THE FEASIBILITY OF ESTABLISHING A STATE TRAVEL CENTER

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INTRODUCTION

The authority to approve business travel by a state employee generally is vested in the employee's department. Once the trip has been approved, the employee or a designated department staff member makes the arrangements for the employee's transportation and accommodation needs.

This decentralized approach to state employee travel was questioned during legislative deliberations on the budget for 1982-83. As a result, the Legislature included in SB 1326--the budget companion bill--a provision requiring the Legislative Analyst's office to report on the transportation needs of state employees and the feasibility and desirability of establishing "travel centers" in the Department of General Services. The purpose of these travel centers would be to provide centralized transportation services to state employees wishing to travel on official state business. According to proponents of the travel center concept, such centers would offer a means for both reducing the state's travel expenses and shifting travel from airplanes and automobiles to ground mass transportation.

In response to the requirement contained in SB 1326, we conducted a study of alternatives for arranging travel by state employees in a more cost-effective manner, including the use of travel centers. Our study focused on the specific type of travel center proposed during the budget hearings. Such a center would issue, or authorize issuance of, airline, bus and railroad passenger tickets for all non-emergency travel by state employees. Because the state would incur significant costs in establishing a travel center, we also reviewed several less-expensive alternatives for reducing state travel costs or shifting employee travel from one transportation mode to another.

While we have attempted to make this report as complete and timely as possible, the changes taking place in the airline industry are occurring so quickly that it is difficult to determine what the current rates, routes and regulations are, much less predict what future conditions in the industry will be. Deregulation of the industry has resulted in price wars and frequent route changes. In addition, many carriers serving the California market now find themselves in a very precarious financial condition. Finally, a recent Civil Aeronautics Board ruling on how airline tickets can be marketed has raised questions about the state's ability to negotiate with the airlines for designation as a commissionable travel agent.

These questions and uncertainties complicate the analysis of the travel center concept. While most of the savings anticipated from the travel center idea are attributed to the discounts or commissions that the state would earn on the airline tickets it purchases, the uncertainty that prevails in the air travel market makes it impossible to estimate the size of these savings with any confidence. The recommendations contained in this report take into account this uncertainty by suggesting a sequence of possible actions which could be taken to implement the concept, with each action dependent on the results from previous actions taken by the state.

Our study of state travel and the alternatives for reducing state costs relied heavily on information gathered in 1981 by the Department of General Services (DGS), the Department of Transportation, and other members of the General Services Advisory Council. In April 1982, DGS released a detailed analysis of airline travel by state employees, based on a 1-percent audit of the trips made in 1979-80. The council then analyzed various methods of reducing travel costs and shifting travelers to other modes of transportation. We reviewed the council's findings and recommendations, performed further analysis where necessary, and updated the information on costs and potential savings.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

SUMMARY OF FINDINGS

Chapter I: State Travel Practices

1. Regulations authorized by the Government Code and issued by the Department of Personnel Administration include both controls and suggestions related to travel by state employees.

2. Departments, however, are allowed a significant degree of autonomy in choosing how to make travel arrangements for their employees. They may authorize employees to make their own reservations, designate one or more staff members to make other employees' travel arrangements, or use travel agents for this purpose.

Chapter II: Costs and Characteristics of State Travel

1. When state travel patterns in 1979-80 are extrapolated through 1982-83, we estimate that the state would be spending approximately $125 million annually for travel on the part of state employees during the current year. This amount consists of $81.1 million for the use of state vehicles, $21.1 million for airline tickets, $19.8 million to reimburse state employees for the use of privately-owned vehicles, and $3 million for the cost of travel using trains, buses, taxis and rental cars. In addition, the state spends an unknown amount on per diem (hotel and meal) expenses in connection with travel that extends beyond normal work hours.

2. An estimated 62 percent of all trips made by state employees occur in one of nine major in-state travel corridors. In-state travel

accounts for 90 percent of all airplane trips and 69 percent of air travel costs.

3. In both 1981-82 and 1982-83, the Legislature attempted to reduce the level of travel expenditures below what it would have been had the trend prior to 1981-82 continued. It reduced the amounts allotted to state agencies for travel by 25 percent in 1981-82, and 1982-83. The Governor imposed an additional one-time 10 percent reduction in 1981-82.

4. Departments have responded to travel budget reductions by reducing the number of trips taken and by using less costly forms of travel. Among other things, departments are ordering employees to consolidate trips, share vehicles, and conduct more business by telephone and less business in person.

Chapter III: Establishing a State Travel Center

1. A travel center presumably would be responsible for providing information to state employees on various modes of transportation, making plane, train, hotel and rental car reservations, and providing plane, train and bus tickets to state travelers.

2. Airline tickets can be issued by an airline, by a commissioned travel agent who has been certified by an airline association to sell tickets to the general public, by a business travel department which is staffed by and serves a single client, usually a large corporation, and potentially by a commissionable travel agent who contracts with an individual airline to sell its tickets under whatever terms they agree upon.

3. Under the existing rules of the Air Traffic Conference, which regulates the airline portion of the travel agency business, the state could not become a certified travel agent and earn commissions.

4. The state could, however, request an airline to sponsor it as a "business travel department." The state office could then make reservations and write tickets as an agent does, but it would not earn commissions on the sales of these tickets.

5. Alternatively, under a recent ruling by the Civil Aeronautics Board, the state could negotiate with individual airlines to serve as a commissionable agent for them. No airline, however, has reached such an agreement with any prospective ticket seller yet, and it is uncertain when, or if, any will do so.

6. The pattern of travel by state employees suggests that if the travel center concept is to be implemented, the most efficient means of reserving seats and distributing tickets would be to establish three centers: one each in Sacramento, Los Angeles and San Francisco. The estimated annual cost of operating these centers, assuming the use of an automated reservation and billing system, is approximately $1,050,000.

7. Various sources of savings could be expected from the operation of a travel center. State employees wishing to travel on official business could be directed to use the least expensive means of transportation and hotels. Ridesharing could be encouraged.

8. The cost of the center, however, probably would not be justified unless the state could obtain commissionable agent status with most of the major airlines. The <u>most</u> commission revenue that the state could expect to earn would be 10 percent of the state's $21.1 million in air travel expenditures, or $2.1 million. For various reasons, actual commission income probably would be significantly less than this amount.

Chapter IV: Alternative Control Mechanisms Available to Reduce the Cost of State Travel

1. Efforts by the state to obtain commissionable airline agent status or discounts on tickets might not be successful. The Legislature, therefore, should consider alternative mechanisms for controlling and facilitating travel by state employees. These mechanisms would be less costly than state travel centers, but would also result in less savings to the state.

2. A central travel office could be established to distribute information about promotional fares and alternative modes of transportation to departmental travel "agents." These agents would be state employees designated to learn this information and make the most cost-effective reservations for other department employees, either directly with airlines or through certified travel agents. Cost savings from placing more employees on lowest-fare flights, and encouraging ridesharing, are indeterminable, but could be significant.

3. Alternatively, an information center could provide information on fares and transportation modes directly to individual state employees, who could then use it in making their own reservations. The potential cost savings of this alternative are less than those of the departmental centers, but could be moderate.

4. Alternatively, the state could negotiate a service agreement with one travel agency to provide it with all travel services, as well as centralized billing and management reports. We can identify no reasons to expect significant cost savings from implementing this alternative.

5. Alternatively, the Legislature could direct the Controller's office to put reimbursement limits on certain heavily traveled airline, train or bus routes, thereby providing an incentive for employees to find the least expensive means of transportation. Again, the potential cost savings of this alternative are indeterminable, but could be moderate.

6. Ridesharing and shuttle bus programs could be established. These types of programs, however, have had limited success in the past. They probably would work best in combination with decentralized departmental travel offices.

Chapter V: Fare Discounts

1. The federal government has negotiated discounted air fares between 422 city pairs in the United States. Five of the city pairs are in California.

2. The average discount available to federal employees traveling on business within California is 5 percent less than the lowest air fare available to the general public during peak travel hours.

3. Several airlines have expressed an interest in the discount fare concept. Some suggested that the state could achieve significant savings simply by taking more advantage of existing promotional offers, such as multi-ticket packets. This, however, requires some involvement by the central administration of each state department, as the department must pay for the ticket packets from its revolving fund and control access to and usage of the tickets.

4. Given the current uncertainties surrounding the airline industry, it is impossible to predict what the amount of a negotiated discount on air

fares might be, or how long any given airline will continue to serve any given market.

5. If the state could negotiate 5 percent discounts on all airline travel, savings would total approximately $1,057,000. It is highly unlikely that this would occur, however, particularly on some of the seldom traveled out-of-state routes. Actual savings probably would be significantly less than $1 million.

6. Air Cal, the only airline serving California city pairs that has federal discount fare contracts, does not pay commissions to travel agents on the sale of discounted tickets. Consequently, the state almost certainly could not both earn commission income and receive discount fare savings on the same tickets.

Chapter VI: Summary and Conclusions

1. It is impossible to predict, with any degree of confidence, the amount of savings that would result from each of the alternative methods for administering travel by state employees.

2. The discount fare concept would be less risky than the travel center concept because the costs to administer the system would be much lower. If the costs of operating a travel center are significantly higher than our estimate, or if the state is unable to negotiate commission status with the majority of airlines, implementing the travel center concept could result in an increase in state costs.

RECOMMENDATIONS

1. We recommend that the Legislature direct the Department of General Services to invite bids for discount state employee airline fares

on all major travel routes.

Given the current state of uncertainty regarding airline ticket marketing in the future, we further recommend that DGS keep the Legislature informed of its progess in implementing a discount fare bidding and negotiating system. The DGS should also monitor the airlines' reactions to the recent Civil Aeronautics Board (CAB) ruling on ticket marketing. The department should notify the Legislature immediately if, in the future, the prospect for commissionable status appears to promise greater savings to the state than discount fares.

2. If the Legislature wishes to pursue the concept of a state travel center and commission revenues, we recommnd that it begin by directing the DGS to attempt to negotiate commissionable agent status for the state with all relevant air carriers. If negotiations are successful, we further recommend that the Legislature direct the DGS to establish only one travel center initially, in order to test workload, costs, and savings on a pilot basis.

3. If the department's negotiations to obtain commissions and discount fares are not successful, we recommend that the Legislature direct the department to establish a central information office in Sacramento to distribute timely information on promotional fares and alternative modes of transportation to state departments. We further recommend that the Legislature direct the Department of Personnel Administration to amend the State Administrative Manual so as to direct employees to seek out and utilize this information when planning trips, and to encourage large departments to designate an employee to handle most travel arrangements now delegated to individuals.

CHAPTER I

STATE TRAVEL PRACTICES

Various controls apply to certain aspects of travel by state employees. For example, regulations control the usage of state pool vehicles and the rate at which employees will be reimbursed for food and hotel costs. In addition, out-of-state travel must be approved by the agency secretary (where applicable), the Department of Finance, and the Governor's office before a state entity can spend state funds on such trips.

