

United States Senate

WASHINGTON, DC 20510-7012

July 19, 2012

The Honorable Daniel M. Tangherlini
Acting Administrator
United States General Services Administration
One Constitution Square
1275 First Street, NE
Washington, DC 20417

Dear Acting Administrator Tangherlini:

I am writing about the General Service Administration's (GSA) proposals to reduce per diem rates. Although I support efforts to save taxpayer dollars, I am concerned that the changes proposed by your agency have not been fully analyzed and could ultimately increase costs to the taxpayers.

GSA per diem rates are established to reflect average mid-price hotel room night rates so that federal employees are able to find lodging for official business travel. The methodology in determining those rates was created in 2003 after an 8-month study by the Government-wide Per Diem Advisory Board, which was comprised of members from the travel industry, government contractors, and state and federal government officials.

In order to calculate the average mid-price room night rate, GSA obtains room rate data from hotels throughout the United States from Smith Travel Research, an independent research firm. The room rates from economy hotels are omitted because their rates are too low to be considered mid-price and the room rates for luxury hotels are also excluded because they are too high. The average mid-price is then calculated from the remaining data. GSA then reduces the average amount by 5% and establishes that lower rate as the applicable per diem rate. As a result, the existing per diem process provides rates that are 5-15% lower than actual market rates due to the incorporation of discounted room rates which are treated as standard room rates.

Despite the generous discount that GSA provides to government employees, it is my understanding that your agency is considering reducing the per diem rate even further by eliminating the highest mid-range hotel category from the calculations and establishing a new rate based solely on the lowest categories. This change will establish an artificially low rate that will not accurately capture the current market costs of a hotel room in many major cities. In Nevada, for example, the proposed per diem changes will exclude more than 28 Las Vegas hotels (or 16% of the current market) from government business according to US Travel Association data.

A new artificially low per-diem rate could result in a disruption for federal employees as they travel on business. If hotel rooms are not available at the new per diem rate, federal employees will be forced to stay some distance from their duty assignment. Instead of saving money, the proposed changes could have the unintended consequence of increasing costs to the federal government including additional transportation costs and lost time for traveling employees.

Changes in per-diem could also negatively impact the private sector, which is only beginning to recover from the economic slowdown. Many large companies and government contractors base their

reimbursement rates on the federal per diem rate. If GSA publishes a rate that is not competitive, private sector business travel could also be disrupted.

I support and encourage your agency's efforts to identify cost savings for the federal government. At this time, however, I have concerns about the way in which your agency is considering per-diem calculations and believe it deserves further analysis. I encourage you to ensure that any proposed changes to the established per-diem rate methodology will provide significant savings to taxpayers while maintaining affordable and economical options for official federal travel.

I appreciate your consideration and attention to this issue. If you or your staff needs any additional information, please contact George Holman of my staff at (202) 224-3542.

Sincerely,


HARRY REID
United States Senator
Nevada