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Prepared for the Kansas Department of Commerce

Kansas Affordable Airfares Program Fiscal Year 2010 Report *Executive Summary*

In accordance with Senate Bill 2968, REAP is required to provide a report on activities and progress attained by REAP to develop and implement the Kansas Affordable Airfares Program to provide the stated statutory purpose of “more air flight options, more competition for air travel and affordable air fares for Kansas” for fiscal year 2010 (July 2009 – June 2010).

For fiscal year 2010 REAP awarded funds to Sedgwick County to provide a one year revenue guarantee for AirTran to maintain affordable airfares to eastern destinations, continuing an effective program initiated in 2002, and developing affordable airfares to western U.S. destinations by providing a one year revenue guarantee for Frontier. The total funding of the program was \$6,666,250, with \$5 million in State funding and the required \$1,666,250 by local match.

KAAP Performance for Fiscal Year 2010

- residents from **three quarters of Kansas** counties utilize the airport
- **7-14%** of users come from **out of state**
- **35-41%** of users are from Kansas counties **other than Sedgwick County**
- AirTran’s existence translated into a direct savings of **\$29.5 million saved** on airfares.
- Frontier’s existence projected to translate into a direct savings of **\$32.6 million saved** on airfares.
- **The combined effect of these two services result in more than 1.07 million travelers benefiting from lower fares, with \$62.1 million saved on airfares in fiscal year 2009.**
- The direct investment of the \$7 million funding resulted in the following benefit-to-cost ratio:
 - **State of Kansas received \$5.25 for every \$1 invested**
 - **City of Wichita received \$1.35 for every \$1 invested**
 - **Sedgwick County received \$1.86 for every \$1 invested**
 - **For the three entities combined, they received \$3.64 for every \$1 invested.**
- It is also estimated that AirTran’s entry into the Wichita market attributes to the following:
 - **Average annual number of jobs totaled 9,720**
 - **Average annual payroll for these jobs totaled \$283.4 million**
- The passenger growth from Wichita due to the existence of AirTran and Frontier over the period of 2000-2009 reveal that:
 - the top 50 destinations that existed in 2000 have experienced a **passenger growth of 50%** where a low-fare carrier exists.
 - the top 50 destinations in 2009 have experienced a **passenger growth of 56%** where a low-fare carrier exists.
- The changes in fares from Wichita due to the existence of AirTran and Frontier over the period of 2000-2009 reveal that:
 - the top 50 destinations that existed in 2000 have experienced a **28% decrease in fares** in markets served by a low-cost carrier.
 - the top 50 destinations in 2009 have experienced a **27% decrease in fares** in markets served by a low-cost carrier.
- Round trip fares through Atlanta and selected destinations served by AirTran have experienced **reductions of as much as 53%** between 2000 and 2009.
- Round trip fares through Denver and selected destinations served by Frontier have experienced **reductions of as much as 46%** between 2007 and 2009.

Submitted by REAP

Strengthening the economy of South Central Kansas through joint action of cities and counties.

Kansas Affordable Airfares Program Fiscal Year 2010 Report

Background

Under the authority of House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968, both enacted in the 2006 session of the Kansas Legislature, REAP is assigned authority for administering the Kansas Affordable Airfares Program. In the 2010 legislative session, Governor Parkinson recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Bill 572.

In accordance with Senate Bill 2968, REAP is required to provide a report on activities and progress attained by REAP to develop and implement the program to provide the stated statutory purpose of “more air flight options, more competition for air travel and affordable air fares for Kansas” for fiscal year 2010 (July 2009 – June 2010).

For fiscal year 2010 REAP awarded funds through two separate grants. The initial award was made to Sedgwick County to provide a one year revenue guarantee for AirTran to maintain affordable airfares to eastern destinations, continuing an effective program initiated in 2002. Total funding for the initial award was \$6.5 million, with \$4,875,000 in State funding and the required \$1,625,000 in local match.

This action left \$125,000 uncommitted in the state appropriation which were then made available through an addendum to the original request for proposals. REAP made the second award to Sedgwick County to provide a revenue guarantee for Frontier to maintain affordable airfares to western U.S. destinations for the period of April 1, 2010 – June 30, 2010. The total funding for the second award was \$166,250, with \$125,000 in State funding and the required \$41,250 in local match.

For fiscal year 2010 the total funding awarded was \$6,666,250, with \$5 million in State funding and the required \$1,666,250 by local match.

KAAP Performance for Fiscal Year 2010

Overall Mid-Continent Performance

1,505,607 passengers flew in and out of Wichita Mid-Continent Airport in 2009, a decrease of 7% from 2008’s record year. By comparison, KCI’s traffic was down 6.64%, OKC down 8.91%, and TUL down 11.5%. Demand for air travel throughout the U.S. was down in 2009 due to the economic downturn. Airlines responded to the economic conditions by cutting capacity. Wichita’s capacity has been reduced by approximately 12% from 2008. Still, passenger traffic was up 23% over 2000 traffic levels.