Most decisions related to travel, however, are left to the discretion of individual departments. As long as a department stays within its travel budget, it may decide whether a proposed trip is necessary, the number of staff who may travel, how long they can remain on travel, and what mode of travel they will use. For routine in-state trips, travel authorization usually is delegated to the traveler's immediate supervisor. Furthermore, individual departments can provide for travel arrangements in a variety of ways, ranging from the delegation to the traveling employee of responsibility for making reservations and picking up tickets, to placing reliance on one or more travel agencies.

This decentralized approach to travel within a department is changing to some degree. Recent budget reductions have prompted several agency and department heads to issue new guidelines covering employee travel.

This chapter reviews existing state travel policies. It examines specific policies and procedures at a number of departments, and describes some of the cost-cutting steps that they have instituted to minimize travel costs.

STATE TRAVEL POLICIES AND PROCEDURES

State law contains only the most general rules regarding travel by state employees. The Government Code, in Sections 11030 and 11032, provides that employees traveling on state business shall be reimbursed for their necessary expenses, and that the Director of Finance and the Governor's office must approve in advance all out-of-state travel by state employees. The State Administrative Manual includes more explicit directions about applications for out-of-state travel approval, and administrative guidelines regarding the conditions and rates of reimbursement for travel expenses.

The actual conditions and rates of reimbursement for travel by state employees formerly were set by the Board of Control. Under the State Employer-Employee Relations Act (SEERA, Chapter 1159, Statutes of 1977), however, they now are subject to collective bargaining. The Department of Personnel Administration is responsible for negotiating these provisions with representatives of state employees. In general, the first set of collective bargaining agreements made no changes in the conditions under which travel expenses are reimbursed, but these agreements did increase per diem and mileage rates.

DEPARTMENTAL POLICIES AND PROCEDURES

Different department take different approaches to the handling of travel arrangements for their employees. This section describes some of the more common methods used.

"Quick Tickets"

Many large departments arrange with one or more of the large airlines to stock blank tickets. When an employee needs to travel, the department makes a reservation for him and fills the appropriate blanks on the ticket with the flight number, time, and the employee's name. The airline collects the ticket when the employee boards the plane and bills the agency only for the tickets it uses. This procedure eliminates the need for a state employee to spend time picking up a ticket before his flight. The department, however, must pay the full fare when it uses these tickets, even if promotional fares are available for individually purchased tickets.

The traveler must submit his receipt to the department promptly after he completes the trip, in order for the accounting office to match it with the airline's invoices. The airline invoices must be paid on a timely basis, or else the airline may refuse to issue more ticket stock to the department.

Travel Agents

Several agencies make use of a travel agent to book flights and write tickets. Some travel agencies deliver tickets directly to the department. One of the primary advantages of using travel agents is that many of them have access to one or more of the airlines' computer systems. A terminal in the agent's office lists all of the flights departing to the destination city at the appropriate time. This saves the department time, because a state employee does not have to wait indefinitely for several airlines to answer his or her telephone calls. In addition, the agent usually knows about special promotional fares that one or more airlines may be offering. As a result, the agent should be able to provide the most convenient, and/or least expensive, travel arrangements on the basis of only one telephone call from the employee.

The potential attractiveness of travel agencies to state employee travelers is complicated by two factors. First, because a travel agent works on a commission basis, he or she may face what is commonly referred to as a "moral hazard." While the state seeks tickets at the least cost, the more expensive the ticket, the higher the commission earned by the agent. Thus, the state's financial interests are not necessarily the same as the agent's, at least in the short run. Most travel agents, however, desire to have a continuing business relationship with a state department. They are likely to find that providing reliable, economical service leads to greater commission income in the long run than selling a few premium-priced tickets.

Second, agents generally demand payment for the tickets they write before the agency and the Controller can process a standard claim. As a result, some departments that rely on agents must pay them out of their revolving funds, and then submit a standard claim to the Controller in order to reimburse the revolving fund. While this does not affect the cost of the actual tickets, it does create more paperwork.

Other Means of Purchasing Tickets

In many cases, the traveler must take the initiative in making flight reservations, and is responsible for picking up the ticket. In these cases, the employee pays for the ticket with cash or a credit card, and is then reimbursed via a travel expense claim (TEC). The employee may also request a travel advance from the department, and repay the advance after the trip is completed, using the reimbursement from the TEC.

In other cases, a department may issue its employees a State of

California Order for Ticket. Most airlines will accept the order, issue the ticket to the traveler, and then bill the department. Amtrak will accept an Order for Ticket for fares in excess of $100, and the intercity bus companies will accept them for any trip.

Rental Cars and Taxis

Employees frequently must pay for rental cars and taxi service using their own funds, and then seek reimbursement by means of a TEC. Some companies, however, will accept the Department of General Services' blue "charge card," provide the service to the traveler, and bill the state.

EXISTING DEPARTMENT TRAVEL CENTERS

At least two departments have set up centralized travel information and ticketing centers for their employees. While the two centers were designed to serve somewhat different goals, they provide working models which might be adapted for general state use.

Department of Transportation's San Francisco Work Trip Center

The Department of Transportation opened its Work Trip Center in the lobby of its Oak Street Office Building in San Francisco on August 1, 1980. The primary purpose of the center is to inform department employees about how to reach work-related destinations in the Bay Area using mass transit. As of July 1981, enough employees had switched to using mass transit to reduce agency vehicle use from 35 trips per day to 25 trips per day. This allowed the department to reduce the size of its San Francisco-based fleet significantly.

The center is staffed by an office assistant II, who has attended training sessions given by the Metorpolitan Transportation Commission. She has a supply of maps and schedules, as well as ticket stock for the Bay Area Rapid Transit District trains, regional bus systems, and Amtrak. She also arranges car pools and provides ticketing services for employees traveling longer distances by airplane or intercity bus. Finally, she sells monthly Muni "fast passes" to employees and the general public. The department receives a $.25 commission on each pass sold.

The Bay Area is probably unique in California with respect to the scope of mass transit services available to people living and working there. Such a center, by itself, might not be cost-effective in cities such as Sacramento or Los Angeles, where these services are less extensive. The service could be offered in conjunction with ticket order services, however, if state-operated travel centers were established in those cities.

Department of Water Resources' Ticket Order Center

The Department of Water Resources (DWR) has designated a management services technician to serve full-time as its travel coordinator. Employees call the coordinator with either general information regarding the day and time they must reach their destination, or if they are frequent travelers, details on the airline and flight number they prefer. The coordinator reserves a seat for the traveler and obtains the ticket, which the employee picks up in her office. She has a stock of blank tickets for PSA, Western, and Air California, and picks up tickets for the other airlines which serve Sacramento at their offices. The employee has to pick up his or her own tickets at a connecting airport if one leg of the trip itinerary is on a carrier which does not serve Sacramento.

The travel coordinator also buys ticket stock for frequently traveled

Amtrak routes, such as Sacramento to Fresno. DWR subscribes to the Official Airline Guide, and receives ground and hotel guides, so that the coordinator has reasonably up-to-date information on flight schedules and the names and phone numbers of rental car agencies and motels at destination cities. Airlines also send her memos of interim fare and route changes. Employees must make their own car and hotel reservations.

The advantages of the travel coordinator position are that (1) she is aware of which airlines are offering promotional fares, and (2) there is centralized control of the quick ticket and Amtrak ticket stock for accounting purposes. The coordinator also is available to work overtime to schedule and ticket last-minute trips or itinerary changes.

CHAPTER II

COSTS AND CHARACTERISTICS OF STATE TRAVEL

Chapter 327, Statutes of 1982, directed our office to report to the Legislature on the feasibility of establishing a state travel center. The travel center, as proposed, would function as a centralized "travel agency" for all state departments. It would advise travelers on the most cost-effective means of travel, make airplane and other transportation reservations, and issue tickets.

The most effective way to evaluate the travel center concept would be to perform a cost-benefit analysis. The analysis would compare the costs of the existing system, both in direct travel expenditures and administrative expenses, with the cost of travel and administration associated with the use of travel centers. Savings from reductions in travel time and, possibly, from fare discounts or ticket sales commission revenue also would be taken into account.

Unfortunately, the data necessary to perform a reliable cost-benefit analysis of the travel center concept is not available. In order to calculate the costs associated with the existing system, one would need, for each department, actual transportation costs by mode of travel; per diem expenditures by principal mode of travel; and current department expenditures to approve, book and account for travel. Currently, departments do not report this data to any central agency. To complete the analysis, one would also need reliable estimates of what these costs would be if travel centers were established, as well as estimates of the potential discounts or commissions that the state might earn.

The sources of information that <u>are</u> available are either too general or too incomplete to form the basis of a formal cost-benefit analysis. For example, the Governor's Budget allots specific amounts for "travel," but these amounts cover both transportation and per diem expenses. Furthermore, administrative costs associated with state employee travel are distributed throughout other budget categories.

The most comprehensive recent survey of travel expenditures was conducted by the Program and Compliance Evaluation (PACE) unit of the Department of General Services (DGS) in 1980. While this survey is not adequate to support the type of cost-benefit analysis that would be desirable, it does provide a basis for making rough estimates of how travel centers might affect state costs.

The remainder of this chapter discusses the PACE survey and its limitations. The chapter also presents our estimates of state transportation costs, by mode of travel, drawn from the PACE data, and discusses how subsequent events may have affected state travel expenditures since the survey was conducted.

THE DISTRIBUTION OF TRAVEL AMONG VARIOUS MODES OF TRANSPORTATION

To estimate the savings to be gained from a change in state travel practices, such as would result from the establishment of a travel center or successful attempts to obtain discounted rates from the airlines, we must know the number of trips taken by state employees and the amounts which are spent on each mode of transportation (airline, state car, bus, etc.). Unfortunately, this type of information is not reported by departments to any central accounting authority.

Partial information on trips and costs, however, can be gained from various sources. For instance, travel expense claims (TECs) provide data on airline travel, use of private cars, travel on buses, and expenditures for other transport. State employees submit these claims to their departments in order to secure reimbursement for the travel and subsistence expenses they have paid for out of their own pocket. After an employee's department has approved the claim, it is forwarded to the Controller's office. The Controller's office reviews the TEC for compliance with various state regulations, and if the claim is found to be in order, he issues a reimbursement check to the employee.

In 1981, the PACE division of the Department of General Services reviewed 4,189 travel expense claims, a 1 percent sample of all TECs, to learn as much as possible about the transportation practices of state employees. The usefulness of the information gained from the sample, however, is limited by the fact that the claims give full information only about expenditures made by state employees directly. Payments made by departments directly to transportation providers for tickets and automobile usage are not reflected in the TECs and must be estimated separately.

The TECs indicate that state employees pay directly for a significant portion of airline, bus, and train tickets, rental cars and taxis. Most airline tickets, however, and all state car services, are purchased directly by state agencies.

Private Car

According to the PACE survey, the largest expense category on the TECs was reimbursement for private car mileage. These reimbursements totaled an estimated $16,560,954 in 1979-80, when the reimbursement rate ranged from 17 to 21 cents per mile. (The state provided reimbursement exceeding 17 cents per mile only when an employee showed that it cost more than 17 cents per mile to operate his vehicle.) At the current 20.5-to-25 cents per mile reimbursement rate, the cost for an equivalent amount of mileage probably would approach $20 million. The budget reductions in 1981-82 and 1982-83, however, undoubtedly have reduced private vehicle mileage, so that actual reimbursements in the current year will be less than this amount.

