FAIR TREATMENT:
COMMUTERS AND TAX REFORM

Prepared by
American Public Transportation Association

ACKNOWLEDGED INDIVIDUALS

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EXECUTIVE SUMMARY

Changes to the tax code are possible with the election of a new administration and new members of Congress. Embedded in the code is a transportation fringe benefit that has positively impacted public transit agencies, employers, commuters, government and the environment. The program has yielded numerous positive outcomes, and continuation of this fringe benefit is advisable.

What is the Transit Benefit and What Are the Benefits to Employees?

The transportation fringe benefit—more commonly referred to as the transit benefit—is an employer-provided benefit that allows employees to cover the costs of their commute via transit and vanpool utilizing pretax earnings basis, up to a monthly cap of $255 (as of 2016). The transit benefit is part of commuter benefits which also allows for employees to use pretax funds to offset the cost of qualified parking (with a separate monthly cap of $255). Under Internal Revenue Code Section 132(f), employees do not pay taxes on transit or parking benefits received if their transit fare or parking is provided through a pretax payroll deduction or provided as a subsidy by their employer. The total annual tax savings can exceed more than $1,100 for a commuter using either the transit or parking benefit.

TAX SAVINGS* FOR EMPLOYEES **Based on an effective tax rate of 25%*	**TRANSIT BENEFIT (Cap of $255 per month)**
Federal Income Tax Savings	$765
FICA Savings	$235
Average State/City Income Tax Savings	$130
Total Annual Tax Savings	**$1,130**

How is the Transit Benefit Administered and What Are the Benefits to Employers?

Only an employer can offer the transit benefit, though it can be offered pretax, as a subsidy or in combination. The transit benefit also provides tax benefits to the employers who offer it. The funds the employer withholds or subsidizes are not subject to payroll taxes. The 7.65 percent the employer saves on payroll taxes is typically more than what it costs the employer to provide the benefit.

TAX SAVINGS* FOR EMPLOYERS (per employee)** ** Based on 25% effective tax bracket and monthly fare of $255* *** Payroll taxes only apply to the first $127,200 of an employee's earnings as of 2017*	**TRANSIT BENEFIT**
Social Security	$190
Medicare	$45
Total Annual Tax Savings	**$235**

What is the role of Public Transit Agencies in the Program?

In August 2016, the American Public Transportation Association (APTA) surveyed public transit agencies on the impact and relevance of the transit benefit to their operations. More than 40 percent of agencies with their own in-house transit benefit program had more than 100 employers involved. That same survey found that 58 percent of responding agencies reported they had more than 10,000 employees enrolled and 19 percent reported they had more than 50,000 commuters enrolled. This is in addition to the thousands of employers and millions of employees that use third party transit benefit providers.

Public transit agencies, in many ways, are the gatekeepers to implementation of the transit benefit. They play three key and interrelated roles: fare collector, in-house provider/processor and marketing agency.

In the August 2016 survey, APTA found that among the responding agencies, the transit benefit represented 1.87 billion trips annually. The survey also found that up to 50 percent—with the most common range being between 20 percent and 30 percent—of all trips were taken with fares purchased through commuter benefits. More than 79 percent of respondents said the transit benefit is important to supporting ridership, and nearly 62 percent of respondents said transit benefits have an impact on ridership levels.

How Do Ridership and Transit Operator Fare Revenue Increase with Transit Benefit Use?

Ridership, of course, translates into fare revenue. In the August survey, 11 public transit agencies representing 830 million trips reported total monthly revenue of $44 million from fares through transit benefit programs. The percentages of total revenue at these agencies derived from commuter benefits ranged between 3 percent and 54 percent; a range of between 12 percent and 16 percent was the most common.

What Would Happen If the Transit Benefit Were Eliminated?

If the transit benefit were eliminated, several impacts are immediately likely:

Ridership Loss

An elimination of the transit benefit would result in roughly a 40 percent effective fare increase for a large number of commuters, as fares would be paid using post-tax earnings which are subject to state and local taxation. The quick and sharp nature of the increase would cause an acute reaction that would differ drastically from other fare increases that are eased in over time, enabling the consumer to adjust and absorb the increase. Most commuters would need to shift their mode of transportation.

Revenue Reduction

The loss in ridership would lead to a reduction in revenue for transit operators. Unlike fare increases, where a small reduction in ridership is offset by a higher fare for those who remain, elimination of the transit benefit would cause a significant drop in transit use and revenue. Public transit agencies would directly bear the impact of the ridership loss without the expectation of compensating or higher revenue. **Without farebox revenue to help offset operating costs or fulfill capital needs, public transit agencies and regional commuter systems would need additional operating subsidies; have to defer or eliminate capital expansion, maintenance and safety projects; and be more reliant on federal funding.**

Congestion Increases

Eliminating the transportation fringe benefit would cause more commuters to drive to work, increasing congestion on the nation's roads. This added congestion would require additional capital expansion and maintenance of the road system. Air quality and energy use would also be affected.

The transit benefit is an effective tool that has been successful in:

- Reducing the effective cost of public transit ridership
- Saving money for middle class Americans and the companies they work for
- Increasing transit ridership particularly in suburban areas where the cost of commuting is highest
- Increasing the revenue, operational efficiency and financial stability of public transit agencies
- Encouraging employers to expand transportation options
- Reducing congestion, which benefits all users of the transportation system
- Deferring and/or eliminating the need for roadway maintenance and costly lane expansion
- Improving air quality
- Conserving energy

Recommendation

APTA recognizes the value brought by transit benefits and strongly recommends they remain a component of the U.S. tax code as Congress deliberates tax reform.

1 THE TRANSIT BENEFIT: PAST AND PRESENT

This white paper aims to provide and examine information on the impacts of the transit/vanpool components of the transportation fringe benefit, more commonly referred to as the transit benefit. The transit benefit is codified formally in Internal Revenue Code Section 132(f) as Qualified Transportation Fringe Benefits. Several aspects of the transit benefit will be considered, including:

- The roles of public transit agencies and the importance of transit benefits to such agencies;
- The role of employers and the value of the transit benefit to employers;
- Impacts of increasing transit benefit ridership;
- Impact on the government; and
- How increased transit ridership reduces congestion, improves air quality and saves energy.

