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TDM Status Report
Parking Cash Out

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PARKING CASH OUT

I. DESCRIPTION

Employers often provide employees with subsidized parking. Employers may provide free parking to employees in parking spaces they own or lease, or provide parking at rates below market value in the area. The parking subsidy is the difference between what employees pay for parking, if anything, and the market rate for parking as established by comparison with rates for long term parking in the vicinity of the employer.

Employer paid or subsidized parking boosts employee use of autos for commuting. Studies of like employers with and without employer paid parking suggests employer paid parking increases the number of cars driven to work by an average of 19 cars per 100 employees, and increases solo driving about 25 percent.[1]

There are at least two ways to change employer parking subsidies in the interest of reducing their effect on solo driving. The charge parking or "cold turkey" approach removes the subsidy and provides no form of compensation. While potentially effective in reducing solo driving, employees accustomed to employer parking subsidies are likely to resist a sudden end in subsidies. The "Cash Out" perhaps is a more acceptable way to deal with parking subsidies. Under this option, the employer gives employees eligible for discount parking the choice of taking subsidized parking or taking the parking subsidy in cash. This option may be more acceptable because it provides subsidized employees a new choice. They may continue to enjoy the same subsidized parking, or they may take the cash equivalent of the subsidy and use transit or carpools or even continue solo driving as long as they park outside the employer owned or leased parking facilities.

The cash out is different from a general travel allowance or from subsidies targeted toward transit or carpool ("alternative mode") users. The cash out is tied specifically to the parking subsidy. In the case where the employer leases parking, the subsidy is the difference between what the employee pays, if anything, and the lease rate for the parking space. In the case of owned parking, the subsidy is the difference between the fair market value of the parking in the vicinity and what the employee pays. In either case, it is directed only at parkers eligible for subsidies. In some companies, the cash out might apply only to a small set of employees eligible for parking subsidies. Examples include managers or employees with the most seniority. Only these employees would be eligible for the cash out option. In contrast, a travel allowance is not tied to the parking subsidy. It may be set at any rate and may be offered to all employees or to alternative mode users.

New California legislation will soon provide numerous examples of the cash out. AB2109 requires certain employers in poor air quality areas to offer employees the cash out option. Specifically, employers who provide employees with lease parking for free or a discount must offer the same employees the option of taking the parking subsidy in cash.

II. EFFECTS

Travel Effects

Documented experience with the cash out concept is limited. However, its effectiveness in reducing auto use can be estimated from experience with charge parking, alone or in combination with a general travel allowance. There are cases in the literature showing the effect of introducing employee charge parking without a simultaneous change in other transportation program variables. Based on these cases, if the cash out is as effective as charge parking without any cash or allowance alternative, solo driving might decline significantly. Two examples suggest the possible range of effectiveness:

- Twentieth Century Corporation, Los Angeles, CA: A program of transit and vanpool subsidies as well as preferential parking for carpoolers had little effect until the company raised the price of employee parking from no charge to $30 per month for solo drivers. Solo driving decreased from 90 to 65 percent after pricing, a 49 percent decline.[2]

- Commuter Computer, Los Angeles, CA: This Los Angeles company dropped the drive alone share from 42 percent to 8 percent by eliminating free parking, an 81 percent decline.[3]

The cash out probably will not be as effective in reducing solo driving among employees at any given work site as charging employees for parking with no other compensations. Under the cash out, only employees opting to take the cash out face new parking charges. And, even among those employees facing new parking charges, the cash out will be less effective than the charge parking ("cold turkey") option simply because employees have cash to pay for some or all the parking cost.

How much *less* effective might be the cash out compared to charge parking? An indication is provided by a model predicting effectiveness of the cash out. The model is based on results of parking pricing experience among a national sample of employers, formulated into a relationship between price and the drive alone share among commuters. The model was developed by Donald Shoup at the University of California, Los Angeles.[4] According to the model, the cash out might be about two thirds as effective as charge parking.

