

Off-Airport Rental Car Fees: Peer City Analysis and Estimated Revenue Potential



Office of the City Auditor



Off-Airport Rental Car Fees: Peer City Analysis and Estimated Revenue Potential

As of September 30, 2016

City of Tulsa Internal Auditing

A handwritten signature in cursive script, reading "Ron Maxwell".

Ron Maxwell, CIA, CFE
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A handwritten signature in cursive script, reading "Cathy Criswell".

Cathy Criswell, CPA, CIA
City Auditor

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Background:

The City Auditor’s annual risk assessment interviews with City leadership identified revenue/budget limitations as their current top risk concern. Based on this input, the Office of the City Auditor conducted an analysis of Tulsa’s 26 peer cities’ practices for off-airport car rental fees, as well as national and local rental car patterns. This report presents information as well as the estimated potential revenue off-airport car rental fees could generate for Tulsa.

Rental car excise fees are a type of fee/tax which can be charged to consumers by states and municipalities, and are often viewed as a component of tourism revenue. Tulsa’s airport currently charges a \$4/day facility/rental excise fee, and the state of Oklahoma charges a 6% excise tax on gross rental receipts. Tulsa’s ‘on airport’ facility excise fee generated roughly \$3.3 million in calendar year 2015 for airport operations, but *is not* part of the City’s adopted budget since airport operations separated from the City in fiscal year 2014. This fee/charge is **not** assessed in Tulsa for **off airport rentals**.

Such revenue is often used by peer cities for various tourism-related capital projects and economic development, such as sports arenas and convention centers. However, Cleveland has allocated a portion of off-airport rental car revenue to the general fund, and Mobile has similarly allocated portions of this revenue to parks, recreation and public safety. Below is a summary of Tulsa peer cities’ **off-airport** car rental excise tax structures and uses. The next page illustrates the estimated revenue these peer city off-airport fee structures would produce in Tulsa.

Any estimation of this potential revenue is heavily affected by local volume and patterns differing from national metrics. Additionally, competitive forces are affecting the rental car industry which could reduce market demand over time, such as ridesharing via Uber and Lyft, the expansion of mass transit, the growing trend toward destination cities featuring walkable urban cores, and an increase in alternative forms of transit such as bicycles, scooters, etc.

OFF-AIRPORT RENTAL CAR EXCISE TAX PEER CITY PRACTICES AT A GLANCE

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Peer cities charge off-airport rental car excise tax. Tulsa does not have off-airport tax as a revenue source.

(Peer cities: Austin, Cleveland, Denver, Kansas City, Mobile, Nashville, and Omaha)

4

Peer cities receive a portion of their state’s excise rental car revenue. Oklahoma does not share this revenue with its municipalities.

(Peer cities: Birmingham, Memphis, New Orleans, and Raleigh)

3

Methods are used to assess off-airport rental car excise tax in peer cities:



Flat fee charged *per rental*

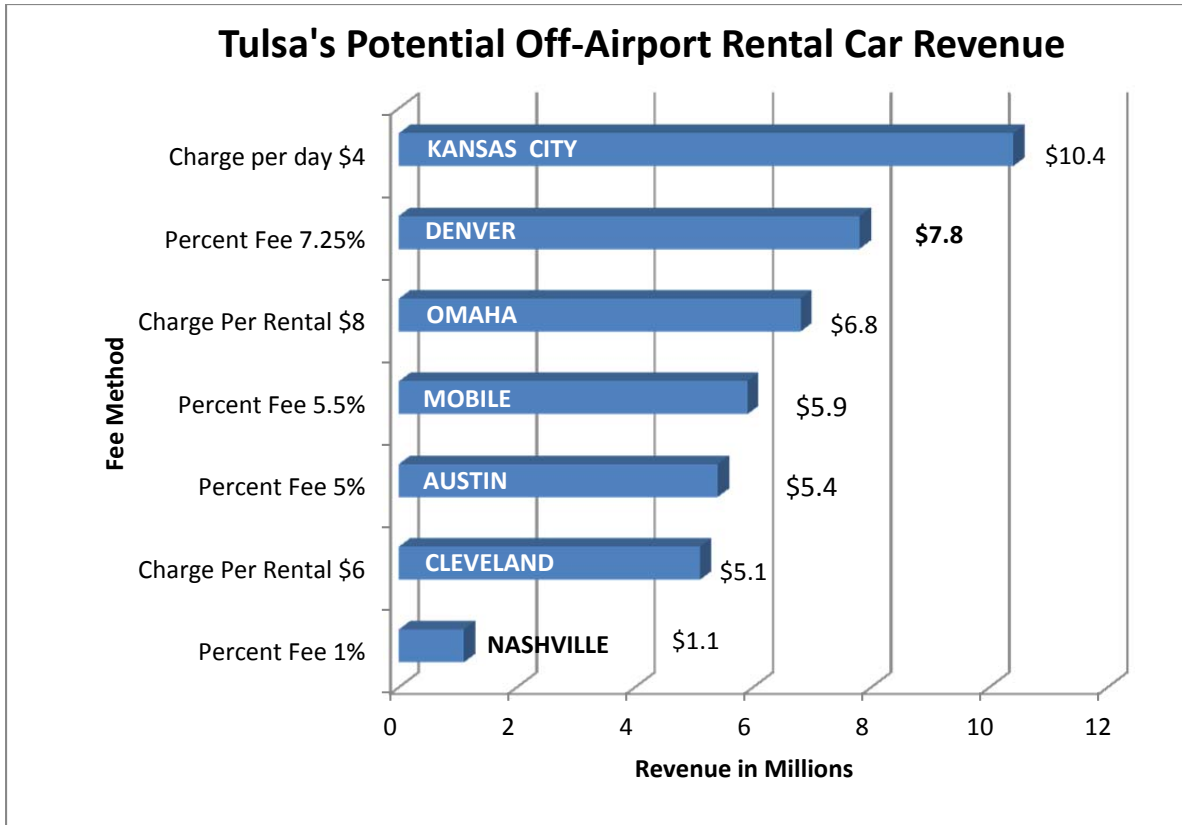


Flat fee charged *per day*



Fee charged based on *percentage of gross rental receipts*

Estimated 5 year revenue*
if peer city off-airport rental car practices were in place in Tulsa



***Estimates and assumptions:**

Using 2011-2015 Tulsa actual airport rental revenue, average rental days/month and average cars rented/month were calculated. The **national average** off-airport activity comprising 40% of total rentals was used to estimate off-airport volume; the national average of a 3 day business rental with the opportunity for a rental to occur 10x/month was used to estimate rentals per month. Tulsa's average off-airport rental price was calculated using the average Tulsa total rental price per *Business Travel News 2015 Corporate Travel Index*, and subtracting airport fees and taxes. Estimated activity was multiplied by the Tulsa off airport rental price to arrive at estimated off airport revenue. **If Tulsa's off-airport volumes are lower than the national average, corresponding estimated revenue would also be lower. DETAILED DATA FOLLOWS AT APPENDIX I.**

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EXHIBIT 1: TULSA AIRPORT FACILITY FEE RENTAL REVENUE PER MONTH, 2011-2015

Source: Tulsa Airports, Auditor Tom Gann

FACILITY FEE RENTAL REVENUE PER MONTH, 2011- 2015					
	2011	2012	2013	2014	2015
Jan	\$182,820	\$195,040	\$203,288	\$225,776	\$230,592
Feb	\$164,520	\$200,752	\$206,376	\$217,280	\$230,384
Mar	\$236,028	\$245,784	\$252,008	\$249,404	\$273,208
Apr	\$242,332	\$243,124	\$258,376	\$257,356	\$286,192
May	\$272,208	\$279,560	\$311,456	\$294,708	\$306,952
June	\$277,224	\$280,104	\$297,004	\$289,044	\$295,328
Jul	\$261,632	\$262,384	\$275,492	\$305,296	\$306,672
Aug	\$250,768	\$276,384	\$296,384	\$287,328	\$273,884
Sept	\$255,252	\$257,676	\$272,348	\$277,716	\$270,512
Oct	\$281,996	\$297,888	\$308,508	\$334,200	\$326,220
Nov	\$240,324	\$262,648	\$257,356	\$265,200	\$289,820
Dec	\$203,216	\$217,048	\$237,440	\$248,728	\$249,172
	\$2,868,320	\$3,018,392	\$3,176,036	\$3,252,036	\$3,338,936
High					
Low					