We compared the estimate of private car mileage reimbursement derived from the 1979-80 data with a more-recent estimate based on mileage data gathered by the DGS insurance office. Each year, the office requests departments to submit information on miles traveled by their employees in state-owned, privately-owned, and rented vehicles. (The University of California is not included in the survey.)

The insurance office estimates that in 1981, private car mileage totaled 70,449,861. At the reimbursement rates then in effect (18.5 to 21 cents per mile), the cost to the state of reimbursing employees for this mileage would have been between $13 million and $14.8 million. This amount is significantly less than the estimate made using the PACE data (after adjusting for price increases). Part of the difference may be due to reductions in the amount budgeted for travel expenses in 1981-82, which were in effect for six months of 1981. Another factor could be that departments may not devote much effort to securing accurate information for the insurance office survey.

Air Travel

The data from the TECs sampled by PACE indicated that state employees spent a total of $6,854,000 on airline travel in 1979-80. PACE also surveyed the major departments to determine how much they paid directly to airline and travel agents in 1979-80 for airplane tickets. The responses showed that the major agencies spent $5,264,040. Other studies indicate that the travel expenses of these deparments represent about three-fourths of all such expenses, so that total direct payments by all departments was estimated at $7,057,300. When direct expenses of departments are added to the reimbursed expenses of employees, the total amount spent on air travel in 1979-80 was $13.9 million. When this amount is adjusted for an estimated 52 percent increase in ticket costs since the survey year, it appears that the state would be spending in excess of $21.1 million on air transportation during the current year <u>if</u> budget reductions had not been imposed.

The estimated number of one-way trips in 1979-80 was 247,200, of which 222,300 (90 percent) were in-state and 24,900 (10 percent) were out-of-state.

State Car

The mode of transportation on which departments spend the most money is travel by state car. The Fleet Administration Division of the Department of General Services estimates that agencies will pay approximately $19.3 million in 1982-83 for the use of state vehicles in the DGS pools in Sacramento, Los Angaeles, and other major cities. This is not an adequate measure of travel in state cars, however, because other departments maintain their own pools. DGS estimates that its pools comprise 25 percent of all state vehicles. If the mileage and maintenance expenses incurred by these departments are similar to what DGS incurs, total expenditures on state-owned vehicles will be approximately $80 million in the current year. This estimate is confirmed by the mileage data collected by the DGS insurance office. The insurance office data shows that state employees drove 348,557,685 miles in state-owned vehicles in 1981. Assuming that Fleet Administration Division's operating costs of $.2327 per mile for 1981-82 were representative of other departments' experience, the 1981 mileage would have cost $81.1 million.

Other Modes

Travel by other modes of transportation is relatively minor. PACE estimated that the amounts claimed through TECs only for other modes in 1979-80 were as follows:

Transportation Mode	Amounts Claimed
Commerical Bus	$45,762
County-Owned Bus	13,710
County Car	77,624
Private Airplane	4,100
Rental Car	238,617
Railroad	6,325
State-Owned Bus	680
Taxi	47,837
Total	$434,655

The total amounts spent by the state on these modes of transportation are, of course, significantly higher because departments also purchase bus, train, taxi and rental car services directly. The vehicle mileage survey conducted by the insurance office, for instance, indicates that total rental car mileage in 1981 was 8,042,630 miles. The state's cost for this mileage was probably between $2.5 million and $3 million. Unfortunately, the total amounts spent on these modes cannot be determined accurately without an extensive survey of individual department records.

Table 1 summarizes the estimated annual state expenditures on transportation in 1982-83, by mode, based on the TEC and survey information gathered by PACE and the insurance office.

Table 1

Estimated Annual State Transportation Expenses (in millions)

Transportation Mode	State Expenditures
State-Owned Vehicle	$81.1
Airline	21.1
Privately-Owned Vehicle	19.8
All Others	3.0
Total	$125.0

MAJOR TRAVEL CORRIDORS

In reviewing state travel expenditures, PACE gathered extensive data on the patterns of state air travel. It coded each trip found in its 1 percent sample by departure and arrival cities, and tabulated the total number of trips between each city pair. PACE then multiplied the sample totals by 100 to obtain an estimate of the number of such trips occurring during the year.

Table 2 lists the estimated number of airplane trips between the major city pairs, and the total number of all airplane trips. Approximately 62 percent of the trips, accounting for 48 percent of total air travel costs, were between the nine major city pairs. It should be noted, again, that this data is based on a sample limited to those trips which were listed on travel expense claims, and does not reflect trips paid for by departments directly.

Table 2

Estimated State Employee Traffic
In Major Air Travel Corridors

City Pair	Number of One-Way Trips	Estimated 1979-80 Cost	Estimated 1982-83 Cost[a]
Sacramento - Los Angeles	61,800	$2,607,866	$3,963,956
Sacramento - Ontario	20,500	846,783	1,287,110
Sacramento - San Diego	20,000	1,058,734	1,609,276
San Francisco - Los Angeles	17,300	727,783	1,106,230
Sacramento - Burbank	10,500	447,781	680,627
Sacramento - Orange	10,000	494,271	751,291
Sacramento - San Francisco	5,600	120,616	183,336
Sacramento - Fresno	5,200	197,771	300,611
Los Angeles - San Diego	2,900	171,478	260,646
All Others	93,400	7,738,817	11,146,088
Totals	247,200	$13,911,900	$21,146,088

a. We estimate that fares have increased 52 percent since 1979-80, based on a comparison of 1979-80 and November 1982 fares for three major city pairs.

The data collected by DGS also indicated that 90 percent of all trips originate and terminate inside state boundaries. Because in-state trips are less expensive, however, they represent only 65 percent of the cost of air travel by state employees.

We were unable to obtain any data on the itineraries of travelers whose agencies paid the air carriers directly, or who traveled by bus, train, or automobile. It seems reasonable to assume, however, that other modes of transportation were used primarily for (1) shorter trips, because air travel has little or no time advantage for short trips, or (2) destination cities which are not served by a regularly scheduled airline.

LIMITATIONS OF THE PACE STUDY

The PACE study is a valuable source of information on certain types of state travel. Two things, however, must be kept in mind in using this data to estimate state transportation costs.

First, the study is based on the travel expense claims (TECs) submitted by employees. PACE did not survey departmental records to obtain a sample of transportation payments made directly to carriers. In the case of air travel, PACE supplemented the TEC data by asking large departments for information on air tickets which they purchased directly. We cannot determine, however, whether the departments were consistent or thorough in estimating these amounts. In addition, we have no basis for evaluating the process PACE used for estimating direct expenditures for the smaller departments it did not ask to estimate direct expenditures.

The problem is even greater in the case of other modes of transportation. In the case of rental car and taxi expenses, for instance, PACE did not request departmental estimates of direct department expenditures, although state employees regularly use DGS charge cards to charge rental car and taxi costs to their agencies.

Second, budget reductions for 1981-82 and 1982-83 have been directed specifically at the travel allotments of virtually all agencies. As a result, actual travel expenditures for these two years may be significantly less than the $125 million shown in Table 1. The next two sections describe these budget reductions and some of the actions which departments have taken to minimize the impact of these reductions on program service levels.

TRAVEL BUDGETS REDUCED IN 1981-82 AND 1982-83

As noted above, the actual amount being spent on state employee travel in 1982-83 probably is somewhat less than the $125 million estimate derived using 1979-80 expenditure data. This estimate assumes that the volume of state employee travel in 1982-83 is the same as it was in 1979-80. It is likely, however, that the volume of travel has declined since 1979-80 as a result of actions taken by the Governor and the Legislature.

In an effort to reduce General Fund expenditures in 1981-82, the Legislature added Section 27.10 to the Budget Act of 1981. It imposed a reduction in General Fund allotments for travel equal to 25 percent of the 1980-81 travel allotments. (The Legislature specified reductions of different amounts for a few departments, including those in the Health and Welfare Agency.) In March of 1982, the threat of a deficit in the state's General Fund prompted the Governor to issue Executive Order B97-82. This order imposed on state agencies various limits on hiring and expenditures. Among them was an additional 10 percent reduction in the level of in-state and out-of-state travel authorized for that year.

The amounts requested for travel in the 1982-83 Governor's Budget provided for a restoration of the 25 percent reduction and a price increase adjustment of 4 or 5 percent, depending on the department's budgeting procedure. (The additional 10 percent reduction had not been imposed at the time the Governor submitted his 1982-83 budget, and thus did not affect the amounts requested for 1982-83.) During deliberations on the 1982-83 budget, however, the Legislature concluded that state employee travel again should be curtailed. Accordingly, it added Section 27.10 to the 1982 Budget Act (Chapter 326, Statutes of 1982), which ordered the Department of Finance to reduce the travel allotments for all agencies by 25 percent. Excluded from the reduction, however, was travel directly related to the production of revenue, the provision of fire, life, safety and law enforcement services, and certain other functions. The stated purpose of the travel cutback was to reduce General Fund expenditures by $10 million. Section 27.10 authorized the Director of Finance to impose the dollar reduction in another portion of an agency's budget if travel reductions would impair significantly the agency's statutorily mandated function.

The Department of Finance reported to the Legislature on August 9, 1982, that it had implemented Control Section 27.10, and had identified a total of $18.3 million for reversion to various funds. Of the total, $9.1 million would revert to the General Fund. Since then, these amounts have been revised to $18.1 million and $8.9 million, respectively. When added to the additional restrictions imposed by the Legislature on the travel budgets of departments in the Health and Welfare Agency, the total savings from travel reductions in 1982-83 was more than $21 million, including $11.8 million in savings to the General Fund.

DEPARTMENTAL RESPONSES TO TRAVEL BUDGET REDUCTIONS

The first response by most departments to the Governor's Executive Order in 1981-82 and Control Section 27.10 in 1981-82 and 1982-83 was to require a closer examination of the necessity of each proposed trip. The

Department of Health Services, for instance, issued a letter to senior management personnel on July 2, 1982 which (1) reduced travel allocations by 50 percent until travel priorities were established, (2) required all managers to submit a zero-base travel budget, and (3) gave a list of suggested methods to minimize costs on trips that must be taken.

The following sections describe some of the steps that large departments are taking to reduce travel expenditures.

1. Establish trip classification priorities. The Governor's Executive Order and the version of Control Section 27.10 in the 1982 Budget Act exempted certain categories of travel from the general budget reduction. Departments are, in general, continuing to approve most travel that qualifies for the Section 27.10 exemption--that is, travel related to revenue production, fire, life, health and safety activities, or strictly necessary to carry out mandated programs. Departments are, however, eliminating or sharply curtailing travel for meetings, conferences and training.

2. Emphasize car-pooling and ridesharing. When employees do travel, agencies are strongly encouraging them to car-pool. This "encouragement" may take the form of reimbursement controls. The Department of Parks and Recreation (DPR), for instance, will no longer reimburse employees who use a private car to reach a training destination unless they provide transportation to other employees as well.

3. Minimize per diem. Departments are urging employees to complete travel in one day, if possible, in order to avoid hotel and meal expenses. Regional DPR employees are scheduling Sacramento meetings after 10:00 a.m. so that they can fly to Sacramento and return home on the same day.