Another way to gauge the effectiveness of the cash out is to examine experience where employers have charged for employee parking but combined pricing with a general travel allowance. Specifically, since the cash out entails charge parking for employees who take cash, it is somewhat similar to combining charge parking with a travel allowance for some or all employees. Certainly, the cash out effect should be closer in effectiveness to this option than charge parking alone. As expected, at least some programs combining charge parking and travel allowances are less effective in reducing solo driving than previous examples of charge parking alone:

- Los Angeles County, Los Angeles, CA: Eliminated free parking for civic center employees and charged from $120 to $70 per month depending on location. Provided $70 per employee transportation allowance. Solo shares declined from 53 to 47 percent, an 11 percent decline.[5]

- CH2M Hill, Bellevue, WA: Began charging solo drivers $40 per month for parking, the amount the company pays the building owner for parking. All employees receive a $40 per month travel allowance in their paychecks. Carpoolers park for free. Walkers, cyclists and drop offs keep the travel allowance. Solo driving declined from 89 percent to 64 percent after the parking policies were put into place, a 28 percent decline.[6]

Of course, the applicability and effectiveness of the cash out depends on a variety of area and employer variables:

- The proportion of employees who are candidates for the cash out. For example, the cash out option may not apply to employees who use personal vehicles as a condition of work.

- Availability of transit and other alternatives to solo driving which might attract employees to take the cash out and use these alternatives

- Availability of uncontrolled parking supplies (e.g. neighborhood streets, vacant lots, utility and train right of ways) where some employees might be tempted to park after taking the cash out.

Other Effects

Because the cash out reduces solo driving and traffic, it also reduces vehicle miles of travel and related emissions. One study suggests the cash out might reduce VMT from 24.1 to 20 per day per employee in the Los Angeles area.[7] This reduction translates into a savings of roughly $2.3 million in annual pollution costs for the area.

Another important effect of the cash out is on employer parking. As employees opt for the cash out, employers will require less parking. Employers leasing parking may be able to reduce the number of stalls leased and thereby reduce costs. Of course, if the employer can not re-negotiate the lease or if the lease rate for parking is buried in the overall building space lease, it may not be so simple to reduce lease costs. Employers owning parking may be able to use freed up space for other than parking, or offer the stalls on the open market at long or short term rates.

Developers also may gain from the cash out as the need for employee parking declines. They will save by reducing the amount of garage and parking lot space necessary to service commuters. As an illustration, suppose the developer is allowed to build 1,000 fewer surface spaces around an office building because of reduced commuter parking demand. A conservative estimate of amortized savings might be about $900 per stall per year. Amortized over 30 years at 10 percent, the annual savings are about $95,500 per year. Operations and maintenance savings might be $100 per space per year), or $100,000.

One of the possible ill-effects of the cash out is spillover parking. Parkers accepting the cash out and exiting their usual parking facilities may be tempted to park on street in neighborhoods and commercial districts, or may turn to meter feeding. Anticipating this possibility as a result of the cash out law recently passed in California, the legislation provides (Section 1f) that employees accepting the cash out must comply with employer guidelines designed to avoid spillover parking in neighborhoods or lose the cash out privilege.

III. IMPLEMENTATION

Applicability

The potential of the cash out concept relates first and foremost to the degree of employer subsidized parking in an area. The proportion of commuters with employers paying for all or part of parking may be over 50 percent in some areas.[8]

The availability of alternative free or unregulated parking within an area considered for the cash out is another applicability consideration. An ample supply of parking will tend to reduce the proportion of solo drivers taking the cash out and switching to alternative modes.

The capacity of transit and rideshare services in an area is an important applicability issue. Price increases will shift more commuters to transit or ridesharing where these services and opportunities are best, all else being equal.

Applicability also may be determined by the proportion of lease versus owned parking in an area. If recent state legislation requiring the cash out option in California is any guide, the first application of the cash out will be to employers who lease rather than own parking. These employers stand the best chance of being able to shrink lease parking as they pay the cash out.

The proportion of lease versus own parking will vary across jurisdictions, company size, private versus public sector and urban versus suburban setting. For example, a recent survey of employers in the Honolulu area suggests the highest proportions of own versus lease parking might be in Waikiki as opposed to downtown. The first area is dominated by hotels where 92 percent of employers own their own parking. In downtown, only 32 percent own parking, with the private sector leasing more than the public sector.[9] Thus, in this example, the cash out is initially most applicable to private employers in the downtown.