Facility fees are charged at the rate of \$4/per transaction (rental) day by the Airport; this was verified by review of the Airport fee schedule as well as review of on-airport car rental quotes. The above history demonstrates that the January/February timeframe consistently records the lowest revenue; October is generally the highest. The 2011 May revenue peak appears to have coincided with a 2-night special event and the Memorial Day holiday. **This appears to illustrate the impact of both holidays and special events on this tourism-based form of revenue.**

EXHIBIT 2: CALCULATION OF TULSA AIRPORT AVERAGE RENTAL DAYS PER MONTH, 2011-2015 (based on \$4/rental day facility fee and the monthly total revenues shown at Exhibit 1, above)

# OF ON AIRPORT RENTAL DAYS PER MONTH					
	2011	2012	2013	2014	2015
Jan	45,705	48,760	50,822	56,444	57,648
Feb	41,130	50,188	51,594	54,320	57,596
Mar	59,007	61,446	63,002	62,351	68,302
Apr	60,583	60,781	64,594	64,339	71,548
May	68,052	69,890	77,864	73,677	76,738
June	69,306	70,026	74,251	72,261	73,832
Jul	65,408	65,596	68,873	76,324	76,668
Aug	62,692	69,096	74,096	71,832	68,471
Sept	63,813	64,419	68,087	69,429	67,628
Oct	70,499	74,472	77,127	83,550	81,555
Nov	60,081	65,662	64,339	66,300	72,455
Dec	50,804	54,262	59,360	62,182	62,293
AVG	59,757	62,883	66,167	67,751	69,561
HIGH					
LOW					

EXHIBIT 3: CALCULATION OF TULSA AVERAGE NUMBER OF CARS RENTED PER MONTH, 2011-2015:

This measure was calculated by dividing actual rental days per month for all cars (Exhibit 2, above) by the # of calendar days in a month. This is an *average* of cars rented in a month; some days of the month would have more, some less.

AVG # OF CARS RENTED PER MONTH					
	2011	2012	2013	2014	2015
Jan	1,474	1573	1639	1821	1860
Feb	1,469	1731	1843	1940	2057
Mar	1,903	1982	2032	2011	2203
Apr	2,019	2026	2153	2145	2385
May	2,195	2255	2512	2377	2475
June	2,310	2334	2475	2409	2461
Jul	2,110	2116	2222	2462	2473
Aug	2,022	2229	2390	2317	2209
Sept	2,127	2147	2270	2314	2254
Oct	2,274	2402	2488	2695	2631
Nov	2,003	2189	2145	2210	2415
Dec	1,639	1750	1915	2006	2009
AVG	1,962	2061	2174	2226	2286
HIGH					
LOW					

EXHIBIT 4: ESTIMATE OF TULSA TOTAL ANNUAL ‘OFF AIRPORT’ NUMBER OF RENTAL DAYS – 2011-2015:

(assumes 40% industry average off airport total rental volume applied to ‘on airport’ actual data at Exhibit 2)

	2011	2012	2013	2014	2015
TOTAL	478,053	503,065	529,339	542,006	556,489

EXHIBIT 5: ESTIMATE OF TULSA TOTAL ANNUAL ‘OFF AIRPORT’ NUMBER OF RENTAL TRANSACTIONS – 2011-2015:

(based on the actual number of cars rented at Exhibit 3 and assumption of 10 3-day rental periods per month; industry average 3-day length of a business car rental was used)

	2011	2012	2013	2014	2015
TOTAL	156,978	164,894	173,888	178,044	182,886

EXHIBIT 6: ESTIMATE OF TULSA TOTAL ANNUAL ‘OFF AIRPORT’ GROSS RECEIPTS - 2011 – 2015:

(uses the estimated number of rental transactions at Exhibit 5, and an estimated average Tulsa *off airport* rental price of \$41.86 – see Exhibit 7)

	2011	2012	2013	2014	2015
TOTAL	\$ 19,710,950	\$20,704,922	\$ 21,834,301	\$22,356,203	\$ 22,964,150

EXHIBIT 7: ESTIMATED TULSA AIRPORT DAILY FEE/TAX STRUCTURE– TOTAL AVERAGE RENTAL RATE CALCULATION, including all markup and taxes (estimates calculated as indicated)

	<u>AMOUNT</u>	<u>PERCENT</u>
Average total daily rental price:	\$ 49.80 (see Exhibit 8)	100%
Tax and fee added percentage		40.3%

