

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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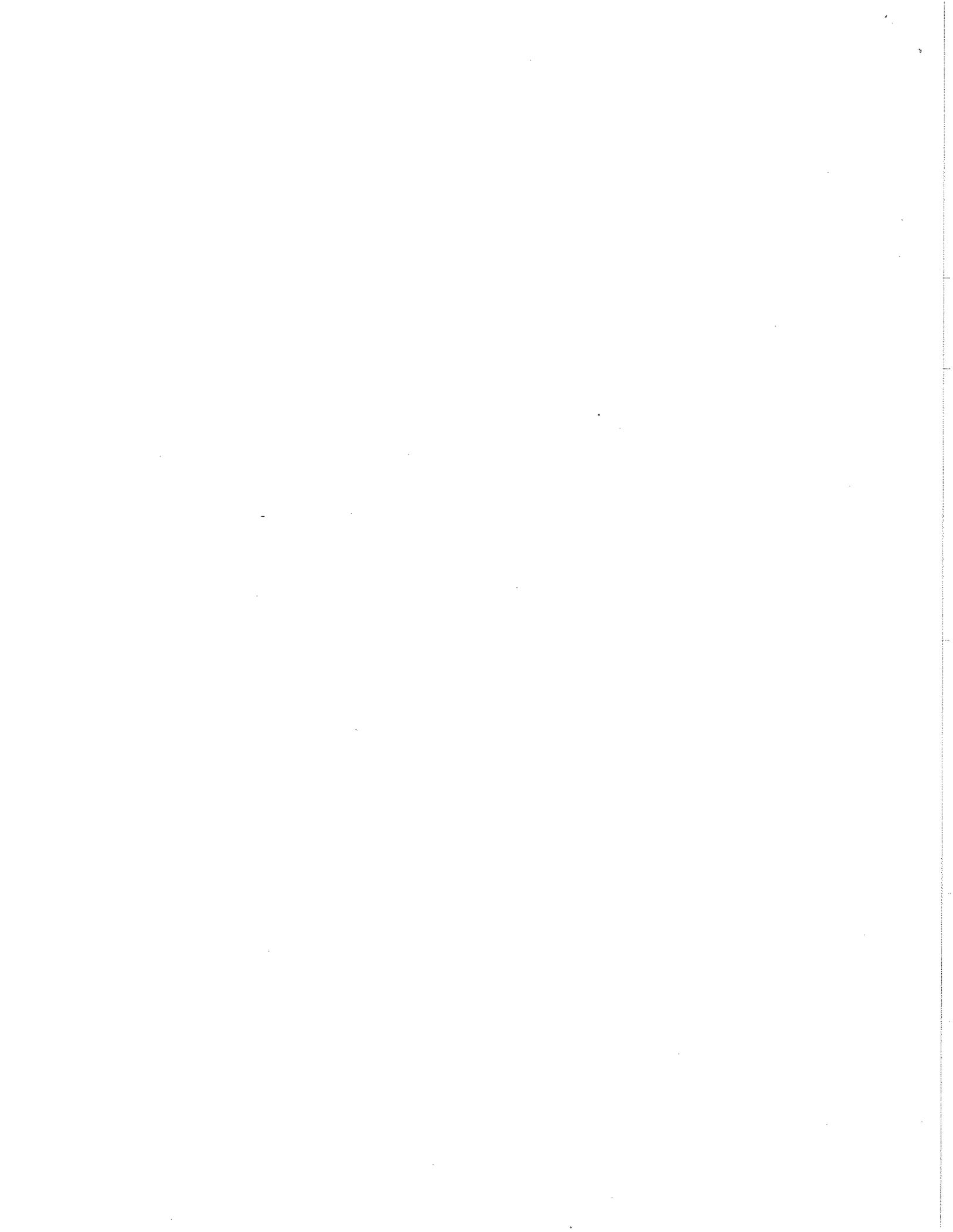
Dear Governor and Members of the Legislature:

As you may know, the Department of General Services is currently in the process of developing an invitation for bid for discount air fares for State travel. We commend the administration's efforts towards reducing the cost of State travel. The Commission on California State Government Organization and Economy has had a long standing interest in State travel costs. The Commission during the last three years has periodically reviewed alternative ways for the State to reduce its cost of air travel. Most recently, we have gathered information regarding the significant savings the State could derive if it contracted out travel services to a private travel agency. The purpose of this letter is to share with you our findings on this subject, and recommend that the Department of General Services carefully analyze all costs associated with State air travel and consider the additional benefits the State would receive from contracting out travel services to a private travel agency.

