billion to \$4.7 billion annually in foregone tax revenues.²⁴ However, the extent to which taxing parking benefits would recover these foregone tax revenues would depend on whether lower-valued benefits (those less than \$145 or \$160 per month) are exempt and the extent to which people switch from driving to other forms of commuting, which would reduce parking-related taxes as well as, possibly, gasoline tax revenues.

²⁴S. Schlickman, P. Peyser, and T. Howarth, *Federal Taxation and Transit Policy*, Chicago Regional Transportation Authority, Sept. 9, 1988; and D. Pickrell, *Federal Tax Policy and Employer-Subsidized Parking*, prepared for Commuter Parking Symposium, Municipality of Metropolitan Seattle, Dec. 1990.

Other Efforts Aimed at Reducing Drive-Alone Commuting

In addition to changing the tax treatment of transit and parking benefits, other efforts are under way that seek to discourage drive-alone commuting. The requirements under the Clean Air Act Amendments of 1990, the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, and other state and local regulations designed to respond to these requirements are likely to discourage some drive-alone commuting. For example, under the Clean Air Act Amendments, employers in 11 states will be required to reduce drive-alone commuting among their employees. Many transit officials and transportation analysts believe that increased transit benefits in conjunction with these other measures will have a greater effect on reducing single-occupant vehicle commutes than transit benefits alone. In addition, local zoning law changes to limit the supply of parking are also designed to reduce the amount of solo driving. Finally, allowing commuters to see the full cost of driving through means such as cashing out free parking and congestion pricing²⁵ may also discourage drive-alone commuting. (For more details, see app. VI.)

Conclusions

The current tax treatment of transportation benefits favors employer-provided parking over employer-provided transit benefits. The effective result is to encourage driving to work rather than riding transit. Proposals to increase the tax-exempt amount of transit benefits may not have a major impact on transit ridership and drive-alone commuting mainly because (1) it is unclear how many additional employers will offer the benefit and (2) not everyone offered the benefit will take advantage of it. Many factors in addition to cost affect an employer's decision to offer a transportation benefit and an employee's choice of commuting alternatives. In addition, proposals to tax the value of employer-provided parking that exceeds \$145 or \$160 per month may not have a major impact mainly because most parking subsidies fall below this taxable range. Over time, the effect could be more significant as the changes in the tax treatment of employer-provided transportation benefits begin to work in conjunction with other changes mandated by the Clean Air Act Amendments, ISTEA, and state and local governments to discourage drive-alone commuting.

Over the last several years, the Congress' attempt to change the way people choose to get to work by discouraging driving alone represents a major departure from previous practice at the federal level. While the

²⁵Cashing out free parking requires firms to offer employees receiving a parking benefit the option of taking the taxable cash equivalent of the market value of the parking spaces. Congestion pricing charges drivers for the use of congested roads. The fee charged drivers should reflect the cost of the congestion their use of the road imposes on others.

societal benefits of relieving congestion, conserving energy, and reducing pollution are important, there are limits on what can be achieved through changes in tax policy. If proposed changes to the tax treatment of transportation benefits are enacted, DOT will need to monitor them to gauge their effectiveness before the Congress determines whether more restrictive actions will be desirable.

Matters for Congressional Consideration

It is unclear how effective legislative changes in the tax treatment of transportation benefits, such as those currently proposed, would be in discouraging drive-alone commuting and encouraging greater reliance on mass transit. Therefore, the Congress may wish to consider including language in such legislation to direct the Secretary of Transportation to monitor the effects of increasing the tax-free limit on transit benefits and taxing parking. The Congress may wish to use this information to determine if additional legislative changes are desirable.