The American Public Transportation Association (APTA) conducted a survey of public transit agencies in August 2016. The survey responses have helped gauge the importance and value of the transit benefit to agencies of all sizes and provides indicators of its broad use by the commuting public.

1.1 The Transit Benefit Defined

The transportation fringe benefit is an employer-provided benefit that allows employees to cover the cost of their commute on a tax-free basis. Eligible costs are broken into three categories: parking, transit/vanpool and bicycle. The benefit is subject to a monthly cap of $255 for each of transit/vanpool and qualified parking, and $20 for bicycle. Under federal law, employees do not pay taxes on transit, parking or bicycle benefits received if benefit is provided through their employer (up to the applicable monthly cap). The direct tax savings can exceed more than $1,100 annually for a commuter using either transit or parking benefits (see Table 1).

Table 1: Tax Savings for Employees for the Transit/Vanpool Portion of the Transit Benefit

TAX SAVINGS FOR EMPLOYEES* *Based on a marginal tax rate of 25 percent tax bracket (the most common) and a monthly fare of $255.	**TRANSIT BENEFIT (Cap of $255 per month)**
Federal Income Tax Savings	$765
FICA Savings	$235
Avg. State/City Income Tax Savings	$130
Total Annual Tax Savings	**$1,130**

The monthly cap for parking and transit/vanpool costs is $255. This monthly cap is subject to annual cost-of-living adjustments and may increase in increments of $5 depending on inflation. The monthly cap for bicycles is $20.

Parking and transit benefits may be combined for those who have to pay for parking at or near their place of business or at a transit station. In this circumstance, an employee is eligible for a combined benefit up to $510 per month, but the individual benefit cannot exceed $255 per month for either parking or transit.

The transit benefit must be administered through an employer. To offer an IRS-compliant transit benefit program, an employer usually works through its payroll provider, a third-party administrator or, in some cases, the local transit agency. Employees receive, directly from their employer or via a third party benefit provider, fare media such as monthly passes, tickets, smart card loads or a stored value debit card that can only be used to purchase fare media. In some circumstances, employees receive paper vouchers that can only be redeemed for fare media. The IRS restricts cash reimbursement. Employers that wish to "self-administer" their program must purchase fare media directly from a public transit agency.

1.2 Transit Benefit Administration

Subject to the monthly cap, the transit benefit can be offered in several different ways (see Table 2).

Table 2: Methods of Transit Benefit Administration

PRETAX	Employees elect to withhold funds (salary) from their paycheck. These funds are used to purchase fare media for transit or vanpools. The employee is not taxed on the funds withheld, and the employer does not pay its share of FICA taxes on those funds.
SUBSIDY	Employers provide transit or vanpool fare media in addition to salary. The employee is not taxed on the additional value of the fare media, and the employer does not pay employment taxes on those funds.
COMBINATION	Employers subsidize a portion of a commuter's expense, and the employee withholds an additional amount based on need and up to the monthly cap.

The bicycle benefit can only be offered as a subsidy, but cannot be combined with other benefits. In most cases, the transit benefit is offered as a pretax benefit. Public transit agencies and third-party providers do not have access to employee payroll elections, so accurate data on how employees receive the transit benefit is not available. Experts consulted estimate that most employers who provide transit benefits do so through a pretax program. The subsidy model is generally only used when local ordinances require it or as a form of equity when an employer subsidizes some other form of commuting such as parking. The amount of subsidy varies, but it is often less than an employee's total cost of commuting; therefore, additional funds can be withheld on a pretax basis up to the $255 monthly limit (including both subsidy and pretax funds). If

the cost of commuting exceeds $255, as it often does in suburban areas where commute time and cost are highest, post-tax funds can be added to the payroll deduction to make fare media purchase more convenient for the commuter.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, federal transportation legislation passed in 2005 and better known as SAFETEA-LU, codified Executive Order 13150, which requires federal employees to receive a subsidized transit benefit. The amount of subsidy offered is not outlined in the legislation; however, most federal agencies provide a full subsidy up to the lower of the monthly cap or the cost of monthly commuting to their employees.

1.3 Legislative History of the Transit Benefit

The legislative history of the transportation fringe benefit is nearly 40 years old (see Table 3). Early forms of the transit benefit sought to encourage transit ridership during the oil embargos of the 1970s. The Deficit Reduction Act of 1984 established parking as a "working condition fringe." Later, the Internal Revenue Service determined that employer-provided parking and transit passes were a fringe benefit that needed to be taxed. In that same ruling, the IRS determined that a certain value was to be considered de minimis. As parking costs soared and transit expanded, federal legislation created caps on the amount up to which parking and transit costs would not be considered taxable.

In the late eighties and early nineties, the first formal transit benefit programs were created, first with TransitChek®, which was only offered in the greater New York City area, and then with Commuter Check®, the first national transit benefit provider. As the popularity of these programs grew and the cost of commuting rose, so too did the need for a higher transit cap. Energy legislation in 1992 created a monthly cap for transit at $60 and for parking at $155, both subject to annual inflation adjustments.

The Transportation Equity Act for the 21st Century (TEA-21), enacted in 1998, was the next major piece of federal transportation legislation. The law brought about two critical changes. First, transit benefits could be offered pretax. Prior to 1998, the transit benefit was only allowed to be offered as a subsidy. Second, TEA-21 mandated that the monthly cap for transit costs increase to $100 per month starting in 2002.

Advocacy efforts in the beginning of the millennium focused on establishing parity between the parking and transit components of the transit benefit. Temporary success was finally found in 2009, when the American Recovery and Reinvestment Act (ARRA) established parity at $230, matching the cap for tax-free parking. That parity was set to expire at the end of 2010, but it was extended through 2011. At the end of 2011, Congress failed to act on another extension and the transit benefit was reduced back to pre-ARRA levels.

Parity was once again established in 2013, when the American Taxpayer Relief Act was passed. However, it was reduced again in 2014. Finally, in 2016, the Consolidated Appropriations Act of 2016 established permanent parity at $255 per month and continued to include a cost-of-living adjustment.