4. Use conference calls. The Departments of Motor Vehicles and Parks and Recreation told us that they are attempting to conduct more business by means of conference telephone calls instead of face-to-face meetings. This is particularly true of routine supervisory contacts with field office staff.

5. Avoid holding state cars over weekends. The Department of Health Services' memo to managers, mentioned above, urged them to schedule trips so that state cars would be checked out on Monday and returned by Friday, in order to avoid weekend use charges. In the short run, this results in lower billings by DGS to the department, rather than real savings to the state as a whole. In the long run, however, such a practice could reduce the size of the state fleet needed to meet user demands and thereby result in some savings.

6. Use buses or Amtrak. Depending on the traveler's destination and the number of employees making a trip, traveling by bus or Amtrak may be less expensive than driving or flying. For one person making a day trip from Sacramento to the San Francisco State Building, for instance, taking Greyhound is more economical then renting a state car. For three people, however, the state car is less expensive than three bus tickets. Departments also are encouraging employees to use Amtrak on certain routes. DPR employees in San Diego use Amtrak exclusively when they travel to Los Angeles.

ESTIMATE OF STATE TRANSPORTATION COSTS

A cost-benefit analysis of the proposed travel center concept depends heavily on the cost of air transportation projected for the state. In making this projection, we opted not to adjust the air travel cost estimate derived from the 1979-80 data to account for the reductions in state travel budgets during the last two years. Instead, we used the $125 million estimate developed using the DGS sample of 1979-80 travel. We did so for three reasons:

1. The cost-benefit analysis of the travel center concept should be based on long-run cost estimates. One-time policies intended to address a short-term problem in the state's budget should not color the decision as to whether a permanent travel center program should be established.

2. The cost effectiveness of a travel center depends to a large extent on discounts or commissions on airplane tickets. The amount of the budget reduction which is applicable to <u>air</u> travel, however, is not known. Our conversations with departments about how they are allocating available travel funds lead us to conclude that a significant part of the reduction will be achieved by minimizing per diem expenses and restricting automobile travel. Consequently, assigning a pro rata share of the total reduction to expenditures for air transportation would not be appropriate.

3. A reduction in transportation expenditures would not necessarily invalidate our findings regarding the cost-benefit <u>ratio</u> because such a reduction would lower the cost of a travel center, as well as the savings derived from its operation. Expenses would decrease because the number of transactions, and thus workload, would decrease as the amount of travel declined. This would also cause the amount of commission revenue or savings from discounts to decrease. While the costs would not decrease in the same proportion as savings (due to certain fixed costs), the net effect of a reduction in state travel on the cost-benefit analysis would not be significant enough to affect the outcome of the analysis.

The next three chapters present our analysis of the cost and benefits of the travel center concept and some alternative approaches to state travel. Chapter III describes how a travel center would operate, the estimated cost of operating the center, and the savings and revenues which might result from the center. Some of the savings are quantifiable, others are not. Chapter IV presents the same analysis for the alternative approaches, and Chapter V describes the federal discount fare program and how the state might benefit from a similar program. Chapter VI presents a summary of our analysis, and our recommendations for legislative action.

CHAPTER III

ESTABLISHING A STATE TRAVEL CENTER

The state has two primary strategies it can follow in attempting to reduce the cost of state travel. First, it can control the volume of travel more carefully. This would involve taking steps to assure that trip proposals are adequately reviewed in terms of necessity, and that necessary travel is undertaken in the most efficient way possible. This strategy could be implemented by giving supervisors greater responsibility for minimizing expenditures, by establishing a central information and ticketing office, or by placing limits on the amount of payments the Controller will approve for certain types of travel.

The second strategy for reducing the state's travel expenses would involve reducing the cost of individual trips, lodging, and meals purchased by (or on behalf of) of state employees. The federal government took this approach when it negotiated discount fare with airlines serving heavily traveled routes, and discount rates with hotels and motels in various cities.

The state could, of course, pursue both strategies--tighter controls and discount rates--simultaneously, or implement them separately. For this reason, our report examines the various cost reduction alternatives individually. In the process, however, we attempt to determine the additional savings that could result from the interaction of two or more cost reduction programs.

This chapter considers an alternative for reducing the cost of state travel that involves elements of both cost reduction strategies: state travel centers.

FUNCTIONS OF A STATE TRAVEL CENTER

The term "travel center" may be used to cover a broad spectrum of activities. For example, it could refer to a small office which provides information to state employees about the least expensive means for traveling from point to point. On the other hand, it could refer to a full-scale central travel bureau with exclusive authority to make airline, train, and auto reservations for state employees traveling on business, to issue tickets for such trips, and to authorize the use of state vehicles. For the purposes of this chapter, we define a state travel center as an entity which would make airplane, car, and hotel reservations for state employees and deliver plane, train, and bus tickets to them.

The airline reservation and ticketing service would be the most complicated function performed by the center, and subject to the most outside regulation. As a result, in analyzing the feasibility of a state travel center we had to take into account the regulations and practices governing airline ticketing.

Currently, the major airlines set basic operating rules for travel agents through the Air Traffic Conference (ATC). The conference is a private organization which governs the sale of tickets by its members or others. It does so by issuing resolutions which contain the regulations pertaining to activities of its members and certified travel agents.

Within the parameters established by the ATC, the state could not seek to have travel centers designated as a "certified" travel agent. The ATC regulations establish the prerequisites that must be satisfied before an entity can become an ATC "certified" travel agent, and the requirement that at least 80 percent of sales be to the general public disqualifies any agent seeking to serve only one client.

The state could, however, attempt to establish travel centers that would fit into one of two other ticket marketing categories: "commissionable agent" or "business travel department." In the past, ATC regulations stated that ATC members may pay commissions only to certified agents. The Civil Aeronautics Board (CAB), which has jurisdiction over the ATC's regulations, recently modified the resolution governing ticket sales and commissions. In doing so, the CAB created the potential for the state to act as an independent travel agent, and to earn "commissions" for ticket "sales."

Alternatively, the state's travel center could function as a business travel department within the traditional ATC regulations. A business travel department serves a single large client on the client's premises. It is staffed by employees of the company. No commissions are paid to the company on the airline business it generates.

Because the travel center would have somewhat different powers and responsibilities under each of these two arrangements, we discuss them separately.

The State Travel Center as a Business Travel Department

If a state travel center were granted authority by the ATC to operate as a business travel department, it could write tickets for virtually all domestic airlines. The center would operate as follows:

Reservations. Once the employee received approval for his travel plans, he would provide the travel office with his itinerary. The office would then proceed in one of two ways.

If the office used a manual reservation system, the office employee would look up the traveler's destination in the Official Airline Guide (OAG), which lists all flights by all carriers between all cities in the United States. Using the employee's required arrival time(s) and fare information contained in the OAG and the North American Passenger Tariff, the office would then work out a least-cost itinerary that met the needs of the traveler. Next, the office would place telephone calls to the appropriate airlines to make reservations for the employee. For heavily traveled routes--for instance, Sacramento/Los Angeles--the office might even reserve a standard number of "John Doe" tickets for each day's most popular flights. It could then dole out the standing reservations as requests came in, and cancel "John Does" or add individual reservations to meet daily fluctuations in demand. This would reduce the number of telephone calls that would have to be placed to the airlines. Because the bulk of the state's business would be concentrated in seven or eight major travel corridors, a two or three page reference sheet would serve the office on most arrangements, in place of the bulky OAG and tariff.

If, however, the office was automated, the procedure would be somewhat different. Under this operational mode, the state would lease or purchase a standard reservation system from one of the five carriers that maintain them: American Airlines, United Airlines, Trans World Airlines, Eastern Airlines, and Delta Airlines. These systems display the schedules of the owner--airline and all the other airlines (who pay the owner-airline a fee for including information about their flights in its system). The information appears on a cathode-ray terminal (CRT) which is linked to the airlines' reservations computers. The tickets are prepared on a printer located in the travel office. The office would find the least-cost, feasible flight on the CRT listing, check the availability of seats, and book the employee through the reservation system.

Ticketing. If a manual system were used, the state travel office would have to purchase blank ticket stock and provide security for the stock. If, instead, an automated system were used, the airline leasing the system to the state probably would provide ticket stock for no extra charge. An office with a manual system would fill the tickets out from information provided by the OAG, the Tariff and an airlines reservation clerk, while the printer in an automated office would produce the ticket from information stored in the central computers or entered by the office's employees. In either case, the ticket then would be delivered to the appropriate state office, or picked up by the employee. For trips scheduled at the last minute, the office could arrange for the traveler to pick up a ticket at the carrier's airport counter.

Paying for Tickets. The ticket stock used by a travel agent, which is the same ticket stock the airlines would issue to a state travel office, is very different from the "quick tickets" which certain departments now use. The department does not pay the carrier for a quick ticket until the employee takes the trip, the airline collects the flight coupons, and bills the department for the flight. Travel agents, however, report weekly to the airlines on the number of tickets they have sold and pay the airlines for those tickets immediately.

Currently, the state does not have to pay for most airline tickets until claims by the airlines and employees are processed by the departments and the SCO. For all "quick tickets," tickets initially purchased by employees pending reimbursement by the state, direct departmental purchases and state ticket order transactions, payment from the state's interest-earning funds occurs an average of 30 to 60 days after the day the ticket is issued.

Those state departments that rely on travel agents for ticket issuing, however, must pay for the tickets much sooner. Travel agents generally require the departments to pay for their tickets within a week or so, in order to minimize their working capital needs. Because the departments and the State Controller's office (SCO) are not able to process claims fast enough to meet the travel agents' billing cycles, departments utilizing travel agents usually find it necessary to make payments from their revolving funds. The departments then submit claims to the SCO to reimburse the revolving funds.

If the state established a business travel department, it would have to abide by the ATC rules governing such centers. As a result, the state would have to pay for all airline tickets within a week of the date they were issued. This would result in the loss of a significant amount of interest income on funds that otherwise would have remained in the state's Pooled Money Investment Account. For example, if payment on 75 percent of the $21.1 million of air tickets purchased by the state annually were accelerated 45 days, the loss of interest income would be $205,000 annually.

How would the accelerated payment be accomplished? We assumed that individual departments would not have to pay for their tickets within one week, because it would be impossible for the travel center to follow required accounting procedures and allocate costs to the various departments in this time frame. Instead, DGS (if it administered the travel centers) would make one consolidated weekly transfer to the airlines from the Service Revolving Fund. Departments would make quarterly advances to the Service Revolving Fund, based on their estimated travel expenditures (as they do for other services DGS provides to them). DGS would charge each department's actual expenses against its advance through its normal billing process, and settle the accounts periodically.

We also assumed that the State Controller's office would expedite the travel center payment each week. Generally, the SCO takes several working days to process a claim. In the case of a state travel center, however, the SCO would have one or perhaps two days to pay the airlines. As a result, DGS and the SCO would have to establish a thorough post-audit procedure to verify that payments were being made correctly, and that the airlines were correctly crediting the state for cancelled and unused tickets.

Billing. The method which the travel center would use to bill individual departments for tickets purchased on their behalf would depend on whether the state selected a manual or an automated reservation system.