Agency Comments

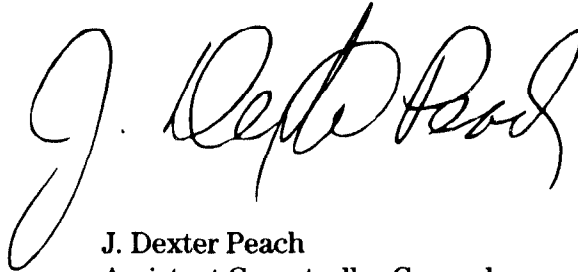
We met with officials from the Department of Transportation's Federal Transit Administration to discuss the contents of this report. They generally agreed with our findings and conclusions. However, as requested, we did not obtain written agency comments on a draft of this report.

To examine the effect of current tax policy and proposed tax law changes on commuting behavior, we (1) reviewed literature on factors affecting commuter behavior; (2) interviewed academic and transportation planning specialists; (3) reviewed employer-provided transit benefits programs in eight cities (Chicago, Denver, Los Angeles, New York, Philadelphia, Sacramento, Seattle, and Washington, D.C.); and (4) spoke with transit authority officials and employers in each of these cities. We also collected information on the cost to the federal treasury of the proposed tax law changes. Finally, we examined alternative efforts to discourage drive-alone commuting and encourage mass transit use. Additional information on our scope and methodology, including the limitations of the studies we reviewed, is contained in appendix I. We performed our work from June 1991 to June 1992 in accordance with generally accepted government auditing standards.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the

date of this letter. At that time, we will send copies to interested congressional committees and to other interested parties.

Our work was performed under the direction of Kenneth M. Mead, Director, Transportation Issues, who can be reached at (202) 275-1000. Other major contributors to this report are listed in appendix VII.

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

DOT	Department of Transportation
ISTEA	Intermodal Surface Transportation Efficiency Act
LIRR	Long Island Rail Road
M-N	Metro-North Railroad
WMATA	Washington Metropolitan Area Transit Authority

Objectives, Scope, and Methodology

Objectives

The objectives of our study were to (1) contrast the tax treatment of mass transit and parking benefits, (2) examine how current tax treatment influences commuter behavior, (3) determine whether proposed tax law modifications might encourage mass transit use, and (4) identify alternative means to discourage drive-alone commuting and encourage mass transit use. In addition, we were asked to review whether the current tax treatment of parking and transit benefits favors higher-income workers.

Scope and Methodology

To examine the effect of current tax law and proposed tax law modifications on commuting behavior and to identify alternative means to discourage drive-alone commuting and encourage mass transit use, we (1) reviewed the transportation literature examining the factors affecting commuter behavior; (2) interviewed academic and transportation planning specialists; and (3) reviewed employer-provided transit pass programs in eight cities. To contrast the tax treatment of mass transit and parking benefits, we analyzed information collected on the current tax law.

We reviewed employer-provided transit pass programs in Chicago, Denver, Los Angeles, New York, Philadelphia, Sacramento, Seattle, and Washington, D.C. We chose these cities to provide variation by geographic region and types of mass transit available. Transit riders in Denver, Los Angeles, Sacramento, and Seattle primarily use the bus systems, although some of these cities also have light rail transit. The four other cities have extensive rail transit. In addition, all of these cities have employer-provided transit pass programs and are located in areas where air quality is a concern.

For each city we interviewed transit authority officials and transportation planners to obtain a description of their employer-provided transit pass program and to determine how proposed tax law changes would affect each city's pass program and, thus, transit ridership. We also obtained information on local parking policies and other efforts to increase transit ridership and discourage drive-alone commuting. We interviewed 30 employers participating in transit pass programs in the eight cities we visited to determine what factors influence their decision to provide transit benefits and/or parking and how the provision of transit benefits might be affected if the tax-free limit increased. We also obtained information on 12 employers in some cities who had decided not to participate in the programs. These 42 employers were selected by transit agency officials. Because of the small number of employers interviewed

and because the employers were not randomly selected, the 42 employers are not a sound basis to judge all employers in the United States. In addition, the information cannot be extrapolated to all U.S. cities because of factors such as the unique nature of each city's transit systems. However, the information from employers indicates a range of views on transit pass programs.