The late 2000s also bore witness to another legislative first, transit benefit ordinances. In 2008, San Francisco passed a city ordinance requiring all employers who employ more than 20 people to offer a transit benefit. Since 2012, New York City, Washington, DC, and the eight surrounding San Francisco Bay Area counties also enacted transit benefit ordinances.

- Looking into the future, five prevalent policy issues can be expected:
- Preservation of the transit benefit in any tax code rewrite;
- Technical corrections to the bicycle benefit including the inclusion of bike sharing;
- The extension of the benefit to partners, S Corps and the self-employed;
- Expansion of the transit benefit to include new mobility on-demand services/modes; and
- Passage and expansion of transit benefit ordinances.

1.4 APTA'S Role in Supporting the Transit Benefit

APTA and its members have historically played a significant role in supporting the transit benefit and advocating for parity. This support goes back to the creation of the benefit and has remained strong. In addition to direct advocacy, APTA has helped educate and notify its members about the status of legislative action and has urged its members, often through legislative alerts, to remain active in supporting the transit benefit. APTA will continue to work with its members, partner organizations and other stakeholders to defend and promote this valuable tool.

Table 3: Legislative History of the Transit Benefit

TIME FRAME	ACTION
1970s	Employer parking and transit pass programs emerge.
1984	Tax Reform Act codifies transportation fringe benefits, establishes a cap of $15 per month and states they may only be provided as a subsidy
1987	TransitChek®, the first transit voucher plan, is introduced in New York.
1990	Commuter Check®, the first national transit benefit provider, is established.
1991	Inflation adjustment increases the transit cap to $21 per month.
1992	Energy Policy Act establishes a $60 monthly cap for transit and makes vanpools eligible. The legislation also sets qualified parking benefit at $155 per month and creates an annual inflation adjustment for both.
1998	TEA-21 allows transit benefits to be offered on a pretax basis and mandates transit cap increases to $100 per month effective January 1, 2002.
2000	Executive Order 13150 mandates transit benefits for federal employees.
2002	Transit cap is increased to $100 per month.

2008	Emergency Economic Stabilization Act adds a $20 per month bicycle benefit starting in 2009; it is only provided as a subsidy and cannot be combined with a parking or transit benefit.
2008	San Francisco adopts a transit benefit ordinance that requires employers with more than 20 employees to provide a transit benefit program.
2009	American Recovery and Reinvestment Act raises cap to $230, matching the cap for tax-free parking (2009 legislation limits the increase through 12/31/10).
2010	Parity extended through 2011.
2012	Transit benefit cap reverts to pre-ARRA amount ($125 per month).
2013	American Taxpayer Relief Act restores cap to $245 per month.
2014	Transit benefit cap reverts to pre-ATRA amount ($130 per month).
2014	New York City, Washington, DC, and eight surrounding San Francisco Bay Area counties have approved or enacted transit benefit ordinances.
2016	Consolidated Appropriations Act, which includes the Protecting Americans from Tax Hikes Act of 2015, creates permanent parity between transit and parking at $255 per month and includes an annual inflation adjustment.

2 THE TRANSIT BENEFIT AND ROLE OF PUBLIC TRANSIT AGENGIES

In August 2016, APTA surveyed public transit agencies on the impact and relevance of the transit benefit to their operations. Among the responding agencies, the transit benefit accounted for 1.87 billion trips annually. The survey also found that up to 50 percent—with the most common range being between 20 percent and 30 percent—of all trips were taken with fares purchased through commuter benefits.

2.1 The Role of Public Transit Agencies

Public transit agencies, in many ways, are critical to implementation of the transit benefit. They usually play three key and interrelated roles: fare collector, in-house provider/processor and marketing agency.

Fare Collector

Riders must interact with a public transit agency's fare collection system to use their employer-provided transit benefit. Transit benefit program fare media take the form of tokens, printed

tickets and passes, and vouchers that are exchanged for tickets. In the last decade, new fare collection technologies have popularized new fare media as part of transit benefit programs including: smart cards, IRS-compliant debit cards and mobile applications.

Due to the popularity of transit benefit programs, public transit agencies that have implemented or planned for advance fare collection systems commonly make provisions to accept fare media purchased through employers or third parties that offer transit benefits. The IRS has initiated very strict criteria that require agencies to create necessary accounting and technological safeguards. Failure by a public transit agency to follow these guidelines could result in area riders being unable to take advantage of the transit benefit.

In-House Provider/Processor

The second role public transit agencies play is fostering employer sales through in-house programs that promote transit's inherent benefits and afford the convenience of in-house sales. In this role, the public transit agency assumes all or some of the role of transit benefit provider, taking on such responsibilities as fare media distribution, sales, marketing and other functions normally conducted by a third-party provider. In some cases, a public transit agency assumes this role but then subcontracts different aspects of the work to private providers. In other instances, the public transit agency works hand-in-hand with other regional public agencies to fulfill the functions. In many cases, when an employer provides an in-house program, the agency provides a more lucrative fare structure for users of the program.

Two of the earliest and most successful programs are the Massachusetts Bay Transportation Authority's Corporate Pass program and the Denver Regional Transportation District's EcoPass. They offer examples of agencies that recognized decades ago that employers could be tapped as auxiliary sales outlets, adding convenience and helping to maintain stable ridership. This type of corporate program can be offered in conjunction with transit benefits (which offer tax benefits) to reduce the effective cost of transit ridership.

Marketing Agency

Finally, public transit agencies can actively promote the transit benefit either through their corporate pass program or in conjunction with third-party providers. The Tax Reform Act of 1984, which codified the transit benefit as a tax-free, employer-provided subsidy, and the landmark Transportation Equity Act for the 21st Century enacted in 1998, which allowed the transit benefit to be offered on a pretax basis, stimulated employer-provided transit fares and

created a new type of sales outlet. These third parties either purchase fare media for resale to their clients or issue debit cards that comply with IRS guidelines.