The structure of lease parking also will bear on applicability. As mentioned, the cost of parking to an employer may be lumped into the overall lease rate or simply not negotiable separate from the overall lease rate. Little is known about the proportion of leases in urban areas with parking rates bundled versus separated. In the Honolulu area, parking lumped into the overall lease can be found in up to one third of the leases depending on specific area.[10]

Applicability also depends on the willingness of jurisdictions to alter parking codes in concert with the cash out. In the best case, localities will revisit parking requirements in light of reduced commuter demand for parking and alter codes accordingly.

Company policies with respect to personal or company car use are another issue in applicability. The fewer the number of employees that fall under such policies, the better the prospects for cash out since such policies complicate consideration of the cash out. At the least, policies encouraging personal or company car use raise questions about which employees will fall under what policies or whether the policies need revision.

Policy Development

There are a variety of policy issues to consider in the implementation of a cash out program. Legislation or regulation is needed to implement a program, unless the cash out is simply promoted to employers on a voluntary basis. Additionally, tax codes and labor agreements may need review and modification.

- *Enabling Legislation:* If implemented at the metropolitan level, enabling legislation might take the form of an ordinance. A cash out ordinance might require employers who offer subsidized parking to any employees to offer those same eligible employees the option of taking the cash equivalent instead of the parking. The ordinance might apply to all employers in a central business district, to regional activity centers or to an entire region. It might apply to all public and private employers over a certain size threshold, to just leased parking or leased and owned parking. All depends on perceptions of traffic problems in the areas, political support for action or the status of other transportation and parking programs in the respective areas.

- *Tax Code Reference/Modifications:* A cash out ordinance should indicate the cash out is a taxable fringe-benefit which employees must report. While not strictly necessary, it may be advisable to clarify its deductibility as a business expense in both state and federal tax codes, since it is not treated explicitly in such codes. There are other state tax code changes which are not required but advisable to consider in the case of the cash out. Limiting State tax deductibility of parking allowances and subsides in line with recent changes in the federal tax law, or reducing deductibility for state taxes even further than the federal limit, would put the cash out on a more competitive footing with the subsidized parking benefit.[11]

- *Labor Contract Negotiations:* In some cases, the cash out may require negotiations between union and management. Where parking privileges have been negotiated as a formal benefit between labor and management, the cash out probably will require negotiations. Unions may or may not resist the cash out depending on the package of wages and benefits under negotiations at the time cash out options are brought up. One point of contention might be that the cash out is a benefit to only one segment of employees, those eligible for parking privileges. Union representatives may push for a broader based benefit, such as the travel allowance applying to all employees.

- *Parking Code Modifications:* Because the cash out can be expected to reduce parking demand, localities should re-evaluate parking requirements for new office, industrial and other developments generating commuter parking in the zone where the cash out applies. It should be possible to reduce requirements for such future developments. Furthermore, because parking demand will fall in *existing* developments as well, it may be possible for employers to satisfy employee parking demand by leasing available parking in other buildings off site. Parking code provisions might be revised, if necessary, to permit this action as a way to satisfy code requirements.

Program Exemptions

Where employers are bound to provide subsidized parking by collective bargaining agreement in effect prior to the effective date of the regulation, any enabling ordinance might exempt employers from ordinance requirements until expiration of such agreements. The ordinance should not conflict with or supersede employer obligation under any such agreement.

Exemption also is needed to account for certain parking lease provisions. Under the cash out, employers should be exempted whose current parking leases prevent reductions in the number of stalls without penalty. The exemption should run only until expiration of the lease. The cash out also might exempt owned parking spaces, if the owned parking issue proves a barrier to the political feasibility of a cash out ordinance. Another option might be to exempt only those owners who can demonstrate significant financial penalty resulting from inability to utilize parking freed up under the cash out.

Exemptions also should address employees in appropriate special circumstances. For example, the Los Angeles County Charge Parking and Travel Allowance program (not a true cash out, but instructive nevertheless) excludes Judges and Commissioners of the Municipal or Superior court; employees assigned to double shift operations; all "mileage permittees" (those using personal cars as a condition of work); employees who begin work on a regular shift beginning before 6:00 a.m. or after 2:00 p.m.; and rotational shift employees in the Sheriff's Department. Where employers perceive a conflict between cashing out employees and policies providing for use of personal vehicles as a condition of work, one approach might be to follow the Los Angeles County example and simply exclude from the ordinance employees using personal vehicles as a condition of work.