Through our discussions with academic and transportation planning specialists and transit authority officials, as well as through our literature review, we attempted to determine (1) what increasing the tax-free limit on transit benefits would cost the federal government in revenues and (2) what the current tax policy of unlimited tax-free parking subsidies was costing the government in lost revenues. We were unable to verify these numbers.

Finally, in some of the studies we cite, the sample of commuters was not randomly selected, and the response rate to the surveys was low. Thus, the findings cannot be generalized to other groups or cities.

We conducted our review from June 1991 to June 1992 in accordance with generally accepted government auditing standards.

Does Current Tax Policy Favor Higher-Income Workers?

In addition to answering the four objectives, we were also asked to provide information on whether the current tax policy favors higher-income workers.

Concerns have been raised that the current tax treatment of employer-provided transit and parking benefits favors higher-income workers because (1) lower-income individuals are more likely to rely on transit than people with higher income and (2) the current tax law allows only a \$21 tax-free limit on transit benefits versus an unlimited amount for parking benefits. For commuters earning at least \$60,000 annually, the percentage of people who drive to work and receive free parking is not substantially different from the percentage who commute by mass transit. However, among commuters with annual incomes of less than \$20,000, more ride transit (28 percent) than drive and receive free parking (18 percent).¹

The tax policy likely favors workers at those firms that provide parking to only some higher-income employees—such as managers and more senior employees. While a few of the employers from whom we obtained information provide parking benefits to managers only, most of the other employers either provide no parking benefits or provide free or subsidized parking to almost all employees.

¹1990 Nationwide Personal Transportation Survey, Department of Transportation, 1991.

Employer Transit Pass Programs

Local transit authorities or planning agencies in the cities we visited sponsor two main types of employer transit pass programs: “employer outlet” and “transit voucher” programs.

Employer Outlet Programs

The first “employer outlet” program was established in 1976. Now all of the 20 largest metropolitan areas in the United States have these programs. Transit authorities developed these programs as a marketing effort to increase transit ridership by making transit fare media (passes, tokens, tickets) more readily available to local commuters. Under these programs employers act as sales outlets for the local transit authorities. Employers order passes or tokens from transit authorities and pay for only the number they sell to their employees.

As part of a benefit package and/or to encourage transit ridership among their employees, some employers subsidize the cost of passes or tokens to employees. Employers participating in the Seattle program are required to subsidize the passes at a minimum of \$5 per month per pass per employee.

Each city we visited has an employer outlet program. The level of employer participation in the programs varies by city (see table III.1).

**Appendix III
Employer Transit Pass Programs**

Table III.1: Employer Outlet Programs in the Cities We Reviewed

City	Year started	Number of employees in program	Number of employers in program	Number of employers subsidizing	Average monthly subsidy per employee
Chicago	1979	5,300	170	5-10	^a
Denver	1987	^a	220	^a	^a
Los Angeles	1988	32,477	4,130	639	\$30
New York	1986	12,000	67	0	\$0
Philadelphia	1984	4,600- 5,000	89	^a	^a
Sacramento	1989	4,550	351	75 ^b	\$15 ^b
				5 ^c	\$20 ^c
				25 ^d	25 to 50 percent ^d
Seattle	1979	63,700	324	324	50 percent
Washington, D.C.	1980	30,000	190	10 ^b	30 to 35 percent ^d
				57 ^e	\$21 ^e

Note: Approximate figures obtained from discussions with transit program officials.

^aNot available.

^bState employers.

^cCounty employers.

^dPrivate employers. Percentage of monthly pass cost.

^eFederal employers.

Transit Voucher Programs

The first transit voucher program started in New York City in 1987. This program allows employers to offer employees a voucher that is exchangeable solely for fare media. Like other forms of transit subsidies, vouchers that exceed \$21 per month are fully taxable as income to the employee.

The transit voucher system is relatively easy to administer. Employers purchase transit vouchers from their local transit agency and distribute them to participating employees. The employees apply the voucher amount toward the purchase of their fare media.