As a result, public transit agencies have developed integrated business relationships with third party transit benefit providers, thereby expanding sales efforts to employers using an outside sales

force. To that end, the largest third-party vendors secure fare media from hundreds of public transit agencies and distribute them to commuters. In many metropolitan areas, they are the primary provider of fare media to commuters. In the August 2016 APTA survey, 64 percent of the responding agencies reported they either offer their own program or participate in a program run externally. Digging deeper into the data, the surveyed agencies showed how the marketing of transit benefits has evolved in the employer marketplace. (See Table 4.)

Table 4: Public Transit Agency Roles in Transit Benefit Programs

PERCENTAGE OF PUBLIC TRANSIT AGENCIES RESPONDING TO THE AUGUST 2016 APTA SURVEY SAYING THEY:			
Run a transit benefit program entirely in-house	32.4%	Both run in-house programs and refer to a third-party transit benefit provider	20.6%
Run a corporate program	56%	Have a dedicated sales staff who promote the transit benefit	53%
Promote commuter benefits to employers	73.5%		

2.2 The Benefit to Public Transit Agencies

Like any business, a program or product must offer some return. For many public transit agencies that promote the transit benefit, the return is found in three distinct, interconnected benefits: increased ridership, increased revenue and rider satisfaction.

Increased Ridership

In the August survey, more than 79 percent of the public transit agencies surveyed said the transit benefit is important to supporting ridership; 61.7 percent of respondents said transit benefits have

an impact on ridership levels. A correlation between offering a transit benefit and increased ridership is clear.

Increased Revenue

Ridership, of course, translates into fare revenue. In the survey, 11 public transit agencies representing 830 million trips reported total monthly revenue of $44 million from fares through transit benefit

programs. The percentages of total revenue at these agencies derived from commuter benefits ranged between 3 percent and 54 percent; a range of between 12 percent and 16 percent was the most common.

Rider Satisfaction

Commuters, specifically monthly commuters, are likely to be the public transit agency's most loyal riders. Being able to provide rides with their fare media on a recurring basis, either directly or through a third-party program, enhances ridership and demonstrates the public transit agency is focused on passenger mobility. Based on the 2016 survey data and earlier APTA data showing that 60 percent of all transit trips were for commuting to and from work, the effect of the transit benefit on public transit agencies is significant.

Rider satisfaction comes from several sources besides financial savings; namely, transit benefit programs also offer greater efficiency. Employer-provided programs can reduce lines at ticket windows, especially at the beginning and end of each month. Transit benefit programs, regardless of whether they are run by the agency or through a third party, allow for fare media to be fulfilled directly to the commuter via mail or electronic loading of funds to a card product or via their employer who may receive fare media in bulk and distribute it to employees. Fare media provided via a transit benefit operator is simply more efficient for a public transit agency as it reduces the need for station attendants or additional fare machines and thereby can greatly reduce operational costs. This approach obviously benefits the rider, who can easily access the transit benefit and fare media.

2.3 The Impact on Public Transit Agencies If the Transit Benefit Is Eliminated

Cost and financial factors are important to a commuter's decision. What would happen if the transit benefit were to go away? Loss of the transit benefit would have a direct negative impact on public transit agencies in two ways, which would then lead to indirect consequences:

Ridership Loss

An elimination of the transit benefit would act as roughly a 40 percent effective fare increase for the millions of commuters currently using the transit benefit, as fares would be paid using post-tax

earnings. This sharp increase would lead to many commuters finding alternative ways to get to work. The immediate and sharp nature of the increase would cause an acute reaction that would differ drastically from other fare increases. In many cases, fare increases are eased in over time, enabling the consumer to adjust and absorb the increase. [Even when fare increases are implemented carefully, there is some ridership loss.] However, such a sharp increase would have a drastic effect on ridership.

Revenue Reduction

The loss in ridership will lead to a reduction in revenue. Unlike the case of fare increases, where a small reduction in ridership is offset by a higher fare for those who remain, public transit agencies would bear the impact of the ridership loss without higher revenue coming in.
Consider this hypothetical scenario. Virginia Railway Express surveys show that roughly 70 percent of its riders use the transit benefit, and 11.5 percent of those surveyed in 2012 said they tried VRE for the first time because of the transit benefit.[1] VRE's fare revenue was $34.7 million in 2012; this represented a farebox recovery rate of 56.3 percent before depreciation and amortization.[2] If 1 in 10 transit benefit users were to stop taking VRE because the transit benefit was eliminated, it would cost the public transit agency $2.23 million in lost revenue, dropping the farebox recovery rate to 52.3 percent.

The 7 percent drop in revenue is significant for an agency of VRE's size. Most public transit agencies, and almost all regional commuter systems, rely on farebox recovery to cover operating expenses. Agencies such as VRE have no other source of revenue to help offset operating costs or meet capital needs. Consequently, an unintended or planned reduction in revenue would have at least four serious consequences:

Need for Additional Operating Subsidies

State and local partner agencies would need to provide additional revenue for an agency such as VRE to continue to operate. In a scenario like this, a state such as Virginia would need to subsidize multiple agencies to make up for the lost revenue associated with shared ridership losses stemming from an elimination of the transit benefit.

Fare Increases and Further Ridership Loss

It is unlikely that state and local partner agencies would be able to sustain covering increased operating deficits over a long period. This would force many agencies to increase fares, which would further ridership loss but increase revenue.

[1] http://vre.org/about/passenger-survey/passenger-survey-2012-results-pdf.
[2] http://vre.org/vre/assets/File/Financial/VRE_FY2012_Financial_Stm_2012.pdf.

Deference or Elimination of Capital Expansion, Maintenance and Safety Projects

Agencies would need to defer capital and maintenance projects to address the lost revenue. This could lead to long-term safety issues and lead to a reduced customer experience, which would impact ridership further.

More Reliance on Federal Funding

If agencies were to spend more of their available state and local funds on operations, it would force them to rely more heavily on federal transit funds to address capital and maintenance needs.

3 WHY CONNECT PUBLIC TRANSIT AGENCIES WITH EMPLOYERS

Offering the transit benefit to employers helps them in several ways. The obvious benefit is the tax savings to employers. When TEA-21 permitted the transit benefit to be provided on a pretax basis, employers could provide what has proved to become a popular benefit at no cost to the employer because the tax savings typically exceed any fees that might be charged by the benefit provider. As a pretax offering, employees at companies with offices in different metropolitan areas can choose to receive the amount they need for their transit fare rather than a blanket and often inequitable subsidy from their employer as the law previously allowed. Finally, the transit benefit offers employers the ability to fairly balance incentives for auto use such as free or reduced-rate parking and auto allowances.