If a manual system were used, staff of the travel center would transfer the information on each ticket written up by a reservation agent onto a form for use by the DGS billing system. (Again, we assume that DGS would administer the travel centers.) The documents would be batched and sent through the normal DGS billing process. This would be a labor-intensive procedure: the agent would manually write the ticket, a clerk would copy the information onto another piece of paper, and finally a key data entry operator would enter the information into the automated billing system.

An automated reservation system would generate an invoice when it printed the ticket. The invoice would eliminate the need to manually copy the ticket information onto a DGS billing document. Alternatively, the state could purchase or lease one of the proprietary automated billing systems which work in tandem with certain of the carriers' reservation systems. The billing systems not only generate periodic bills to client departments, in the form of magnetic tapes for direct input to the automated DGS billing system, but can also produce management information on who is traveling, where they are going, and how much the trips are costing.

One major advantage of an automated system is that it can be programmed to match a traveler's name, as entered by the reservation clerk when the employee telephones, with a record for that employee in a file maintained by the system. The file would include the employee's name, flight service preferences, telephone number, billing address, and department code. This would greatly reduce the information an agent must request whenever he makes a reservation for the employee. Such a file could require some initial programming, although the DGS staff suggested that its telephone directory file could be used for the billing system with little additional programming.

On any of these systems, there would be a need for careful review of the ticketing and billing records to insure that departments were properly charged for all trips actually taken and credited for cancelled and unused tickets. This would entail numerous adjustments to various accounts, because in most cases, the travel center would pay the airlines for tickets, and enter departmental billing information, before the traveler notified the center that his plans had changed. In addition, because fares change so rapidly, agents occasionally may issue mispriced tickets, which auditors would have to adjust following notification from the airline.

Reservations and Ticketing for Trains and Buses. The major intercity bus companies do not issue ticket stock to state departments. A travel office could, however, purchase quantities of tickets for heavily traveled routes in advance and distribute them to individual travelers as the need arose. Alternatively, the office simply could issue a State Ticket Order (STO) to the employee, which he would exchange for a ticket at the bus terminal.

Amtrak does issue ticket stock, which the travel office could fill out and issue to the employee. Amtrak also will accept STOs for fares over $100. On certain routes, the travel center would have to telephone Amtrak to reserve a seat or roomette for the passenger.

Hotel and Rental Car Reservations. A travel agent who subscribes to the Official Airline Guide also receives copies of the Travel Planner and Hotel/Motel Guide. This publication lists information on ground transportation and the rates charged by certain hotels and motels, by destination city. A travel center would use this information to make reservations for travelers, or simply provide it to the employee, who would make his own arrangements.

This information could be particularly helpful in reducing state rental car expenses. Because the state pays the actual car rental expense, the employee does not have as much incentive to minimize that expense as he does in the case of his meal and lodging expense, which are covered by the per diem allowance. The travel office could tell the traveler whether a local franchise of the state's contract car rental company exists in the destination city, and if not, the name and phone number of the least-expensive alternative. If the office actually made the reservation, controls over car rental costs would be strengthened.

As an alternative to using the hotel portion of the Travel Planner, the travel office could, with the assistance of frequent travelers, compile its own list of economical lodgings in various cities. This list could assist employees in keeping their expenses within the per diem allowance.

The Travel Center as a Commissionable Agency

Until recently, the Air Traffic Conference regulated all agency sales and commissions related to the domestic flights of most American airlines. An "exclusivity" provision made commissions payable only to certified agents. The ATC regulations would have precluded a state travel center from earning commissions on the "sale" (actually, the purchase) of tickets for use by state employees traveling on business. A recent decision by the Civil Aeronautics Board (CAB), however, makes it possible for the state to negotiate commission agreements with individual airlines which would be exempt from the ATC "exclusivity" regulations. This section describes the ATC regulations and the CAB ruling.

Prior to December 17, 1982, only travel agents certified by the ATC could be paid commissions by ATC members (which include virtually all domestic airlines). To qualify as a certified ATC agent, a person had to meet certain training and financial requirements, and had to do at least 80 percent of his business with the general public. The commission on this type of business generally is 10 percent. An agency may, with ATC approval, locate one of its employees in an "in-plant" office at a single business. The agent handles the company's travel needs and the agency receives a 3 percent commission on such sales. It may divide the commission with the company. Finally, a company can designate one of its own employees to take care of all travel arrangements for the company's employees, but the company earns no commission on these sales. The company-run office is called a business travel department (BTD), as discussed in the preceding section.

In 1979, the CAB began an investigation into the ATC resolution relating to payment of commissions to certified agents. The board wished to determine whether the resolution, which is immune from antitrust provisions, was anticompetitive and contrary to the public interest. After extensive hearings, a CAB administrative law judge recommended on June 1, 1982 that the board continue to approve the ATC rules. On December 17, 1982, however, the board disapproved some of the regulations in the ATC resolution. Specifically, the board decided that:

1. An ATC airline <u>may</u> designate other sales outlets (such as Ticketron or retail department stores) to sell tickets on <u>its flights</u>.

2. Interline tickets, which route a traveler on at least two different carriers, must be sold only by travel agents or the airlines themselves until December 31, 1984, after which time the airlines may designate other agents to sell interline tickets.

3. An in-plant agent may continue to earn no more than a 3 percent commission.

4. The ATC rule precluding business travel departments from becoming accredited agents will continue in effect at least through December 31, 1984.

According to staff in the anti-trust division of the CAB, the last provision prevents a BTD from becoming an accredited agent <u>within the ATC system</u>, but does <u>not</u> prevent a company (or the state) from negotiating directly with an airline to become a commissioned agent <u>for that carrier</u>. The amount of the commission would be determined by the airline and the company.

COST OF ESTABLISHING A TRAVEL CENTER

Administration of a Travel Center

Several questions must be answered before one can estimate either the potential cost or the potential savings which would result from establishing a state travel center. Among these questions are the following:

1. Would the travel center operate within DGS or independently?
2. Would the center operate in one location only, or in several places?
3. What level of training would be necessary for state travel "agents," and how would it be provided?
4. What range of services would be provided?
5. How would ticket stock be purchased and secured?
6. Would the center have a manual or an automated reservation system?
7. Would the office serve the Sacramento area only, or attempt to provide tickets to state employees in all locations?
8. Would the office attempt to provide all services to all departments immediately, or would it begin as a pilot program for one large agency or a sample of departments?

In order to develop an estimate of the costs that would be incurred in establishing a travel center, we made several assumptions about the probable design of such a center. Specifically, we assumed that DGS would administer three travel center offices located in Sacramento, Los Angeles, and San Francisco (even though we would recommend that the program be tested initially through a limited pilot project). We assumed that departmental offices in other areas would continue to use the ticket order arrangements they currently use. We assumed that the state would lease automated reservation and billing systems from a major airline, and that the billing system output would be incorporated into DGS's existing billing procedure at a slight increase in data processing costs. Finally, we assumed that DGS would arrange with the Controller's office to make special weekly payments to the airlines for tickets written during the previous week.

Personnel Costs

The personnel costs of staffing a travel center would be the center's major item of expense. We estimated these cost by assuming the following:

- Most employees will, in general, order round-trip tickets between two cities. This means that the 250,000 annual one-way tickets that DGS estimates are used by state employees in a normal year would result in 125,000 initial reservation transactions. (Cancellations and changes are considered separately.)
- Approximately 44,000 of these transactions would be handled by a Sacramento travel office, 44,000 would be handled by a Los Angeles office, and 23,000 would be handled by San Francisco office. The estimates are based on departure city data collected by DGS. State employees in other areas would obtain their tickets in the same manner they do now.

- Based on the experience of travel agents, cancellations and changes would increase the workload by 25 percent at each office.
- A skilled agent could handle 700 transactions per month. This estimate is based on conversations with a travel agency and workload data provided by two departments which designate staff members to make reservations for all department employees.
- Allowing for vacation and sick leave, the estimated number of transactions would require a staff of 7.1 reservation agents working 8 hour shifts, 5 days per week in each of the Sacramento and Los Angeles offices, and 3 agents in the San Francisco office.
- Because reservation requests would not be received on a steady basis, reservation clerks would be idle at times and have calls waiting at other times. In order to avoid unreasonable delays for travel center customers, the number of reservation clerks probably should be set at eight in Sacramento and Los Angeles, with working supervisors in all three locations providing additional assistance.
- At least three accountants would be required to bill client departments and perform the reconciliations between travel center reservation, cancellation and unused ticket records, and airline invoices.
- One clerical position in each location would be required for typing, filing, and sorting.

- The travel center would require a manager in Sacramento to oversee policy and general administrative matters, and a supervisor in each office.
- Each office would hire a messenger to deliver tickets.

We estimate that total salary and benefit expenses for these positions would be $640,600 annually.

Other Expenses

As we noted above, the state would have to pay for the airline tickets it writes much more quickly than it does now. As a result, the state would experience a loss in interest income on invested state funds. The amount of the loss is difficult to determine. While we know that approximately 49 percent of all airline ticket costs are paid by reimbursing state employees who purchase the tickets initially, there is no data available on how the remaining 51 percent are split between instant tickets and direct purchases from the airlines, which are billed later, and purchases from travel agents, which usually are paid within one or two weeks of issuance. For the purpose of making a cost estimate, we assumed that half of those tickets are instant tickets or are purchased from airlines. The travel center plan, then, would mean that payment for 75 percent of all airline ticket purchases would be accelerated by 45 days, which would result in an annual loss of interest income to the state totaling $205,000.

Equipment leases and facilities operation expenditures also would be part of the travel center's operating cost. We estimate that these costs would total $209,100 annually. In addition, there would be some initial, one-time installation, programming and furnishing costs, totaling at least $50,000.

Total Cost

Table 3 shows the estimated annual cost of operating a travel center. The cost includes $640,600 for personal services, $209,100 for operating expenses, and $205,000 in lost interest income, for a total annual cost of $1,054,700. During the first year, moreover, there would also be at least $50,000 in start up costs.

Table 3

Estimated Annual Cost of a State Travel Center

		Salary	Totals
Personnel Services:			
1	Manager	$24,000	$24,000
3	Supervisors	18,000	54,000
19	Reservation agents	15,000	285,000
3	Secretaries	14,000	42,000
3	Accountants	16,000	48,000
3	Messengers	12,000	36,000
	Total salaries		$489,000
	Staff benefits		151,600
	Total personal services		$640,000
Operating Expenses and Equipment:			
	General expenses		$27,000
	Communications		50,000
	Facilities operations		32,000
	Data processing		15,000
	Equipment: 22 reservation terminals		27,500
	6 printers		9,300
	accounting system		25,800
	Messenger vehicles		22,500
	Total operating expenses and equipment		$209,100
	Total travel center cost		849,700
Special Item of Expense:			
	Loss of interest income due to accelerated payments		205,000
	Total annual cost of operating a travel center		$1,054,700
	One-time costs		$50,000

It should be noted that this is a conservative estimate of the costs that the state would incur in establishing a travel center. First, it makes no allowance for workload associated with train and bus transactions. This workload, however, probably would be insignificant. Second, and more importantly, most travel agents we spoke with estimated that at least 20, and perhaps as many as 46 reservation agents would be required to handle the airline workload. One large travel agency we spoke with employs 68 people to handle a dollar volume of reservations for air, car, and ship travel, and for accommodations, approximating what the travel centers would handle in air tickets alone ($20 million). While this agency requires several marketing and executive positions which a state travel center would not need, the size of its staff suggests that our estimate of 32 state employees is indeed conservative.