Background

Each year, the State spends over \$21 million on airline tickets for State employees to travel throughout California and to other states on official business. The busiest routes are from Sacramento to Los Angeles, Orange County, and San Diego; and from San Francisco to Los Angeles.

Since 1980, our Commission has dedicated portions of several public hearings and additional outside research in reviewing various ways in which the State could reduce the cost of State air travel. We have analyzed such alternatives as: (1) the State chartering its own aircraft for major commuter trips; (2) the State obtaining travel agent status to become eligible for commissions; (3) contracting directly with the major air carriers for discount air fares; and (4) contracting out the air travel management responsibilities, including negotiating air fares, to a private



travel agency. We have conducted our research of these alternatives by reviewing reports and statistics on State travel, receiving testimony at public hearings, and meeting with airline and travel industry executives.

Contracting with Travel Agencies
Offers the Most Services Along
With Significant Savings at No
Direct Cost to the State

After considering each of the alternative methods of reducing the cost of State air travel, we have concluded that contracting with a major air carrier for discounted fares is the only feasible method to reduce the cost of tickets. However, utilizing a major travel agency to conduct these negotiations and obtain the discounted air fares offers the State many additional benefits and services that the State would probably not receive if it contracted directly with the air carrier. These additional services would enable the State to better manage its overall travel activities, control costs, and hold State departments accountable for efficient travel practices. Moreover, a private travel agency would provide these services at no direct cost to the State since the agencies receive their income through airline commissions. The specific additional services the State could receive are as follows:

Cost Savings:

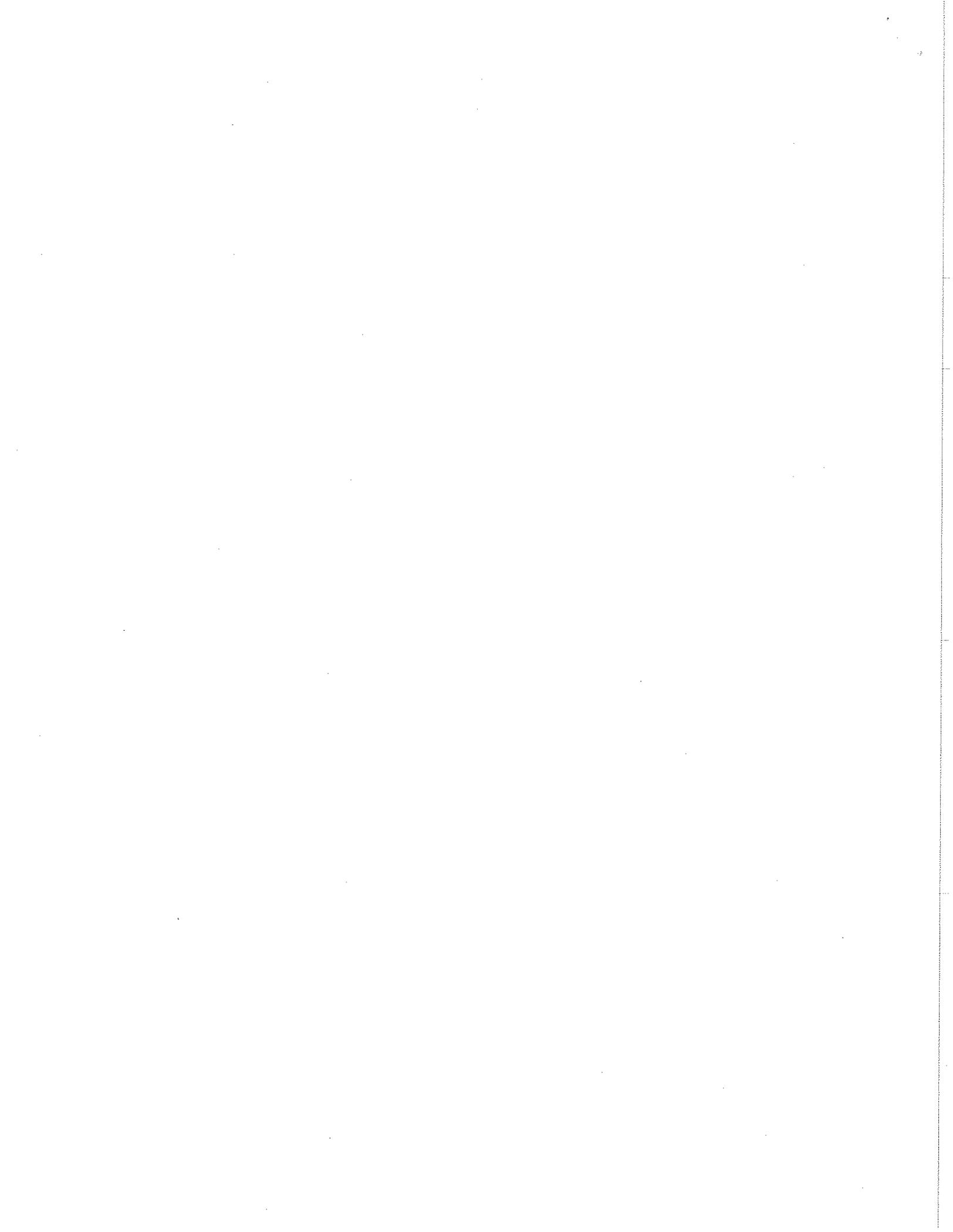
Sixty-two percent of the State's air travel occurs within the State of California. Consequently, the over 222,000 annual one-way segments offer the State itself, or a travel agency, significant leverage in negotiating discount fares. Discussions we have had with airline officials and travel agencies indicated potential savings ranging from five to twenty percent depending on the current air fare prices.