Five of the eight cities we reviewed have transit voucher programs. In addition, Sacramento transit officials plan to begin a transit voucher program in the near future. New York City's program has the largest

number of participating employers (see table III.2). Many of these programs were established recently; therefore, employer participation is low.

Table III.2: Transit Voucher Programs
In the Cities We Reviewed

City	Year started	Number of employees in program	Number of employers in program	Average monthly subsidy per employee
Chicago	1990	6,526	271	\$21
Denver	1990	^a	55	15
Los Angeles	1991	600	40	20
New York	1987	40,000	1,825	21 ^b
Philadelphia	1991	1,500	60	15

Note: Approximate figures obtained from discussions with transit program officials.

^aNot available.

^bIn 1993, transit program officials will require all participating employers to provide the \$21 per month subsidy.

Denver Eco Pass Program

The Denver Regional Transportation District's Eco Pass program is unique among the transit pass programs we reviewed. It began in September 1991 and as of May 1992 had 303 employers offering the benefit to over 14,600 employees.

Transit officials from Denver and Boulder describe the program as one that uses "group insurance" pricing. Participating employers purchase passes for all employees (both riders and nonriders), thus spreading the cost across all employees. The Eco Pass program has four different group rates that a participating company may be charged, based mainly on the estimated daily transit ridership in the area where the participating company is located. This method is similar to insurance companies basing their premiums on probable claim incidence for a particular population. Included with the Eco Pass is a "Guaranteed Ride Home" feature providing a free taxi ride home in the event of an emergency or unplanned change in schedule. Denver officials stated that the program is meant to get transit passes into employees' hands, which may make them more likely to ride transit.

Government Employer Involvement

In recent years, state and federal government employers have begun to participate in employer transit pass programs. This participation has

resulted, in part, from state and federal legislation that allows agencies to use budgeted funds to provide transit benefits. For example, California's 1988 Executive Order D-73-88 allows state agencies to subsidize 50 percent of employees' commuting costs of up to \$15 per month. According to a Sacramento transit official, 75 California state agencies had joined Sacramento's program as of April 1992.

On the federal level, as a result of Public Law 101-509, federal agencies in Washington, D.C., and other federal employment centers are allowed to subsidize mass transit use by participating in state and local transit programs.¹ According to a Washington Metropolitan Area Transit Authority (WMATA) official, as of June 1992, 57 federal agencies are subsidizing employees' transit fares through WMATA's employer pass program, and federal agency participation is expected to increase.

¹In related work, we are currently reviewing the level of federal agency participation in established state or local government programs to encourage mass transit use.

Proposed Tax Law Changes

Several bills were introduced in the Congress in early 1991 to (1) increase the allowable amount of tax-free employer-provided transit benefits and/or (2) change the tax status of employer-provided parking benefits.¹

Bills Proposing to Increase the Tax-Free Limit of Employer-Provided Transit Benefits

Several bills proposed amending the tax code by doing one or more of the following: excluding \$30-\$100 per month in transit subsidies from an individual's gross income compared with the current \$21 de minimis exclusion from income; allowing individuals a \$250 tax deduction for public transit commuting expenses, which is not allowed under the current tax law; extending the tax-free subsidy to include vanpools as opposed to only transit services; allowing employer-provided mass transit subsidies for both public and private transit services instead of only public transit services; making transit subsidies a working condition benefit like parking benefits so that transit benefits are tax free for any amount instead of only \$21 per month; and/or requiring that increased benefits are not given in lieu of compensation.²

Bills Proposing to Change the Tax Status of Employer-Provided Parking Benefits

Several bills proposed amending the tax code either to (1) prohibit an employer from taking parking subsidy costs as a business expense deduction unless the employer offers the choice between the parking subsidy or an alternative subsidy equal in value, which is not required under the current tax law; (2) extend tax-free parking subsidies to "park 'n ride" and transit station parking lots; or (3) require that parking be located at the employment site, operated by the employer, and used by the employee in order to be excluded from taxable income.³ The current law requires only that the parking be provided at or near the business premises.