3.1 The Role of Employers

In "Tax-Free Transit Benefits at 30: Evolution of a Free Parking Offset," Baker, Judd and Oram best state the role employers play in the success of the transit benefit. "Transit benefit plans are popular with employers, employees, and government policy makers, and have impressive results when designed well. Researchers and most professionals in the transportation demand management (TDM) field believe financial incentives are vital for employer-based traffic reduction programs to have more than nominal impact. Reflecting the strong reluctance by employers to charge for parking and the excellent match with 'corporate culture' that transit benefits can provide, many believe transit benefits are the most potent TDM measure that can have wide appeal. It's a second best action, next to directly addressing market distortions, but appears to be the one that can induce the most overall change. Transit benefits also can be a catalyst for employer use of other TDM actions (such as guaranteed ride home programs or flexible work hours), which can further and

often dramatically magnify the overall impact of transit benefits."[3]

3.2 The Benefits to Employers

The APTA survey findings contribute statistical data to support the anecdotal evidence that the transit benefit is an effective tool that employers can use to provide transit options for their employees. In its survey, APTA found that more than 40 percent of public transit agencies with an in-house transit benefit program have more than 100 employers involved. In that same survey, 58 percent of the respondents say they have more than 10,000 employees enrolled; 19 percent say they have more than 50,000 commuters enrolled. This is in addition to the estimated 3 million people using third party providers for commuter benefits.

The value of the transit benefit to employers is manifested in three specific areas:

- Direct financial benefits;
- Indirect financial benefits; and
- Employee satisfaction.

Direct financial benefits

Besides the tax advantages afforded employees, the transit benefit also provides tax-free benefits to the employers who offer it (see Table 5). Funds that are withheld or subsidized by the employer are not subject to payroll taxes. The 7.65 percent that an employer saves on payroll taxes is typically more than what it costs an employer to provide the benefit. Even if an employer were to hire a third-party provider to administer the transit benefit, the fee for such service generally ranges from 4 percent to 5 percent of the amount the employer withholds or subsidizes, depending on the provider and services selected and the volume of business. When using a third-party provider, internal costs are dramatically reduced. Companies of all sizes realize some form of financial benefit from providing the transit benefit.

[3] Baker, Judd and Oram, "Tax-Free Transit Benefits at 30: Evolution of a Free Parking Offset," *Journal of Public Transportation*, vol. 3, no. 2 (2010).

Table 5: Tax Savings for Employers from the Transit Benefit

TAX SAVINGS FOR EMPLOYER (Per employee)* *Figures based on an employee salary of less than $127,200 per year.	**TRANSIT BENEFIT** (Cap of $255 per month)
Social Security	$190
Medicare	$45
Total Annual Tax Savings Per Employee	$235

Indirect financial benefits

In addition to the direct financial benefits that employers enjoy, several indirect benefits stem from the increased transit ridership associated with the transit benefit, including:

- A reduced need to buy/lease parking;
- An increase in productivity;
- A reduction in tardiness; and
- A new and key tool for recruitment and retention.

In a study conducted by TransitCenter, the nonprofit organization found that "companies that offer tax-free commuter benefits report extremely positive effects—from increased job satisfaction, reducing companies' carbon footprints and retaining/ recruiting employees."[4]

Employee Satisfaction

As congestion across the nation continues to increase, more and more job seekers consider "the commute" when considering where to work. Simultaneously, "work-life balance" is the second most common reason people leave their job, falling only behind "advancement" and ahead of "money," according to a 2014 survey by BambooHR.[5] For employers in many urban areas, a bad commute can lead to an unhappy staff with lots of turnover.

One way to augment employee satisfaction is for employers to offer so-called "commute benefits." These could include the transit benefit, but also telework options, compressed work hours and other flexible-time options.

[4] TransitCenter, "2010 Commuter Benefit Impact Survey," http://www.transitchek.com/uploadedFiles/Transit_Resources/IndustryInformation/2010_Commuter_Benefit_Impact_Survey.pdf.
[5] BambooHR, 2014 survey, https://www.bamboohr.com/resources/infographics/workplace-dealbreakers/.

The transit benefit gives employers the opportunity to engage in their employees' commute. It encourages employers to provide a financial incentive to employees willing to try transit. Moreover, employers can offer a benefit that helps improve employee morale, and they are able to do so at almost no cost.

3.3 The Impact of Employer Involvement – Mode Shift

A study by TransitCenter indicated that nearly 1 in 5 employees, or 18 percent, changed their commuting patterns after their employer offered a transit benefit.[6] An 18 percent mode shift is incredible and illustrates the potency of this government policy. The transit benefit also helps reduce congestion, thus helping those who continue driving to work.

4 TRANSIT BENEFIT IMPACT ON RIDERSHIP AND REVENUE

The evolution and success of the transit benefit is the result of many factors—tax law, environmental policies, increased traffic congestion and fare increases, to name a few. Employer-provided transit benefits, while often viewed as an offset to free parking, can also be viewed as a matter of economic choice and are subject to price elasticity. As such, the transit benefit brings down the cost of transit and thus increases ridership.

APTA found that in 2005, 6.2 million (or 4.6 percent) of all U.S. workers commuted on public transportation. By 2014, the number of workers commuting on transit had risen to 7.6 million, a 23 percent increase in nine years. In 2014, 5.2 percent of all U.S. workers commuted on transit.

4.1 Price Elasticity and the Transit Benefit's Role in Increasing Ridership

Transit fares and their impact on ridership choices are subject to price elasticity like most other products. This elasticity is measured as the change in consumption of a good or, in this case, a service, caused by a percentage change in its price or some other variable. When transit fares increase, a decline in use or a mode switch is expected. Conversely, when fare discounts such as monthly passes or the transit benefit are introduced, ridership is expected to increase.