Third, if the state were to act as an independent agent, it would encounter more complex administrative problems than those faced by an independent travel agent. This is because, as a commissioned agent, the state would have to negotiate separately with each airline for which it wished to write tickets. As a result, the terms of payment, procedures, and the amount of the commission could be somewhat different under each agreement. While this would not be an insurmountable problem, it could make some aspects of a state travel center's operations more burdensome than a travel agency's. For instance, the travel center might have to submit separate weekly records and payments to each airline, while an agency makes only one report to the area settlement plan (ASP), or "clearing house," of the ATC. It is unclear whether the ASP would be available to independent agents, although the CAB decision suggested that the board would consider denial of access to be anticompetitive. Finally, the programming workload to adapt commercial automated reservation and accounting systems to state use could greatly exceed what we estimate. It is virtually impossible, however, to estimate the size of this workload with any confidence before the system is operating.

ESTIMATED SAVINGS THAT WOULD RESULT FROM ESTABLISHING A TRAVEL CENTER

In order to make its establishment worthwhile from a financial standpoint, a travel center would have to generate savings to the state which exceeded the cost of operating the center, in order to make its establishment worthwhile from a financial standpoint. This section considers where these savings might come from.

Our analysis indicates that travel centers could generate savings to the state in one of four ways:

1. Reduce the transportation element of state employee travel costs by directing travelers to the cheapest mode.

2. Reduce the price of airline tickets by successfully negotiating commissions from airlines.

3. Increase utilization of discount fares by state employees.

4. Reduce departmental administrative costs of making travel arrangements.

Generally, however, it is not possible to quantify the likely savings from each of these four sources.

Use of Least-Cost Travel Modes

Travel, center employees could provide information to state employees which would reduce state travel costs. For example, employees would be advised about the least expensive fare available, and encouraged to book early if a limited number of promotional fare seats are available. Any ridesharing services, or persuasion to use a less expensive mode of transportation, also would reduce state travel costs.

Agency Commission

If the state was able to negotiate travel agency status with one or more of the airlines, commission revenue could offset all or a portion of the travel center's costs. We estimate that, at the most, the state could earn $2.1 million from this source. This would require it to negotiate 10 percent commissions with every carrier. To the extent that some carriers would not agree to such an arrangement or would only agree to some smaller commission, the state's commission revenue would be less than this amount. We do not believe it is possible to estimate what actual commission revenue might be with any confidence.

Discount Fares

An additional source of savings which could offset part of the cost of the travel center is the discount on airfares that might be secured for state employees. If the state were successful in negotiating discount fares with certain airlines, those state employees who travel frequently could be given state travel guides listing airlines which offer discount fares along each routes. Employees would be instructed to use those carriers whenever possible. Thus, the employee could be issued a state ticket order when his trip was approved, could present it to the airline, and travel as he does now, without having to avail himself of any travel center services.

Departmental Administrative Costs

A minor amount of savings would result from the elimination of the travel arrangement workload which has been delegated to part-time "travel agents" located in large departments. To the extent that using a travel center is faster than making one's own arrangements, savings may also accrue to other departments in which traveling employees are responsible for obtaining their own tickets.

Constraints on the Amount of Savings That Could Be Achieved by Establishing A Travel Center

In realizing the potential savings from establishing a travel center, the state would encounter several formidable constraints.

Ensuring that Travelers Use Least-Cost Transportation. Travel center clerks could inform travelers about the least-cost method of reaching any given destination. Such methods, however, would not necessarily be used, either because the apparent least cost method might not make sense in the overall context of the traveler's schedule and responsibilities, or because the traveler chooses to make other arrangements for his personal convenience.least cost method of reaching any given destination.

While the Legislature could direct a travel center to enforce a savings program based on the least costly transport available, it probably would be more reasonable for reservation clerks to restrict themselves to advising travelers on routes and schedules. The traveler himself would have to decide on the best, most efficient, itinerary on the basis of his total job responsibility.

For example, some short airline flights which appear to be replaceable by less-expensive bus or train trips, and were cited as potential sources of savings in initial discussions of the travel center concept, are in reality legs of a more complex trip. Thus, it is possible that the majority of the 12 flights between Sacramento and San Francisco that the DGS found in its sample of 4,189 TECs were connected with other flights to destinations that cannot be reached directly from Sacramento.

Agency Commissions. As indicated above, the CAB's recent decision on the marketing of airplane tickets might allow the state to negotiate commissionable agent status with one or more airlines. If all airlines agreed to a 10 percent commission, state commission revenue could reach $2.1 million. Our analysis, however, indicates that the probability of the state successfully negotiating such agreements at the present time is not high.

The CAB's decision does not require the airlines to enter into agency agreements with anyone. As a result, even if the state wished to be designated as an agent, there is no guarantee that any of the airlines serving California would agree to enter into such a relationship with it.

Furthermore, while airlines would have some incentive to secure a larger share of the state's business by designating the state as an agent, there are other factors that would tend to discourage the airlines from doing so. On the one hand, if the state agreed to accept a commission of less than 10 percent on tickets that otherwise would be purchased through certified travel agents, the carrier would reap a financial benefit by dealing directly with the state. This is because it would retain a greater percentage of the ticket price than if it had to pay the customary

10 percent commission to the agent--an important consideration, since certified agents account for approximately 60 percent of airline ticket sales.

On the other hand, however, as the CAB has pointed out, the carriers might be afraid to designate alternate agents out of fear that certified travel agents would retaliate by directing their customers to those other airlines that refused to use the alternate agents. A representative of one medium-sized airline we spoke with predicted that "the ice would have to be broken" by one of the major carriers who could not be boycotted effectively by the American Society of Travel Agents (ASTA) before his company would allow the state to "sell" tickets for a commission. No airline we spoke with stated outright that it would agree to a commission agreement. Rather, all of them indicated that they are taking a "wait-and-see" approach.

Furthermore, efforts are underway to eliminate this option. ASTA is sponsoring legislation, which has been introduced in the Congress (HR 2053 and S 764) which would, in effect, overturn the CAB's December 1982 decision in favor of the conclusion reached by the administrative law judge that the ATC's former resolution was not anticompetitive. As a result, the final impact of the decision is in some question.

For these reasons, no one can predict with any certainty whether the major in-state air carriers would be willing to pay commissions to a state travel center, or what the probable level of any such commissions would be. It is almost certain, however, that these commissions would not exceed 10 percent, and they probably would be less than 10 percent given (1) the large volume of tickets sold today that are not subject to any commission and (2) the carriers' reluctance to antagonize certified travel agents.

If the state sought to finance a travel center by means of commissions, it would have to successfully negotiate agreements with most, if not all, of the carriers. Even if this were not a financial necessity, it probably would be a programmatic one. This is because it would be extremely confusing and frustrating for state employees to be required to use the travel center and then be told that they must make arrangements with the carrier directly or through an ATC certified travel agent because the state had no agreement with the carrier serving the traveler's destination.

Discount Fares As we note above, a third potential source of savings to the state is discounts from published fares. Travel center employees would be able to direct employees to flights on those carriers which had discount fare agreements with the state.

While a travel center probably would result in increased utilization of a discount fare program, it is not a prerequisite for the state to obtain the financial benefits from negotiating and administering a discount fare system. Consequently, we believe that the bulk of the savings attributed to such a program should be separated from the savings resulting from establishing a state travel center. Chapter V discusses the discount proposal in greater detail.

CONCLUSIONS AND RECOMMENDATIONS REGARDING ESTABLISHMENT OF A STATE TRAVEL CENTER

We conclude that the only way to establish a state travel center without increasing state costs would be to negotiate significant commission or discount arrangements with the airlines. As we have noted above, the likelihood of obtaining commissions at this time is uncertain and may not be very great. Discounts, on the other hand, would seem to be more within the state's reach. Discounts, however, could be utilized without incurring the extra expense of establishing a state travel center.

In Chapter V, we discuss the possibility of reducing state travel costs by negotiating discount fares directly with the airlines. Our analysis indicates that this is a less-risky alternative, yet one that offers the state the prospect of significant savings. The Legislature, however, may conclude that the travel center option should be explored further. If the Legislature wishes to pursue further the concept of a travel center, we recommend that it begin by directing the Department of General Services to attempt to negotiate commissionable agent status with all relevant carriers serving the California market. If the negotiations are successful, we further recommend that the Legislature direct DGS to establish a single travel center initially, in order to test workload, costs, and savings on a pilot basis.

CHAPTER IV

ALTERNATIVE CONTROL MECHANISMS TO REDUCE THE COST OF STATE TRAVEL

Chapter III of this report discussed the direct cost and potential savings to the state of establishing a state travel center. It concluded that the financial feasibility of the concept was far from certain, and could, if efforts to obtain commissionable status for the state were not successful, actually increase the cost of state travel.

This chapter discusses some alternative mechanisms for reducing the cost of state travel which might be implemented at less cost and with fewer organizational changes. Some of these alternatives would reduce travel costs primarily by providing timely information to employees on the most cost-effective way to travel; others would cut costs by placing controls on the reservation and reimbursement processes.

DECENTRALIZED TRAVEL OFFICES

One alternative to centralized ticket offices is a non-automated, decentralized system of travel offices within state government. If this alternative were adopted, one department--probably DGS--would be responsible for collecting up-to-date information on fares and schedules, disseminating it to decentralized department travel offices, and setting policy. Large departments would designate one employee to be a part- or full-time "agent" and provide travel information and make reservations. The departmental "agent" would be responsible for keeping up-to-date on the information and policy directives distributed by the central office, making reservations and processing tickets for department staff, and performing any other travel functions required. The DGS central office would provide travel services for small agencies and, in cases of complex itineraries, large agencies as well.

The decentralized system could be used in conjunction with an automated reservation system if a terminal were placed in each large department having an "agent." This, however, would not represent an efficient use of the terminals, because each agent probably would use his or her terminal only a few hours a day. Furthermore, under this system, controls over ticket stock and procedures would be difficult to maintain.

A non-automated system probably would be feasible, however, if it was designed along the lines of the existing Department of Water Resources travel center. Each departmental agent would have a stock of quick tickets from PSA, Air-Cal and Western, and would obtain other tickets directly from the airlines. The departmental agent could also act as a ridesharing coordinator, in order to reduce the cost of surface transportation by state employees on official business. Currently, several employees from different divisions of large departments can unknowingly travel to the same place on the same day in different vehicles.