Because a travel agency receives its income through commissions from the airlines, the State could possibly negotiate a slightly larger discount than could a travel agency. However, the largest travel agencies could possibly offset (or in some cases exceed) this difference by combining other clients' air travel programs with the State's program in order to offer a larger total number of one-way segments to an air carrier as an incentive for even larger discounts.

The State also spends several million dollars a year for air travel to destinations outside of California. Because these trips are in lower volume, may involve multiple carriers, and the volume is less predictable, the State may have significant difficulty in contracting with a carrier directly for discounted fares for these trips. However, the largest travel agencies utilize computerized data systems which enable them to identify and schedule a client into the lowest possible fare to any destination.

Savings in State Employee Time:

Because the management of State travel is decentralized, State employees (particularly secretaries) spend a great deal of time researching available flights, making reservations, and picking up tickets. If the State contracted



directly with an air carrier for discount fares, there would be little or no effect on reducing the time State employees spend completing travel arrangements.

However, contracting with a major travel agency could provide State employees some relief in the time they dedicate to travel arrangements. Because a travel agency is capable of scheduling and ticketing for any airline and could also make hotel reservations for the individual, employee time and long distance telephone cost could be reduced significantly. Furthermore, time could be saved in picking up tickets since major travel agencies will often distribute tickets and other travel documents directly to the client.

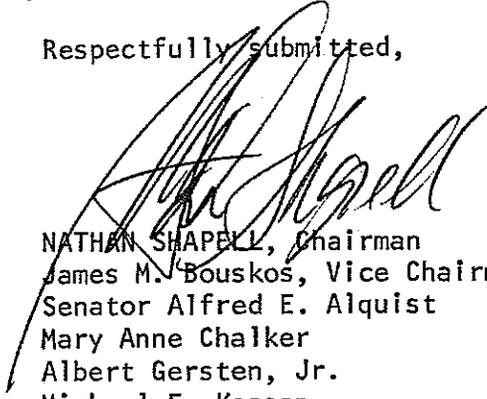
Management Reports:

When we first began reviewing State employee air travel, we were surprised to learn that there exists virtually no centralized data base on this subject. In fact, we had to request the Controller's Office to survey State departments to establish how much the State spent on air travel.

Because employee travel is decentralized to the lowest possible levels, there are virtually no controls or oversight of expenditures to ensure that State travel, particularly air travel, is being purchased at the lowest cost. However, certain travel agencies which employ computerized data bases as a regular course of business provide major clients with management reports at no additional charge. Although these reports may vary from one travel agency to another, they can include summaries of cost savings; summaries of trip information by department and employee; vendor reports for air travel, hotels, and car rentals; and destination survey reports. We believe these reports would be extremely useful in controlling costs, holding individual departments accountable, and identifying additional ways to reduce the cost of State travel.

During our October 1983 Commission meeting, we were advised that the Department of General Services intends to request bids from airlines and travel agencies during the first six months of 1984. We recommend that the Department carefully analyze the indirect as well as direct cost of State air travel and consider the additional benefits the State would receive from contracting out travel services to a private travel agency.

Respectfully submitted,



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