¹In addition, the energy bills being debated in the Congress include some of these provisions.

²These bills include S. 26, S. 129, S. 743, H.R. 189, H.R. 493, H.R. 780, H.R. 1145, H.R. 1442, and H.R. 1513.

³These bills include S. 326, H.R. 780, and H.R. 1145.

Selected Studies

Study	Data	Method	Finding used by GAO
Angell and Ercolano, 1991	Interviews with 4,769 employees working for 40 employers in southwestern Connecticut	Structured questionnaire	Nearly 50 percent of all solo drivers cited flexibility as the main reason for commuting alone to work.
Center for Urban Transportation Research, 1989	Nonrandom survey of 4,000 individuals with access to public transportation in 17 metropolitan areas	Survey	Flexibility (42 percent) and time savings (32 percent) were the most cited reasons for commuting by auto.
Charles River Associates, 1984	Monthly operating data for Long Island Rail Road (LIRR) and Metro-North Railroad (M-N), Jan. 1976 to Dec. 1983	Linear regression model ^b	Price elasticity of demand: ^a -.19 for LIRR -.26 to -.33 for M-N
Collier and Christiansen, 1991	Random telephone survey of 2,568 commuters in a five-county area of southern California	Survey	Convenience and travel time were factors commuters cited most frequently in choosing their means of transportation.
Cummings, Fairhurst, LaBelle, and Stuart, 1989	Chicago Transit Authority fare data, 1980-86	Before/after analysis of ridership response to fare changes	A 30-percent average systemwide increase in fares in January 1981 resulted in a 5-percent decrease in ridership. A 12-percent fare increase in June 1981 resulted in a 7-percent decrease in ridership. An 18-percent fare increase in January 1986 resulted in a 5-percent decrease in ridership.
Ecosometrics, 1980	28 fare elasticities from various studies that used time-series data ^a	Elasticities averaged ^a	Average fare elasticities: ^a -.42 +/- .24
Elder and Albert, 1991	Matched sample of 8,550 employees and 299 employers in the Seattle central business district	Survey	The percentage of commuters driving alone was 65 percent among those receiving free or subsidized parking and 32 percent among those paying the full cost to park.
Flannelly, McLeod, Flannelly, and Behnke, 1991	Household survey of a western suburb of Honolulu, HI	Survey	Over one-third of auto commuters objected to carpooling as being too time-consuming and unreliable.
Gaudry, 1975	Monthly time-series data for Montreal over the period Dec. 1956 to Dec. 1971	Linear regression model ^b	Price elasticity of demand: ^a -.15
Glazer and Curry, 1987	Survey of suburban workers in Orange County, CA	Survey	A preference for the freedom of driving alone was the most frequently identified reason for not ridesharing.
Goodwin, 1992	50 price elasticities from various studies	Elasticities averaged by time period	Average price elasticities: ^a Short term (0-6 months) -.28 Long term (4+ years) -.55
Kemp, 1981	Pooled time-series/cross-sectional monthly operating data for the San Diego bus system, Jan. 1972 through Apr. 1975	Simultaneous equations model of demand and supply ^c	Fare elasticity: ^a -.21 to -.41
Miller, 1991	Employer-based surveys of employee commute behavior at five Washington, D.C., area worksites	Comparison study ^d	The percentage of commuters driving alone at the five sites ranged from 11 to 47 percent lower when employees paid for parking than when employers paid for parking.