The advantage of this system over the existing decentralized approach to ticket procurement is that the DGS central office could keep departments apprised of promotional fares and new carriers. It also could be authorized to take advantage of bulk purchase discounts. State purchasing rules now make it difficult for some departments to benefit from these special offers. For example, Western Airlines recently has offered a a "Bivouac" packet of 20 one-way tickets between Los Angeles and Sacramento for $899. The packet also includes a coupon good for free passage on any Western flight. The cost of 20 one-way economy tickets between Los Angeles and Sacramento would be $1,240, in addition to the cost of the bonus ticket, which could be used for, say, a Sacramento to New York City flight. Pacific Express soon will offer a 10-ticket package. Each ticket will allow the purchaser to travel between any two cities in California served by Pacific Express (except Palm Springs) for $39.

Departments would need to be informed about offers such as those made available by Western in order to take full advantage of them. It also would be necessary for individual departments to revoke any delegated reservation authority from employees and centralize at least some travel authorization and ticketing. The DGS central office could purchase and distribute tickets in these packages to small departments which may not generate enough traffic on their own to make purchase of a full package of tickets worthwhile.

INFORMATION CENTER

Another alternative for reducing state travel costs is to establish a state travel information center. Currently, when an employee calls an airline directly for a ticket he or she may take the first fare he/she is offered, knowing the state will pay the full fare. In contrast, one call to a state information center could tell the employee which airline to call and which fare to request.

The center would subscribe to the Official Airline Guide, the Passenger Tariff, and other schedules, and would maintain communication with the airlines in order to have current information on promotional fares and other special offers. When a state employee plans a business trip, he/she could telephone the state information center before making any arrangements. The center could advise the traveler on the least-expensive mode of transportation between his departure and destination points, the state's policy on such travel, schedules, costs, and procedures for obtaining a state or contract automobile, if necessary, at the destination. The traveler then would telephone a travel agent or the appropriate airline to order a ticket.

The information center could provide additional services as well, such as acting as a ridesharing "bulletin board" and providing maps and information about mass transit in destination cities. Based on the results of previous experimental programs conducted by state agencies, however, the success of a central ridesharing center is likely to be limited.

TRAVEL AGENTS

Yet another alternative to state travel centers is placing greater reliance on the services offered by travel agents. Departments or individual employees could be authorized to go to any agent for travel services (as they are now). Alternatively, the state could negotiate an agreement with one or more specific agencies under which the state would agree to purchase all tickets through the agent in exchange for special ticket delivery, reporting, or billing services.

It is not clear, however, to what extent the state could expect to obtain concessions from travel agents that would result in savings. There appear to be two differing attitudes on the part of travel agencies toward state business. One group of agents wishes to continue serving state departments, and opposes the travel center concept. These agents maintain that the state cannot possibly administer a professional travel agency or save money by doing so.

Other agents do not appear to be interested in state travel business because (1) most of the tickets purchased by the state are for low fare, low commission routes, on which the cost of preparing and delivering the ticket often exceeds the commission, and (2) the state pay cycle is "too slow." These agents maintain that they cannot afford to, in effect, "carry the state" between the time they must pay the airlines for the tickets they write (generally one week after the ticket is written) and when they receive payment from the state. (While agents often request immediate payment, some departments do not comply.)

There also are diverse attitudes toward the use of travel agents on the part of state agencies. The Department of Consumer Affairs, for instance, is pleased with its travel agent because the agent delivers management reports and a detailed billing. This makes it easier to account for the tickets purchased by all of the various bureaus, each of which is supported by a different fund. At least one large department we spoke with, however, decided not to use an agent after meeting with several agencies which wanted its business. The department concluded that state personnel were more knowledgeable about the services they require than the agents were.

Finally, the fact that travel agents work on a commission basis makes it important that state travelers using the services of agents act as prudent consumers. Specifically, state employees must request the lowest fare available whenever they order tickets. They also must order tickets as far in advance as possible, as that often enables the state to take advantage of special discounts.

In-House Agent

The ATC allows certified travel agencies to place one of their agents in the offices of a business, in order to provide travel services exclusively to that business. The commission on such sales--3 percent--may be divided with the company served by the agent. Three percent of the state's $121 million in expenditures on air travel would be $630,000. Thus, if the agent split the commission with the state (as generally is done with company clients) the savings to the state would be $315,000.

Our review, however, indicates that very few in-house agent arrangements exist. This is because the 3 percent commissions generally do not cover travel agency costs unless the agency also is allowed to earn full (that is, 10 percent) commissions on nonbusiness sales to the company's employees. The state, however, might not want to allow state employees to use an in-house agent for private travel services because it would constitute the use of state-funded facilities for personal benefit. Without the opportunity to earn full commissions on private travel services, it is unlikely that any agent would agree to an in-house arrangement.

CONTROLLER'S OFFICE

The previous sections of this chapter emphasize the importance of setting up controls on how tickets are ordered, in order to ensure that the lowest fair is paid. Alternatively, the state could establish controls over the payment of air ticket claims which would create incentives for travelers to order the cheapest ticket available.

Currently, the State Controller's office (SCO) approves payment of claims submitted by(1) the traveler, if he paid for the ticket personally or (2) an airline, if the department ordered the ticket. It would be possible for the SCO to develop or obtain a list of the lowest available fares between points in the state's major travel corridors. The SCO auditors then could deny payment for that portion of a claim, in excess of the minimum fare, leaving the traveler, agent, or airline responsible for the difference between the cost of the actual ticket and the authorized amount. Both travelers and those airlines and agents paid through the regular claims process would then find it in their interest to order the least expensive service.

In some cases, of course, emergencies and other scheduling requirements would make it impossible or unreasonable to enforce a minimum fare reimbursement system. In those instances, the employees' supervisor could sign an authorization form which the employee or agent would submit together with a claim to the SCO, in order to obtain full reimbursement for the higher fare.

The amount of savings to be obtained from this mechanism is probably limited. Limits on reimbursements would only make sense for the most heavily traveled routes, where auditors could refer to a brief, easily revised list of maximum reimbursements. The training and reference time involved in researching minimum costs on rarely traveled routes probably would exceed any savings that could be achieved.

RIDESHARING AND STATE BUSES

Over the years, many suggestions have been made that would reduce the use of state and private vehicles on state business. Two of the most frequently proposed ideas are ridesharing and the operation of a state bus between San Francisco and Sacramento.

At various times, state departments have experimented with these ideas. Generally, their efforts to obtain these savings have not been successful.

State Bus Program. In 1974, the Department of General Services, at the request of the Legislature, implemented a pilot state bus program between Sacramento and the San Francisco Bay area. At first, the shuttle service made stops in Berkeley and Oakland. This, however, made the Sacramento-to-San Francisco trip so long (2½ hours) that it failed to attract passengers. DGS then converted the shuttle to an express service between the two end points. During the three months of July, August, and September 1974, when the shuttle was in operation, it carried a total of 42 passengers, or an average of less than one per day. During the same months, DGS dispatched 915 cars to the same destinations served by the shuttle.

The reasons given for not riding the shuttle bus by a sample of drivers that checked out cars during this period included:

Have to make many stops en route	41 drivers
Coming back late	31 drivers
Have to be in San Francisco before 9 a.m.	27 drivers
Picking up other riders	21 drivers
Have to get there and return as soon as possible	15 drivers
Have not heard about bus	12 drivers
Returning or going on weekend	10 drivers
Hauling cargo	7 drivers

The Department of General Services estimated in 1974 that at least 15 passengers per day would be required to make a shuttle bus pay for itself. It appears that, because of the varying needs of state travelers, it is not feasible to achieve this passenger volume. Individual travelers, however, should be encouraged to take a commercial bus to centrally located destinations such as the state office building in San Francisco, because the roundtrip bus fare ($18) is less than the cost of renting and parking a state vehicle for one day (approximately $38).

Ridesharing. The Department of Water Resources operates a ridesharing program that has a very successful match rate: 50 percent of applicants, as reported by DGS in 1980. This program, however, operates on a fairly small scale, and registration with the program is mandatory for each proposed trip.

The Department of Transportation instituted a six month ridesharing demonstration project in 1980, but matched only 2.4 percent of their travelers. DGS also experimented with a ridesharing program, and had similar results (2 percent matching). Both of the low-match programs were voluntary. Drivers cited multi-stop trips and timing problems as the main reasons why ridesharing would not work for them.

While we believe that there is a potential for achieving some savings from ridesharing programs, it appears from past experience that such programs are likely to be successful only if they are implemented on a small, tightly controlled basis. A decentralized, departmental travel office would probably be the optimal means to promote ridesharing.

CONCLUSIONS AND RECOMMENDATIONS

Each of the alternatives described in this chapter offer a means for reducing state travel costs that would be less expensive than establishing a state travel center. To the extent travel centers (or negotiated discounted fares) turned out to be feasible, they probably would be more effective in reducing state costs than these alternatives. Because the travel center or discounted fares would depend on the successful outcome of negotiations over commissions and fare reductions, however, they may not turn out to be feasible.

We believe that, if such negotiations fail, the state should attempt to reduce state travel costs by increasing the transportation information available to departments and their employees. In particular, if the commission and discount fare negotiations fail, we recommend that the Legislature direct the Department of General Services to establish a central travel information office in Sacramento, and to distribute timely information on promotional fares and alternate modes of transportation to departments. We further recommend that the Legislature direct the Department of Personal Administration to amend the State Administrative

Manual so as to (1) direct employees to seek out and utilize this information when planning trips and (2) encourage large departments to designate an employee to handle those travel arrangements which are now delegated to individuals. This should allow the departmental "travel agent" to make the most efficient use of ticket package offers, and other promotional fare information.

CHAPTER V

FARE DISCOUNTS

The primary potential source of savings in state travel costs mentioned during legislative discussions of the travel center concept is a system of discount fares that would be made available to state employees traveling by air and rail. The federal travel discount program, which applies to travel by federal employees between specific "city pairs," was used as the basis for projecting potential savings to the state from such a system. This chapter describes the federal travel discount program, and reviews the types of discounts that might be offered by airlines to the state.

THE FEDERAL TRAVEL DISCOUNT SYSTEM

The federal government has reduced its travel costs by arranging discount fares with airlines, Amtrak and hotels. The program began in December 1980, and initially applied to 11 pairs of cities served by various airlines. The December 1982 Federal Travel Directory lists 422 city pairs with discounted air tickets and 3 with discounted Amtrak tickets. The July 1982 Federal Hotel/Motel Discount Directory contains 51 pages of participating hotel listings in cities around the country.

The total amount of savings that the federal government has realized from airline discounts is unknown, because federal departments are not required to submit any data to the General Services Administration (the administrating agency for the program) on their actual and alternative costs. A program administrator in San Francisco, however, estimated that savings during the first six months of the program were $4 million. During this period, there were only 11 city pairs covered by discount agreements. The preface to the August 1982 Federal Travel Directory states that savings of $60 million could be achieved in the next year through the use of the contract airlines.

How the Federal Discount Program Operates

Under the discount program, the General Services Administration (GSA) solicits bids to provide air service between each city pair in the same way it solicits bids to provide any other service. It then may select only the lowest bid, or the lowest bid plus one or two alternate carrier bids and award contracts for each city pair. Contracts are one-year, fixed price agreements. The carrier must agree not to discriminate against federal employees when accepting reservations, and to provide them the same amenities and level of service it provides to travelers paying the full coach fare.

