Notes on BAAQMD Commuter Benefits Program
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November 18, 2014

The Bay Area Air Quality Management District (BAAQMD) is running a pilot project to require employers to encourage alternative commuting patterns in place of single-occupancy vehicles (SOV). The pilot was planned in 2013 and early 2014, began operating on September 30th, 2014, and continues through 2016.

Many of the ideas in the program seem potentially valuable. However, the obligations it imposes on employers are extremely weak, and the projections for reduced VMT as a result of the program are minuscule. I'll explain how the program lets its more ambitious goals drift away, I'll describe a separate program by California Air Resources Board (CARB) to discourage SOVs by limiting parking subsidies, and I'll suggest how a hypothetical future BAAQMD program could combine these ideas to make a more powerful impact.

The current program

The current pilot program is based on local programs that have been enacted by cities such as Berkeley, Richmond, and San Francisco. It requires employers in the Bay Area with 50 or more employees to offer alternative commuting benefits. Employers comply by choosing one of four options:

1. Pre-tax transit funds. The IRS permits employees to deduct transit commuting costs up to $130/month from their paycheck before taxes. So if an employee earns $x/mo and spends $y/mo on transit, with y <= 130, they can opt to receive taxable wages of $(x-y); then they will not have to pay tax on the $y that they are spending on transit. Employers can choose to administer this program for their employees, making it possible for employees to take advantage of the IRS rule.
2. Transit subsidy. An employer can offer to pay employees' transit commuting costs, up to $75/mo.
3. Shuttle or vanpool. Large employers can provide private or shared-private transit services (like Google buses).
4. Custom program. Employers can work with BAAQMD to devise a custom program with similar impact to the regular options. A program might include amenities like bike lockers and showers.

Practical results

Studies of the local programs that preceded this pilot showed more than 80% of employers choosing option 1. In the first month of the pilot, 81% chose option 1. The option costs employers only a small amount, typically a few dollars per employee in additional fees to the company's payroll service provider. At the same time, when an employee uses the deduction, it reduces the employee's reportable wages, saving the company money on payroll taxes. Companies typically save money overall by offering the option. For employees, the option means saving up to about $40/mo in taxes if they use transit -- a nice benefit, but not a very strong incentive.

Option 2 sounds lovely in theory. It could provide employees about double the transit incentive of option 1. It could promote a culture where employers tout their transit subsidy as a fringe benefit for attracting employees. All of these benefits will accrue only if the option is actually used, and typically it is not.

Option 3 applies only to very large employers. Option 4 is not discussed in much detail in reports, and is probably not a significant part of the landscape.

With almost all employers choosing option 1, the impact of the program comes out very weak. Staff projects a 7% increase in transit commuting. Transit currently stands at 10% of all commuting, so a 7% increase will bring it to 10.7%. This will reduce SOV commuting a bit, projected at 0.6%. Since commuting accounts for about half of overall vehicle miles traveled (VMT), the pilot is projected to reduce overall VMT by 0.3%. Not impressive.

The staff report suggests additional climate benefits beyond the 0.3% reduction in VMT. I think its logic is precisely backwards, though. It argues that congestion is worst during commute hours, so reducing SOV commuting will significantly reduce congestion, making the cars that are on the road run more efficiently and reducing their climate impact. What the report doesn't take into account is the rebound effect. Congestion is precisely what motivates people not to drive. If congestion lessens, people will choose to drive when they otherwise would have avoided it. This results in more vehicle trips and increases congestion again -- not back to the high level it had reached before, but to a point somewhere in between. So if the pilot program takes 0.3% of vehicles off the road, maybe 0.2% will be added back in due to the rebound effect, reducing overall VMT by only 0.1%. I believe the staff report is entirely wrong when it attempts to portray reducing congestion as an environmental benefit.

If employers could be coaxed into choosing option 2, the impact might be much greater. A study cited in the staff report shows 65% transit commuting when employers offer a subsidy compared with 35% when they don't. This seems wildly exaggerated to me -- I suspect it might suffer from self-selection in the samples: employers in transit-friendly areas are probably much more likely to offer the subsidy. Still, I could imagine that widespread employer transit subsidies could lead to much more reduction in VMT than the tax deduction of option 1.

Counter subsidies

The pilot program provides some incentives for non-SOV commuting, but doesn't address the grotesque subsidies many employers already offer *in favor of* SOV commuting -- in particular, free parking. Donald Shoup ("The High Cost of Free Parking") has analyzed our society's hidden parking subsidies in great detail. Employers that provide free parking in a structure typically spend the equivalent of more than $100/mo per employee to do so. This dwarfs the $75/mo that employers would pay for transit if they chose option 2. If you consider all the costs associated with SOV commuting, the employer pays 64% of the total via the parking subsidy, while employees pay only 36% out of their pockets.

Providing parking in surface lots is far cheaper for the employer, at least in places where land is affordable. Unfortunately, it leads to disastrous land use, with little islands of productive space surrounded by oceans of pedestrian-hostile parking lots. A region set up in this way cannot be served effectively by public transit or bicycle commuting. Even with the best possible path accommodations, the distances between homes, jobs and services will necessarily be so wide as to make driving absolutely necessary for most people.