(continued)

**Appendix V
Selected Studies**

Study	Data	Method	Finding used by GAO
Miller and Everett, 1982	Random sample of 15 federal agency sites with parking charges and 8 agencies without parking charges in Washington, D.C.	Before/after study ^a	The number of autos arriving at most central Washington, D.C., sites decreased from 1 to 10 percent as a result of increased parking charges.
Pickrell and Shoup, 1980	Nonrandom survey of more than 3,500 employees in the Century City area of Los Angeles	Comparison study ^d	The percentage of commuters driving alone was 19 percent lower for commuters who pay for their parking than for those who park free.
Seattle Metro, 1991	Telephone survey of 2,518 people in the Seattle/King County area	Survey	Nonriders most frequently said they did not ride mass transit because travel was faster by car.
Surber, Shoup, and Wachs, 1984	Accounting records supplemented by telephone surveys of all employees at one firm near downtown Los Angeles	Before/after study ^a	The percentage of commuters driving alone decreased from 42 percent to 8 percent, and carpooling rose from 17 percent to 58 percent when the firm began charging for parking.
Transport Canada, 1978	Nonrandom sample survey of 3,782 Canadian government employees	Before/after study ^a	The percentage of commuters driving alone decreased by 21 percent when the Canadian government began charging employees 70 percent of the market rate for parking.
Willson and Shoup, 1990	Matched sample of 118 employers and 5,060 office workers in the Los Angeles central business district	Comparison study ^d	The percentage of commuters driving alone was 24 percent lower when commuters had to pay for their own parking than when their employers paid for parking.

^aPrice elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in price.

^bLinear regression is a statistical technique that enables one to identify the relationship between a variable of interest, such as transit ridership, and an explanatory factor, such as out-of-pocket costs, while holding constant the influences of other explanatory factors.

^cSimultaneous equation models consist of more than one specified relationship. They are used when two or more variables of interest are jointly determined.

^dThese studies contrast the commute choices of a group of employees that receives free parking with the commute choices of a group that pays for parking.

^eThese studies contrast the commute choices of a group of employees receiving free parking with their choices after parking charges were instituted.

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Other Efforts to Discourage Drive-Along Commuting

There are efforts under way at the federal, state, and local levels aimed at reducing drive-alone commuting. The requirements under the Clean Air Act Amendments of 1990, the Intermodal Surface Transportation Efficiency Act of 1991, and other state and local regulations designed to respond to these requirements are likely to discourage some drive-alone commuting. In addition, local zoning law changes to limit the supply of parking are also designed to reduce the amount of solo driving. Finally, allowing commuters to see the full cost of driving through means such as cashing out free parking and congestion pricing may also discourage drive-alone commuting.

Federal Laws Designed to Discourage Drive-Along Commuting

Two federal laws are likely to have some impact on how people commute to work. First, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) authorizes special funding for projects likely to reduce vehicle miles traveled, decrease fuel consumption, or otherwise contribute to mitigating congestion and improving air quality.

Second, the federal Clean Air Act Amendments of 1990 require employers in 11 states to reduce drive-alone commuting among their employees.¹ According to transportation officials, federal Clean Air Act requirements will provide incentives for employers in these areas to reduce drive-alone commuting and provide transit benefits during the next several years.

Other Efforts Designed to Discourage Drive-Along Commuting

States and localities other than those under the Clean Air Act mandate are also passing legislation to reduce drive-alone commuting. As of September 1989, legislation designed to reduce drive-alone commuting had been passed at one or more levels of government in at least 11 states. These include six states (Arizona, Georgia, Minnesota, Oregon, Virginia, and Washington) in addition to five states affected by the Clean Air Act requirements (California, Connecticut, Maryland, New Jersey, and Texas).² The state of Washington has passed legislation requiring employers with 100 or more employees in certain counties to reduce commuter travel by

¹The Clean Air Act Amendments require certain states to have plans in place by November 1992 requiring employers with 100 or more employees to reduce work-related vehicle trips and miles traveled by employees. These requirements apply in only 10 highly polluted areas: Los Angeles-South Coast Air Basin, CA; Chicago-Gary-Lake County, IL-IN; New York-northern New Jersey-Long Island, NY-NJ-CT; the area surrounding San Bernadino, CA; Houston-Galveston-Brazoria, TX; Milwaukee-Racine, WI; Baltimore, MD; Philadelphia-Wilmington-Trenton, PA-NJ-DE-MD; San Diego, CA; and Ventura County, CA. The employers in these areas must submit trip reduction plans within 2 years of the state's plan and must show compliance within 4 years.