In exchange, the federal government instructs its employees traveling between the designated city pairs to fly on the contract airline offering the lowest fare. Exceptions to this rule are permitted if:

1. The flight the federal employee wishes to take is fully booked. When the employee cannot conveniently take another flight on the lowest-fare carrier, he must go to the contract carrier offering the next lowest discount fare between the cities (assuming GSA has signed contracts with alternate carriers). If the traveler cannot obtain a ticket on a contract carrier, he may book a flight on any airline. In doing so, employees are encouraged to attempt to obtain a discount or promotional fare.

2. The traveler is flying after 10 p.m. or before 7 a.m., or the contract flight is not compatible with agency policies regarding travel during regularly scheduled work hours.

3. The use of the carrier's flight would require additional overnight lodging.

4. Total trip costs, including ground transportation, subsistence, allowable overtime or lost productive time, as well as airfare, would be less on a noncontract airline. In making this calculation, the traveler may use only regular fares on noncontract airlines, as opposed to promotional or restrictive fares.

5. Exigency or other requirements of the mission necessitates the use of another airline carrier or mode of transportation.

The contracts allow federal employees to take advantage of promotional fares offered by the contract airlines if they are lower than the contract fares. An employee cannot, however, buy a promotional ticket on an alternate contract carrier if the primary (lowest bid) contract carrier has a seat available at the contract fare.

How Much of a Discount?

In general, the carriers which submitted the lowest bids to GSA were the small-to-medium-size airlines (Republic, Ozark, Northwest Orient, for example), rather than the major ones (such as United, American, Pan-American). Table 4 compares the rates offered by the federal contract carrier (in all cases, Air California) with other fares available to the general public between California city pairs. It shows that, on California routes, the contract fare is the best available during the peak hours when most federal travel probably occurs. The amount of the discount is approximately 5 percent of the lowest fares available to the general public during peak travel hours.

Table 4

Federal and Other Fares
Between Federal City Pairs

City Pair	Negotiated Federal Fare	Regular Coach Fare	Air Cal's Lowest Fares		Lowest Available Fare-Other Carriers
Ontario-Sacramento	$49	$75	$52[a]	$39[b]	$55[c]
San Francisco-Ontario	49	75	52[a]	39[b]	52[c]
San Jose-Ontario	49	75	52[a]	39[b]	No other service
San Jose-Burbank	49	75	52[a]	39[b]	52[c]
San Jose-Los Angeles	49	75	52[a]	39[b]	52[c]

a. A limited number of tickets at this price available on all flights.
b. Available on off-peak hour flights only. Passengers must book round-trip on Air Cal.
c. Pacific Southwest Airlines normal fare. No restrictions.

Although the major airlines did not win awards, they have since come out with promotional fares for federal government employees that are slightly less than the contract fares charged by Republic, Eastern, and the other contract carriers in other states. While, technically, a federal agency probably could certify that many of their trips satisfied one or more of the exception criteria and purchase the promotional tickets, the goodwill of the contract airlines would be lost and they might not submit bids again when the existing contracts expire. And without the competition from the discount contract fares, United and other noncontract airlines presumably would no longer have an incentive to offer promotional government fares.

FARE REDUCTIONS FOR STATE EMPLOYEES

California could use the federal discount program as a model for a state travel program providing special fares between the major cities of California. Alternatively, the state could try to negotiate with airlines for a standard discount on all of the participating companies' flights, or establish procedures to take greater advantage of existing discount programs which are available to the general public.

Probability of Negotiating State Discounts

As we noted in Chapter 1, approximately 48 percent of the money spent by the state on air transportation is used to purchase tickets in a few in-state air traffic corridors. These corridors link Sacramento, San Francisco, and San Diego to the Los Angeles basin, and connect Sacramento to San Francisco and Fresno. This pattern of air traffic suggests that the state might be able to establish a discount program similar to that of the federal government.

When the PACE division of DGS wrote to several airline companies early in 1982 to ask whether they would be interested in discussing a discount fare program, only Air California responded affirmatively. When DGS discussed the concept with Air California representatives, however, it found that the airline was interested primarily in promoting an existing discount program, Zone Air, that was already available to the general public.

We telephoned the sales offices of several of the airlines serving the major corridors with the same question in December 1982. All of the carriers that we contacted said they might be interested in talking to the state about special fares. In most cases, however, their interest was mainly in discussing existing fare options. Some specifically mentioned a special discount on bulk ticket sales, while others mentioned existing promotional fare programs. (The latter "discount," of course, would offer no advantage over fares already available to any flier.) One airline also mentioned the possibility that special privileges available to "frequent fliers," who log several thousand miles annually, might be made available to state departments on the basis of the amount of travel logged by all of their employees. The privileges earned by traveling a certain number of miles include rental car discounts and one or more free tickets. Finally, United Airlines gave us memorandums indicating that it would not be interested in offering discounts to the state. (In an actual bidding situation, of course, its position might be different.)

The amount of any discount which an airline might offer the state would depend on at least two factors:

- the level of competition in the travel corridor, and
- the financial condition of the airline.

Competition in the intrastate corridors varies greatly. The San Francisco and Los Angeles corridor, for example, is served by 11 carriers, while only 2 airlines fly from Sacramento to Los Angeles. The effect of competition on the size of the discount (if any) that the state might obtain is difficult to predict. While one generally would assume that more competition (carriers) would lead to the lowest prices, the actual share of existing state business and each carrier's perception of its competitors' financial and capacity condition would affect the carrier's bids. (The financial condition of competitors would affect the amount of the discount the competitors could offer, and their excess capacity would determine how much additional service they could provide.)

United Airlines advised us that no airline would offer the state a discount because of the financial condition of the airline industry. Table 5 lists the recent profit and price-per-share information for certain carriers serving the in-state corridors. (We could not obtain comparable financial data on some carriers whose stock is privately held.) While it is true that several airlines are in precarious financial condition, we found that Western, Pacific Southwest Airlines, Air West and Air California, all were willing to discuss the discount idea.

Table 5

Earnings of Primary Carriers on In-State Routes

Airline	Profit per Share 10/81 through 9/82	Price per Share March 1, 1983
Air California	a	a
PSA	$7.50	$26 5/8
United	4.18	34
Western	-6.81	6 3/4
West Air/Pacific Express	b	b
Republic	-3.53	9 1/8

a. Not publicly traded.
b. No information is available. West Air is owned by Pacific Express Holding, Inc., which was first publicly offered in October 1982.

Probable Amount of a Discount

In order to estimate how large a discount the airlines might offer to the state, we questioned the carriers and reviewed the discounts the federal government won for travel between California city pairs. The airlines understandably were reluctant to give us estimates of the exact percentage discounts they could offer to the state. One mentioned that it offered a discount of up to 25 percent to its bulk ticket purchasers such as tour group operators. Another airline stated that it offers bulk purchase fares equal to its lowest restricted fare available to the general public. (The restrictions include requirements that travel occur during off-peak hours, that reservations be made several days in advance, or that the travelers remain at the destination a minimum number of days.) The bulk rates, however, apply to a group traveling together; the airline makes one "reservation" and sends one invoice to the tour operator for all of the tickets. The discount reflects the reduced administrative costs associated with such a flight. Because, the state would be booking each ticket individually, it could not expect this kind of discount.

For the purpose of estimating the potential savings to the state from discounted fares, we assumed that the state could negotiate the same average 5 percent reduction that the federal government was able to negotiate. (The possibility of even this discount has been thrown into doubt, however, by American Airlines' recent announcement that it is going to establish a new fare structure in which fares are directly linked to the distance traveled, and only a few classes of tickets would exist. Several other airlines have announced their intention to adopt similar systems in an attempt to move away from the existing pattern of ever changing discount fares. The stability of this new system, however, is in doubt.)

Estimated Savings

If the state could negotiated a 5 percent discount on all of its in-state travel, which is estimated at $13,680,000 annually, the savings would be approximately $684,000. The actual savings, however, would be less, because it probably would not be possible to negotiate contracts for every route, and some travelers would have to use noncontract airlines occasionally because of schedule conflicts. In addition, because of frequent route changes by the airlines, the state could be left without a special fare to an in-state destination if its contract carrier pulled out of that market.

A 5 percent discount applied to the estimated $7,465,000 in out-of-state travel would yield a $373,000 savings, but the actual savings in this case would be significantly less. In many cases, the state sends only one or two people a year to a particular out-of-state destination. No airline would be interested in negotiating a city pair contract unless it expected a significant increase in the amount of travel to result. If 5 percent discount fares were negotiated for travel from Sacramento, Los Angeles, and San Francisco to Chicago, New York City, and Washington, D.C., however, savings might approach $65,000.

Railroad Travel Discounts

Amtrak has made available to state employees a discount fare of $14.80 between Los Angeles and San Diego. The regular fare is $16.45. The federal government has negotiated discount Amtrak fares for its employees between three city pairs. It may be possible for the state to obtain some additional savings from this source, although the amount probably would be insignificant.

A Discount or a Commission?

Finally, it should be repeated that the state could negotiate for discount fares, or for status of a commissionable agent, but almost certainly not for both types of savings on the same routes. Air California, which is the contract carrier on all of the federal government's California city pairs, does not pay certified travel agents a commission on these discount fare sales.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

In the preceding chapters, we examined various options for reducing the cost and changing the patterns of travel by state employees. The two alternatives offering the greatest savings potential appear to be (1) a travel center offering automated, commissionable air ticket services and (2) a discount fare system similar to that of the federal government.

Chapter III discussed the travel center concept, and presented our estimates that the annual cost of operating such a service would be approximately $1 million, which could be offset by an average commission of 5 percent on all air ticket sales. If the state could negotiated commission agreements in excess of 5 percent, the extra commission could be considered a cost savings of the plan.

Chapter V discussed the discount fare option. It cited the example of the average 5 percent discount on flights within California which the federal government negotiated with Air California.

Either discount fares or a travel center with the reservation system costs more than offset by commission revenues would result in a net reduction in state transportation costs. It is impossible, however, to estimate which would result in the greater cost reduction. This is because the relative savings of the two alternatives would depend on (1) the outcome of actual negotiations and (2) the pattern of state travel on contract and noncontract routes. Certainly, the discount rate approach would be the least risky, because any agreement would result in some savings. Savings from the travel center/commission approach, however, could fail to materialize or be short-lived if (1) actual state costs turn out to be significantly more than the cost estimates included in this report, which are based to a large extent on travel agency workload data or (2) carriers with which the state has negotiated agency status go out of business or pull out of heavily traveled routes. The latter is a distinct possibility, given the current financial condition of the airline industry.

We suspect, however, that many airlines probably would be reluctant to discuss travel agency status for the state at the present time.

For the reasons given above, we believe that the discount fare approach is the best option currently available to the state for reducing state travel costs. Accordingly, we recommend that the Legislature request the Department of General Services to develop invitations for bids for discount state employee fares on all relevant routes. DGS may wish to request bids of a percentage discount on flights to all cities served by a bidding airline, or to duplicate the federal government's city pair approach.

Rapidly changing conditions in the airline industry could, however, suddenly make the travel center/commission option more attractive. For this reason, we further recommend that DGS keep the Legislature informed of its progress in negotiating discount fares. The department should notify the Legislature immediately if the prospect for commissionable status appears to promise greater state savings.