Of course, as with any exemptions, care should be taken not to weaken the ordinance's intent and effect. If those with personal car use assignments as a work condition are exempted, requests for personal car use may well increase. Thus, it may be appropriate to tighten the approval process for personal car use at the same time a cash out is implemented. For example, Los Angeles County requires "mileage permittee" approval by not only department heads but the Auditor Controller as a way to discourage abuse of the policy.

Violation, Notice and Penalties

Any cash out ordinance pertaining to private sector employers should incorporate customary penalties for violation of requirements. For example, where the ordinance requires providing information to employees about the cash out option as evidenced by postings, written company policy, employee orientation materials or other means, failure to do so after appropriate notice should be defined as a violation with associated penalties.

Monitoring and Enforcement

The implementation of any cash out policy must be monitored and enforced. There are options ranging from least to most proactive. The least proactive approach would require employers to post notice of the policy, keep records of employees receiving the cash out and be subject to spot checks for compliance on posting and records. This approach parallels the way most jurisdictions enforce standard health and safety regulations. More proactive would be the additional requirement of annual reporting to the regulating jurisdiction, following a specified report format. Reports would be reviewed, accepted or rejected for compliance in the same way localities enforce trip reduction ordinances.

Monitoring also will entail a periodic check of market rates. The cash out references the market rate to establish the cash out level. Monitoring needs to check on cash out subsidies paid relative to market rate. The simplest monitoring procedure might be to allow employers to establish market rate in their vicinity and for the monitor to cross check these rates against a periodic survey of rates in the area subject to the ordinance. Such a survey of rates for some downtowns is conducted periodically by Downtown Improvement Associations.

Costs and Benefits

In structuring program proposals for the cash out, planners must be sensitive to the cost benefit implications for employees, employers, building owners and developers.

Employees under the cash out generally are the same or better off. Upper income employees concerned with the tax implications of taking the cash out can opt to remain with subsidized parking. Lower income employees, on the other hand, may decide cash is preferable to subsidized parking, in spite of the tax implications. These employees who accept the cash occasionally will ride transit, or carpool and share parking costs. Because this choice is more likely to be made by lower income employees, the cash out is "progressive," meaning it is more likely low income employees will take advantage of it than upper income employees. *Since the cash out is purely voluntary, those accepting it must count themselves at least as well off or better off than before.* Overall, employees are better off as a group, since those selecting the cash out have a new source of income.

On the employer side, there is no loss if the employer can reduce lease parking costs as employees accept the cash out and vacate spaces. To take an example, the employer leasing stalls for $150 per month and receiving $50 per month from employees per stall is no worse off if he or she pays $100 (the "cash out" subsidy) to employees who vacate stalls and then reduces the lease cost by the number of vacated stalls. Essentially, instead of paying the parking operator $100 on net for a stall ($150 - $50), the employer is now paying the vacating employee the $100. Of course, this situation changes if the employer can not reduce parking lease costs.

For building owners operating commuter parking facilities, all depends on how the owner can utilize parking freed up due to the cash out. It may be possible for these owners to lease the available space on the open market, especially if new developments are allowed to satisfy their parking code requirements by securing lease parking off site. Of course, if the owner can not "sell" the spaces freed up by vacating employees, the employer's financial condition may be worse compared to before, not the same.

For developers of future properties serving commuters, much depends on if and how the cash out is related to parking code revisions. As discussed, developers of future offices might benefit if parking requirements are reduced and/or made flexible to allow some portion of the requirement to be met off site.