The transit benefit and, more so, how transit fares are priced in the first place, suggest that riders are sensitive to fares. However, they are also sensitive to mode choices. Commuters with potentially long drives to their place of employment are more likely to consider transit options based on cost and travel time. This is

[6] TransitCenter, *The Impact of Commuting On Employees—How Commuter Benefits Can Help: February 2008* (New York: The McGraw-Hill Companies Inc. and TransitCenter, Inc., 2008), http://www.transitchek.com/uploadedFiles/Transit_Resources/IndustryInformation/2008_Business_Week_Survey.pdf.pdf.

evident in traditional transit markets, such as Chicago, the Northeast and the San Francisco Bay Area. Still, in most other markets, when on appearance there is a good highway network, the transit benefit is exceedingly popular. Even vanpools, which tend to serve suburban and exurban markets, report a high saturation of riders using the transit benefit. The Transit Benefit Works for Us Coalition estimates that at least 3 million working families take advantage of the transit benefit through their employer.[7]

Litman, in "Transit Price Elasticities and Cross -Elasticities," concurs that travel choice is affected by the options a commuter has. Not surprisingly, mode shifts from the transit benefit are likely to be greatest when transit ridership is low. Litman reported that the transit benefit increased ridership in New York—the highest-volume transit market in the country—by 16 percent to 23 percent. In Philadelphia, it increased ridership 32 percent.[8] A Bay Area study showed a lower increase in San Francisco compared with other parts of the Bay Area, where the increase could be more than 40 percent. It concluded that these percentages "probably represent the lower range of mode shifts since they are marketed primarily as an employee benefit and are therefore most attractive to firms with high current levels of transit commuting."[9]

Several other research studies and papers have looked at the price elasticity of the transit benefit. The Metropolitan Transportation Commission's 1994 study of the San Francisco Bay Area Commuter Check voucher program concluded that transit ridership rose an average of 34 percent when fares were partially discounted, a significantly higher rate than was originally considered. This finding suggested that while ridership in San Francisco grew at 25 percent, suburban ridership at employers that offer a transit benefit could grow at a greater rate closer to 43 percent. This study was completed prior to the pretax option being implemented in 1998.

The use of pretax transit benefits is popular and easier to analyze. Studies including the MTC study show that commuters who receive the transit benefit enjoy a 30 percent to 40 percent tax savings. The 40 percent savings and -0.15 elasticity factor suggest ridership should grow about 6 percent as a result of offering commuters the transit benefit. A 2005 national study reported gains of 3 percent to 155 percent, with an average gain of 39 percent. The 2005 pretax study findings do reflect the higher benefit levels available at that time.[10]

More recently, a study of the Massachusetts Bay Transportation Authority's monthly pass programs found price elasticity for participants in MBTA's corporate pass program of +0.04 (0.8 percent change in ridership divided by the price increase of 18.6 percent). Ridership, when offered through the corporate pass program, actually increased despite a fare increase, meaning that discounted pass sales may be insulated from the effects of fare increases. Furthermore, the study found that employers that offered passes on a pretax basis had higher participation rates, with a median participation rate of 44 percent; this is in contrast to a median

[7] http://www.commuterbenefitsworkforus.com
[8] T. Litman, "Transit Price Elasticities and Cross -Elasticities," *Journal of Public Transportation*, vol. 7, no. 2 (2004).
[9] Metropolitan Transportation Commission, "Impact of Bay Area Commuter Check Program: Results of 1994 Employee Survey" (San Francisco, 1995).
[10] Stuart M. Baker et al., "Tax-Free Transit Benefits at 30: Evolution of a Free Parking Offset," *Journal of Public Transportation*, vol. 13, no. 2 (2010).

participation of 40 percent in companies that did not offer a pretax option. "Not only do pretax benefits provide an effective discount, but the automatic monthly or weekly payroll deduction itself is a convenient benefit for the employee which allows them to not have to think about ordering and paying for a pass each month."[11]

4.2 Elimination of the Transit Benefit – Impact on Ridership

It is possible to partially gauge some impact on ridership from anecdotal evidence when the monthly cap was reduced in 2012. Before getting into the numbers, however, several factors must be considered.

- A reduction in the transit benefit only impacted riders who had monthly transit costs exceeding $120 per month. Impacts were not felt system-wide, like they would have been if the transit benefit were decreased further or eliminated.

- 2012 saw the return of job creation following the recession of 2008–2009. More people were going back to work, so the number of commuters (transit and driving) increased during this period.

- Gas prices began to fall, which made driving to work cheaper and created a financial incentive for driving to work.

While these factors limit the ability to draw any clear distinctions, they do help provide some context for assessing the impact of eliminating the transit benefit. Based on the limited research data available, it is clear that a reduction in the transit benefit cap had a negative impact on ridership. Perhaps the most telling story can be found in Washington, D.C. In March 2013, a report prepared for the board of the Washington Metropolitan Area Transit Authority found that a reduction in the transit benefit played a role in reducing transit ridership. That same report found that while other factors contributed to ridership reductions, many of the stations that saw the greatest decrease in ridership were those with park-and-ride lots as well as those frequented by commuters who would have been most affected by the reduction in the transit benefit.[12]

Similarly, Virginia Railway Express ridership decreased following the decrease in the transit benefit. Following years of record growth, which corresponded to the 2009 increase in the transit benefit, VRE ridership began to decrease month-over-month. Those decreases ranged between 1 percent and 7 percent for much of 2012, according to CEO reports provided to the VRE board.[13] That trend sharply reversed in 2013, when the monthly cap was increased to $230. VRE surveys find that 70 percent of its riders participate

[11] Dianne E. Kamfonik, "Quantifying the Current and Future Impacts of the MBTA Corporate Pass Program" (master's thesis, Massachusetts Institute of Technology, Department of Civil and Environmental Engineering, 2013).
[12] http://www.wmata.com/about_metro/board_of_directors/board_docs/031413_4ARidershipAnalysis.pdf.
[13] http://vre.org/about/board/board-agenda-minutes/.

in a transit benefit program,[14] so changes in the cap and availability impact riders significantly.

Regional commuter rail systems around the nation saw similar decreases in ridership. For example, in Chicago, regional rail provider METRA saw a decrease in ridership of 1.7 percent. Moreover, the Chicago Transit Authority saw a decrease of 1.3 percent for bus service and 4.3 percent for rail service in 2012.