It would be interesting to know what portion of Bay Area employers provide free parking, and also *why* they do so. They may be subject to misguided city zoning ordinances requiring them to provide excessive parking, and once they've paid for the space, they have little motivation to limit use of it by charging a fee. If this is what's going on, we could lobby cities to reduce or eliminate their outmoded requirements, or we could lobby a regional body like the MTC to encourage cities to do so. On the other hand, if companies feel obligated to provide ample free parking because their employees expect it, then a more challenging cultural change will be needed.

If we want to require employers to spend *more money* promoting non-SOV commuting, we have to figure out how to let them simultaneously spend *less money* promoting SOV commuting, so that we can promote the new rule as business-friendly.

Cash-out

One way to deflate the parking subsidy is for employers to offer employees a choice: free parking *or* the equivalent amount as a cash bonus. The tricky part is figuring out the equivalent amount! If it can be figured realistically, then employees may be motivated to ditch driving for transit in order to save money. Ideally an employer should offer three choices of benefit: a) free parking (a non-taxable benefit, according to decades-old IRS rules), b) transit subsidy (also non-taxable, according to newer IRS rules), or c) a cash bonus (taxable).

CARB has implemented a statewide but limited program requiring employers to offer cash-out. Shoup helped to develop and study the program. It applies only to employers that lease parking for their employees from a third party on a space-by-space basis. In other words, if an employer pays $x/mo for each parking space that it provides free to their employees, then it must offer the employee the option of receiving $x/mo in cash instead. The rule doesn't apply to employers that lease an entire parking lot, or to employers that own their own parking lot.

Clearly CARB limited the program in this way for two reasons: 1) it makes it easy to figure out the appropriate "equivalent amount" for the cash bonus; 2) it ensures the employer doesn't incur any cost in offering the option.

Despite its limited scope, the program seems to have a strong impact where it does apply. The cash-out amount has ranged from $36 to $165/mo. Shoup's study showed an 11% reduction in SOV driving -- far more benefit than the 0.6% projected for the current BAAQMD pilot.

I think we should advocate for expanding the cash-out program. The BAAQMD could develop a stronger version of the program for the Bay Area. It could develop a methodology for figuring the value of parking spaces even when an employer isn't paying for them individually and monthly -- the real estate industry has worked out extensive protocols for estimating the rental value of a building, so it should be feasible to apply the same techniques to parking spaces. This program really would cost employers money, so it would be a hard sell politically, but we could argue that the cost is short-term -- once people stop using excess parking, companies can develop that acreage into a more productive and lucrative use.

Expanding transit passes

The optional transit subsidy in BAAQMD's pilot is tied to each employee's actual cost of commuting by transit. In some regions, a much more generous policy is possible, with cost savings for the employer and political benefits for the transit agency involved. The transit agency can provide passes for *all* of a company's employees, regardless of how many are commuting by transit. The cost per person is dramatically lower than ordinary passes, allowing the employer to take credit for offering transit subsidies without having to pay the regular cost. The transit agency makes up for the discount because only a moderate portion of the employees actually use the pass. In places where already-built transit systems are underutilized, the extra passengers may not cost the agency much, and may increase the agency's political clout and fundraising ability. The social benefit can also spill out beyond just commuting -- once employees have a transit pass, they can use it for their non-work travel too.

Santa Clara Valley Transportation Authority (SCVTA) offers such a program, called "Eco Pass". It costs employers around $100 per employee *per year* -- far below the cost of ordinary transit passes. We could find out if other local agencies could be a good fit for a program like this. Perhaps SamTrans, Golden Gate Transit, or AC Transit. BART is probably not a good fit -- they don't currently offer any kind of pass, and their infrastructure is already strained by existing passenger load.

We can also advocate for government rules to motivate companies to participate in such a universal pass program. Seattle imposes parking requirements on employers, but reduces the requirements for employers who offer a universal pass. We could go farther by *requiring* some employers to offer it -- this may be more feasible than requiring them to offer substantially-more-expensive transit subsidies.

Action items

- Thank BAAQMD for the pilot, acknowledging its small but worthwhile social benefit.
- Research how much parking employers are providing, and why.
- If employers are providing parking because of city zoning rules, lobby cities to reduce or eliminate these rules, or lobby MTC to create a program motivating cities to do so.
- Lobby BAAQMD or MTC to expand on CARB's parking cash-out program, applying the policy to more employers by calculating a fair market value for all parking spaces they provide.
- Develop a PR campaign to show how businesses will save money in the long run by providing less parking, making up for the cost of cash-out.
- Research the feasibility of an Eco Pass program for Bay Area transit agencies besides SCVTA.
- Lobby BAAQMD or MTC to provide incentives or requirements for some employers to adopt Eco Pass.

Links

BAAQMD's commuter benefits program
- Regulation
- Staff report
- Presentation
- Report on first month

CARB's cash-out program
- Employers' guide
- Shoup's 1997 study

SVCTA's Eco Pass