IV. FUTURE DIRECTIONS

While experience with the pure cash out concept is limited, evidence from experience with other parking pricing approaches suggests it should be effective in reducing commuter solo driving. Specific effectiveness and implementation issues deserve attention in future applications:

Effectiveness

- What is the reduction in solo driving attributable to cash out programs, and the influence of site specific variables such as available alternative parking and transit/rideshare capacities? What about unintended consequences such as spillover into unregulated areas or meter feeding?
- What are the best markets for the cash out in terms of employers owning and leasing parking, public versus private sector, lease conditions and levels of employer subsidies for employee parking?
- Which employees opt and don't opt for the cash out, and what are the financial implications for employees and employers? What do employers do with freed up parking? If converted to short term parking, what is the evidence about any new shopping or other trips generated?
- What are the implications of reduced auto use on parking code requirements for office, industrial, research and development and other uses generating employee parking demand? What cost savings might be possible?
- What are the effects on carpooling and transit use, and the financial implications?

Implementation

- How was the cash out program implemented? Who objected and supported initial proposals? What compromises were necessary? What position did unions take? Was there a need to re-negotiate any labor agreements? Was the fact that the cash out is taxable a major or minor point in discussion of the concept? To what extent was there a problem with parking lease rates lumped with overall lease rates? What were the positions of building owners, operators of commercial parking and developers?
- Was possible spillover anticipated and were any actions taken to guard against it? Was transit capacity enhanced or were rideshare services augmented along with the cash out?
- What policies accompanied the program and which should be developed in future applications? What were the terms of the enabling ordinance, especially with respect to areas and types of employers under

the regulation? What were the new terms of revised union agreements, if any? What tax code changes were made, if any, and which others might be advisable to consider? What exemptions were developed pertaining to types of employees, employer policies, union agreements or lease provisions? What parking code modifications, if any, were made or are anticipated?

- How are employers informed of the cash out program requirement? Generally, how is the program administered? How are market rates established as a benchmark for the cash out? By zone?

- How is compliance with the cash out program to be monitored? What records must employers keep? What are enforcement procedures and penalties for violations? What are appropriate and justifiable penalty provisions?

- With respect to all these issues, what are lessons learned and recommendations for other localities interested in possible application of the cash out?

Footnotes

[1] "Commuting, Congestion and Pollution: The Employer-Paid Parking Connection," Donald Shoup, Richard Wilson, prepared for the Federal Highway Administration *Congestion Pricing Symposium*, June, 1992. Also see, *Cashing Out Employer Paid Parking*, Donald Shoup, for the Federal Transit Administration, FTA-CA11-0035-92-1, December 1992.

[2] *Parking Subsidies and Commuter Mode Choice: Assessing the Evidence*, Richard Willson, Donald Shoup and Martin Wachs, University of California at Los Angeles, July, 1989.

[3] *The Effects of Ending Employer-Paid Parking for Solo Drivers*, Monica Surber, Donald Shoup, Martin Wachs, University of California, Los Angeles, California, 1984.

[4] *Commuting, Congestion and Pollution: The Employer-Paid Connection*, Donald Shoup and Richard Willson, Op. Cit.

[5] *The Effects of Parking Pricing and a Transportation Allowance on Commute Behavior and Employee Attitudes*, Tanya Husick, Commuter Transportation Services, Los Angeles, December 15, 1992.

[6] *Proceedings - Commuter Parking Symposium, Sponsored by Metro and Association for Commuter Transportation*, Seattle Washington, December, 1990.

[7] *Commuting, Congestion and Pollution: The Employer-Paid Connection*, Donald Shoup and Richard Willson, Op. Cit.

[8] *The Effect of Employer Paid Parking in Downtown Los Angeles*, Donald Shoup and Richard Willson, Op. Cit.

[9] *Oahu Transportation Systems Management Study, Alternatives to Employee Parking Subsidies*, for Oahu Metropolitan Planning Organization, by Wilbur Smith Associates and K.T. Analytics, Inc., April, 1993.

[10] *Oahu Transportation Systems Management Study, Alternatives to Employee Parking Subsidies*, Wilbur Smith Associates and K.T. Analytics, Inc., Op.Cit.

[11] It is important to appreciate how tax treatment of the cash out contrasts with treatment of parking and alternative mode subsidies. Under current federal tax law effective January 1, 1993 employer provided parking is exempt from gross income, as previously, but only up to $155 per month under new provisions (IRS Code, Section 1321). An employer provided mass transit or vanpool subsidy is exempt from gross income up to $60 per month, unless the subsidy is paid to an employee in the form of cash, in which case it is taxable.