The transit benefit, too, generally blunts the impact of fare increases. Since 2009, federal laws that set the maximum monthly cap on the transit benefit have created a roller coaster effect, confounding employers, commuters and public transit agency revenues. Starting with a COLA in January 2009, the cap increased and decreased nine times before the Consolidated Appropriations Act of 2016 included provisions for permanent parity between transit and parking at $255 and an annual inflation adjustment. The impact of these changes is hard to quantify for several reasons, including workplace changes, how employers order fare media and what fare increases may have been implemented. Public transit agencies, though, acknowledge seeing activity changes in ordering patterns and thus revenue.

4.3 Elimination of the Transit Benefit – Impact on Revenue

Nationally, public transit agencies are under heavy pressure to maintain a state of good repair, expand service and manage fares. Federal transportation funds can only be used for capital expenses, except for limited circumstances. Consequently, farebox revenue is a critical and primary source to cover operating expenses. A sharp increase in transit costs could create a spiraling effect whereby ridership is sharply reduced; this is because the cost of transit would increase by roughly 40 percent if the transit benefit were to be eliminated. The accompanying loss of farebox revenue would cause public transit agencies to reduce service, increase fares or seek additional sources of funds (i.e., local tax revenue) to cover the operating costs resulting from lost revenue.

An increase in fares or a reduction in service would have a compounding impact whereby a second wave of ridership loss occurs. In the case of a local government adding additional sources of funds, it is likely that revenue would come from sources tied to capital expansion or used for other transportation expenses. Public transit agencies may be able to use other funds they receive as a stop-gap measure but, at some point, the ridership loss and associated farebox reduction would force them to make other plans (i.e., reduce service or increase fares).

The above data and estimates of transit benefit program participation from the Commuter Benefits Work for Us Coalition suggest that approximately 40 percent of commuters receive an employer-provided transit benefit. This is consistent with studies in the San Francisco Bay Area and data from informal surveys of public transit agencies. For 2013, public transit agencies reported revenue of $15,085.6 billion at an average fare of $1.42 or about $62 per month. Using these figures, the impact of the transit benefit on fare revenue is roughly $6,034.2 billion. Should the transit benefit disappear, lost ridership could mean a significant loss of

[14] http://vre.org/vre/assets/File/pdfs/2016VRE_Survey_Results.pdf.

income. For example, just a 1 percent decrease in transit benefit users translates into a loss of more than $20 million.

5 UNIVERSAL BENEFITS OF THE TRANSIT BENEFIT

The transit benefit affords benefits beyond simply public transit systems. Other important impacts are reducing congestion on the nation's roadways, improving air quality and conserving energy.

5.1 Mode Shift – Reducing Congestion

APTA statistics find that in 2005, 6.2 million, or 4.6 percent, of all U.S. workers commuted on public transportation. By 2014, the number of workers commuting on transit had risen to 7.6 million, a 23 percent increase in nine years. In 2014, 5.2 percent of all U.S. workers commuted on transit. Furthermore, the percentage of workers using transit is higher in urban areas, especially large, more congested urban areas. In metropolitan statistical areas, which are comprised of entire counties and often include significant amounts of rural land use, 5.9 percent of commuters used transit in 2013. In the 100 largest MSAs, 7.1 percent of commuters rode on transit. In the 10 largest MSAs, 12.9 percent workers used transit; in the central cities of those 10 largest MSAs, 31.5 percent of commuters used transit.[15]

Transit plays a critical role in reducing congestion, and the transit benefit plays a critical role in increasing transit ridership. According to the Transit Benefit Works for Us Coalition, a 2008 study conducted by TransitCenter found that an 18 percent mode shift can be expected when the transit benefit is introduced to a workplace; an 18 percent mode shift is significant. The coalition also referenced a study conducted by Inrix, a real-time traffic information provider, that asserts a 3 percent reduction in vehicle miles traveled can result in a 30 percent reduction in congestion. [16]

A 2015 study conducted by Texas A&M for Virginia Railway Express analyzed the impact VRE ridership has had on congestion. It found that ridership has had a significant impact on congestion reduction along two primary commuting corridors in northern Virginia, I-95/395 and I-66. Moreover, the existing ridership contributes to a reduction of between 8 percent and 18 percent in freeway travel delay in the two VRE corridors.

[15] American Public Transportation Association, *2015 Public Transportation Fact Book* (Washington, D.C., November 2015).
[16] TransitCenter, *The Impact of Commuting On Employees—How Commuter Benefits Can Help: February 2008* (New York: The McGraw-Hill Companies Inc. and TransitCenter, Inc., 2008), http://www.transitchek.com/uploadedFiles/Transit_Resources/IndustryInformation/2008_Business_Week_Survey.pdf.pdf.

The delay savings effects range between 1.6 million hours to 3.8 million hours from the existing VRE service and ridership. This amounts to an entire lane of traffic along both corridors.[17]

5.2 Mode Shift – Reducing the Financial Burden on the Transportation System

It has often been stated that transit and transit projects can reduce highway construction and expansion costs in common corridors. The American Road & Transportation Builders Association estimates urban highway capacity expansion at $4 million to $10 million per lane-mile.[18] Net present value of these costs can be reduced by lowering road congestion and usage. Litman also has studied roadway cost impacts of mode shifts.