²E. Sanford and E. Ferguson, "Overview of Trip Reduction Ordinances in the United States: The Vote Is Still Out on Their Effectiveness," *Transportation Research Record*, no. 1321, 1991.

at least 15 percent between 1992 and 1995.³ Similar legislation has been passed in some California communities. A few California employers told us that they have already begun providing transit subsidies as part of their plan to meet these requirements.

Some local governments are trying to reduce drive-alone commuting by changing zoning laws to encourage transit use and to reduce the supply of parking. For example, recent zoning law changes in Philadelphia allow developers additional building space if they improve transit platforms or concourses, provide transit access in their building, or otherwise invest in transit. In Seattle, new laws allow developers to reduce the number of spaces required of them if they provide vanpool or carpool parking spaces. Sacramento and Portland are similarly setting limits on parking. Other efforts undertaken by employers and state and local governments to reduce drive-alone commuting include establishing parking fees, special lanes and parking for high-occupancy vehicles, and flexible work schedules and work places that enable people to drive during nonpeak hours or drive fewer days each week.

Allowing Commuters to See Full Cost May Reduce Driving

Another effort that could reduce drive-alone commuting would require firms to offer employees receiving a parking benefit the option of taking the taxable cash equivalent of the market value of the parking spaces.⁴ For many employees, the cash equivalent may be more valuable to them than the parking space. These employees would be better off taking the cash and finding another way to get to work. Employees, however, would have the choice between taking the cash and taking the parking space. This proposal could discourage some drive-alone commuting by allowing the commuter to see the true cost of driving. Finally, because employees who choose the taxable cash equivalent must pay tax on that benefit, federal income tax revenues would increase.

Such a proposal, however, may present problems for employers who either own the parking spaces used by employees or obtain these spaces as part of their building lease. These employers may not want to or be able to lease the parking spaces vacated by the employees accepting the cash equivalent. In this situation, employers are worse off to the extent that they both pay the cash equivalent to employees and continue to pay for the unused spaces.

³This legislation applies to counties with populations greater than 150,000. In addition, commuter miles traveled must be reduced by 25 and 35 percent by January 1, 1997, and January 1, 1999, respectively.

⁴D. Shoup, "Cashing Out Free Parking," Transportation Quarterly, vol. 36, no. 3, July 1982.

Other means that could be implemented to get commuters to see the full cost of driving include congestion pricing and substantially higher gasoline taxes. Congestion pricing charges drivers for the use of congested roads. The fee charged the driver should reflect the cost of the congestion that their use of the road imposes on others. Congestion pricing has been cited as an important way to encourage the most effective use of existing facilities by shifting demand to other modes and nonpeak periods.⁶ Recently, congestion pricing has received serious attention at the federal level. ISTEA authorizes funding for congestion pricing pilot projects, which are to be monitored for effects on driver behavior, transit ridership, and traffic volume. Like congestion pricing, substantially higher gasoline taxes would also raise the cost of driving, but for all drivers, including those driving during periods when roads are not congested and those driving for non-work-related trips. These taxes might reflect the cost of pollution associated with driving. While both of these methods would raise the cost of driving and, thus, discourage some amount of driving, neither addresses directly the effect of the current tax treatment of transportation benefits on driving.

⁶Moving America: New Directions, New Opportunities, A Statement of National Transportation Strategies for Action, U.S. Department of Transportation, Feb. 1990.

Major Contributors to This Report

**Resources,
Community, and
Economic
Development
Division, Washington,
D.C.**

**Francis P. Mulvey, Assistant Director
Teresa F. Spisak, Assignment Manager
Julie A. Gesterling, Evaluator-in-Charge
Daren F. Sweeney, Advisor**

**Chicago Regional
Office**

**Enchelle D. Bolden, Regional Assignment Manager
Alan M. Runde, Site Senior
Lisa A. Murray, Staff Evaluator**

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