Breakdown of Average tax and fee % added:

	Concession fee	11.11%	} → 22.38% avg airport
	State gross tax	6.00%	
(percentage estimated using daily price)	Tulsa sales tax	8.517%	
added	Est energy recovery fee	3.38%	
(percentage estimated using daily price)	Est facility fee	<u>11.27%</u>	
fee		~ 40.3%	

**Off airport estimated base fee:
(removes on airport concession and facility fee)**

Average total daily rental price:	\$49.80	
- Concession fee	(3.94)	(49.80 x 11.11%)
- <u>Facility fee</u>	<u>(4.00)</u>	(\$4.00 per rental day)
Off airport estimated fee per day	\$41.86	used in gross receipts revenue estimate at Table 2

EXHIBIT 8: PEER CITY CAR RENTAL TAX OVERVIEW – OVERALL RENTAL PRICE AND TAX/FEE PERCENTAGE
 Rate and tax info is the average price for the entire city – INCLUDES off AND on airport rates
 (Source: Peer city ordinance code research AND 2015 Business Travel News' Corporate Travel Index)

City	2015 Avg TOTAL rental price	Avg tax and fee added (%) - INCLUDES state/ non-local taxes	Avg base fee (excl tax)	2015 Avg Total Price RANK	Avg tax and fee added RANK	Avg base fee (excl tax) RANK
Albuquerque	\$44.55	31.1%	\$33.98	20	20	20
Austin	\$56.11	52.0%	\$36.92	1	3	1
Birmingham	\$47.24	33.4%	\$35.42	12	16	9
Chattanooga	\$44.99	24.8%	\$33.93	18	26	21
Cleveland	\$47.91	38.6%	\$34.56	10	10	16
Denver	\$46.54	30.2%	\$35.75	13	21	5
Des Moines	\$44.53	31.8%	\$33.83	21	18	23
Fort Worth (Dallas average; Fort Worth not available)	\$51.09	45.7%	\$35.06	6	6	13
Kansas City	\$51.93	62.0%	\$32.05	4	1	27
Little Rock	\$55.34	51.0%	\$36.64	2	4	2
Louisville	\$44.45	26.2%	\$35.23	22	25	11
Memphis	\$46.53	38.7%	\$33.54	14	9	24
Minneapolis	\$51.88	45.9%	\$35.55	5	5	6
Mobile	\$43.49	32.0%	\$32.94	25	17	25
Nashville	\$46.24	34.3%	\$34.43	16	15	17
New Orleans	\$45.74	31.4%	\$34.81	17	19	14
Oakland	\$40.41	14.8%	\$35.22	27	27	12
OKC	\$49.39	40.0%	\$35.29	8	8	10
Omaha	\$54.03	52.3%	\$35.48	3	2	8
Pittsburgh	\$49.39	37.1%	\$36.02	8	12	3
Portland	\$44.70	37.1%	\$34.22	19	12	19
Raleigh	\$44.03	27.0%	\$34.68	24	24	15
St. Louis	\$46.46	29.2%	\$35.98	15	22	4
Tampa	\$43.20	27.6%	\$33.86	26	23	22
Tucson	\$44.45	35.0%	\$32.93	22	14	26
Wichita	\$47.52	38.1%	\$34.41	11	11	18
TULSA	\$49.80	40.3%	\$35.50	7	7	7
AVERAGE, ALL PEER CITIES	\$47.39	36.4%	\$34.72			
TULSA UNDER/OVER AVERAGE PEER METRICS	\$ 2.41	3.9%	\$ 0.78			
TULSA AIRPORT PERCENT VARIANCE FROM AVG	5.1%	3.9%	2.2%			
MEDIAN/(MIDPOINT) - ALL PEER CITIES	\$46.53	35%	\$34.81			
HIGH						
LOW						

EXHIBIT 9: US Rental Car Industry Revenue, 2011-2015
 (source: Auto Rental News Factbook, 2012-2016 publication)

	2011	2012	2013	2014	2015
Revenue	\$ 22,400,000,000	\$ 23,630,000,000	\$ 24,540,000,000	\$ 26,130,000,000	\$ 27,110,000,000
Yearly increase	N/A	5.5%	3.9%	6.5%	3.8%
Total 5 yr period increase	21.03%				