Table 6: Roadway Cost Impacts of Automobile to Transit Shifts

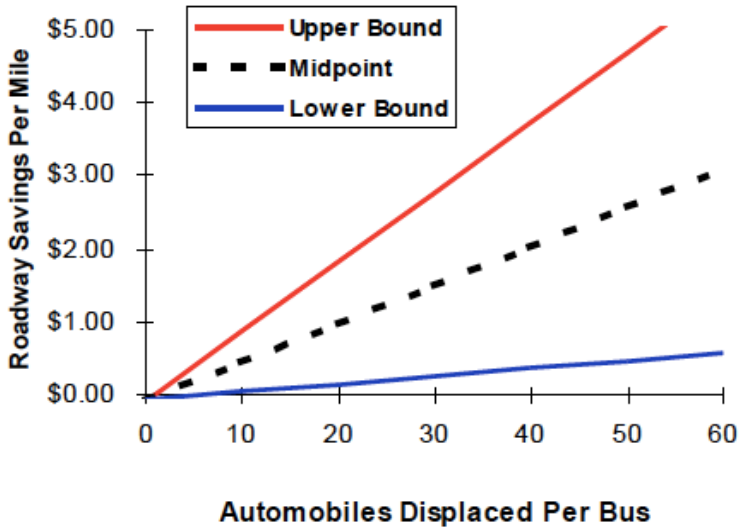
CATEGORY	DESCRIPTION	COST IMPACT
Road wear	Costs of road deterioration due to vehicle traffic, road repair costs, and increased strength during road construction to minimize deterioration.	Buses tend to increase these costs due to heavy axle weights.
Lane size	Incremental costs of wider lanes required to accommodate larger vehicles. Generally set to accommodate trucks and service vehicles.	Bus service may increase lane requirements in some locations.
Traffic services	Roadway planning, traffic controls, policing, lighting, etc.	Because these costs are based on traffic volumes, they tend to decline.
Traffic capacity	Costs of adding traffic lanes, improving intersections and other measures to accommodate increased traffic volumes and reduce traffic congestion.	[Transit] can significantly reduce [the} costs [of building, maintaining and operating a road system]. This impact is reflected on congestion costs values.

Source: Todd Litman, *Evaluating Public Transit Benefits and Costs: Best Practices Guidebook* (British Columbia, Canada: Victoria Transport Policy Institute, September 2016), Table 24.

[17] "Congestion Relief Provided by Virginia Railway Express: Analysis Conducted by Texas A & M University System For Virginia Railway Express," June 2015, http://vre.org/about/pr/vre-congestion-relief-report/.
[18] http://www.artba.org/about/faq/.

Table 6 summarizes cost impacts of automobile to transit shifts. Where vans and small buses replace driving on local streets, roadway cost savings typically average between 1 cent and 3 cents per reduced automobile-mile. Where buses operate on primary commuting corridors, costs are reduced. Where urban automobile travel shifts to rail transit, savings typically average about 5 cents per vehicle-mile reduced, or 2 cents per mile net costs (taking into account fuel tax revenues). If a transit service or improvement avoids or defers the need for a specific highway project, avoided costs can be calculated. Such savings typically average between 15 cents and 50 cents per reduced urban-peak automobile-mile.

Graph: Roadway Savings Per Mile of Bus Travel



Source: Todd Litman, Evaluating Public Transit Benefits and Costs: Best Practices Guidebook (Victoria, British Columbia, Canada: Victoria Transport Policy Institute, September 2016), Figure 10.

The graph illustrates roadway cost savings for a shift from automobile to bus travel. Thirty car drivers shifting to transit provides savings worth between $0.24 and $2.76 per mile, depending on assumptions.

To put this theory into practical context, the Texas A&M study on VRE is useful. It found that if VRE commuters returned to the roadways, one full lane mile along the I-95/395 and I-66 corridors would be required just to accommodate these commuters. The study concluded the following regarding VRE's impact on the need for new capacity: [19]

- In road terms, between one-half and 1.2 lanes of freeway capacity are saved by the two Virginia Railway Express lines (adding the morning and evening peak periods).

[19] Todd Alexander Litman, *Evaluating Public Transit Benefits and Costs: Best Practices Guidebook* (Victoria, British Columbia, Canada: Victoria Transport Policy Institute, September 2016).

- Because lanes cannot be added in partial increments, about 90 miles of construction in each direction (180 lane-miles of freeway) would be required on the highway corridors adjacent to the VRE lines (I-95/395, I-66 and I-495) to provide the equivalent capacity of an expanded VRE.

- Using cost estimates derived from Fairfax County projects, the 180 lane-miles would cost at least $1 billion to construct, with additional costs for right-of-way or if extensive elevated roadway were needed.

Thus, transit benefits and its impact on transit ridership reduces the need for government spending on road systems.

5.3 Importance for Energy and the Environment

The APTA's *2015 Public Transportation Fact Book* outlines several environmental and energy benefits of transit[20]:

- More than 4 billion gallons of gasoline are saved.
- 37 million metric tons of carbon dioxide emissions are avoided.
- The annual carbon dioxide reductions provided by public transportation equals the annual carbon storage capacity of 29 million acres of forest.

Isolating what percentage of these improvements are directly associated with the transit benefit is difficult. However, as articulated throughout this white paper, the transit benefit has played a significant role in increasing transit ridership and, therefore, much of the energy and environmental savings referenced above are a direct result of the transit benefit.

6 CONCLUSION

The transit benefit is an effective tool that has been successful in:

- Reducing the effective cost of public transit ridership
- Saving money for middle class Americans and the companies they work for
- Increasing transit ridership particularly in suburban areas where the cost of commuting is highest
- Increasing the revenue, operational efficiency and financial stability of public transit agencies
- Encouraging employers to expand transportation options

[20] American Public Transportation Association, 2015 Public Transportation Fact Book (Washington, D.C., November 2015).

- Reducing congestion, which benefits all users of the transportation system
- Deferring and/or eliminating the need for roadway maintenance and costly lane expansion
- Improving air quality
- Conserving energy

Eliminating the transportation fringe benefit would have a significant impact that would:

- Serve as an effective fare increase of roughly 40 percent affecting millions of commuters
- Dramatically reduce transit and vanpool ridership
- Increase payroll taxes for employers offering transit benefits to its employees
- Impact revenue generation and public transit agency financial stability
- Increase congestion, requiring additional capital expansion and maintenance of the road system

Many of the studies identified in this white paper recognize the role the transit benefit plays in increasing ridership. Additional research is needed to:

- Determine employer attitudes on the benefit;
- More directly assess the impact of the hypothetical elimination of the transit benefit; and
- Get a better understanding of rider attitudes on the benefit or the potential mode shift if the transit benefit were to be eliminated.

Conclusion

APTA recognizes the value brought by transit benefits and strongly recommends they remain a component of the U.S. tax code as Congress deliberates tax reform.