The 2008 record broke the 2007 record by 23,000 passengers despite high fuel costs, capacity reductions, and soft passenger demand in 2008. The 2008 passenger traffic exceeded the 2004 record of 1,498,749 by over 120,000 more passengers. Even more impressive was that there was an average of 14,000 more passengers each month in 2008 than in 2006. Wichita was ranked the 19th fastest growing airport out of 137 airports in the U.S. in 2008. At the same time, passenger traffic on the national average declined 4.3% according to the Bureau of Transportation Statistics.

In addition, average airline fares at Wichita Mid-Continent Airport for the fourth quarter 2009 decreased 11.2% from fourth quarter 2008, according to the U.S. Bureau of Transportation Statistics. For the 4th quarter 2009, the national average fares decreased 7.4%. The economic conditions are mainly responsible for the decrease in average fares throughout the U.S. Comparing average airline fares from 2000 to 2009, Wichita’s air fares have decreased 22.5%, which was the 11th largest decrease of the top 100 U.S. airports. This compares with the U.S. average fare which decreased 6.1% from 2000 to 2009.

KAAP Usage

The initial estimates for the proposal indicated that an area representing two-thirds of the State of Kansas utilized Mid-Continent for air service. However, as the program has increased, it has been illustrated that residents from **three quarters of Kansas counties** utilize the airport, as documented by research conducted by Mid-Continent in December of 2006. To update the usage study, Mid-Continent Airport staff conducts random samplings using parking lot license plate surveys. In November 2007 and March 2009 tag surveys were conducted and the findings revealed that on any given day:

- **7-14% of users were coming from out of state**
- **35-41% of users were from Kansas counties other than Sedgwick County**
- **45-58% of users were from Sedgwick County.**

KAAP Economic Impact

In fiscal year 2010 there were 255,000 more passengers, a 25% increase, in markets served by AirTran and Frontier than in 2000. In addition, the fares were on average \$41 less each way, a 20% decrease, based on record of markets not served by AirTran or Frontier. This translates into a direct savings of more than **\$500 million saved on airfares between 2000 and 2008.**

In presenting its proposal Sedgwick County provided evidence documenting that low-fare air service to eastern U.S. destinations had saved 627,000 air travelers out of Mid-Continent Airport **\$29.5 million in reduced fares in 2009**, compared to 2000, when AirTran was recruited into the Wichita market through local support in 2001 and began operations in 2002.

The proposal also provided evidence documenting that low-fare air service to western U.S. destinations was had saved 447,000 air travelers out of Mid-Continent Airport **\$32.6 million in reduced fares in 2009**, compared to 2007, when Frontier was recruited into the Wichita market through local support.

The combined effect of these two services result in more than 1.07 million travelers benefiting from lower fares, with \$62.1 million saved on airfares in fiscal year 2010.

In addition, according to an economic impact study conducted by the Center for Economic Development and Business Research (CEDBR) at Wichita State University in 2008, the direct investment of the State and local funding resulted in a total return on investment to the program funders of **3.6 to 1**, with the following benefit-to-cost ratios for each entity involved:

- **State of Kansas received \$5.25 for every \$1 invested**
- **City of Wichita received \$1.35 for every \$1 invested**
- **Sedgwick County received \$1.86 for every \$1 invested**
- **For the three entities combined, they received \$3.64 for every \$1 invested.**

It is important to note that this economic analysis does not include the impact of Frontier Airlines because the study was undertaken less than three months after Frontier entered the market, not allowing enough time to gather appropriate data.

CEDBR also estimated that AirTran's entry into the Wichita market attributes to the following:

- **Average annual number of jobs totaled 9,720**
- **Average annual payroll for these jobs totaled \$283.4 million**

Passenger Growth at Wichita Mid-Continent: The AirTran and Frontier Effect

The following charts illustrate the passenger growth from Wichita due to the existence of AirTran and Frontier. The charts identify the growth in the passenger traffic for Mid Continent over the period of

2000-2009 due to 2000 being the most accurate year prior to the entrance of AirTran in the Wichita market.

The chart below compares the passenger growth to the top 50 destinations that existed in 2000 and with today's passenger traffic to the same destinations. Evaluation of these markets reveal a growth of 50% in where a low-fare carrier exists, whereas the markets that do not have a low-fare carrier actually witnessed a decrease of 14%. In addition, the growth in the top 50 markets only grew by 28% during the same time. *Note: Kansas City was included in 2000 but not available in 2009 data.*

Passengers	Top 50 Markets in 2000	*Same Top 50 Markets = YE2Q2009	% Change
Totals	843,040	1,077,606	28%
Low-fare markets	548,950	824,490	50%
High-fare markets	294,090	253,116	-14%

It is important to note that 37 of Mid Continent Airport's top 50 markets have low-fare service, with 23 of those AirTran markets and 14 Frontier markets. Overall, 83% of ICT's traffic is to the top 50 markets. This following chart shows the difference in the top markets that existed in 2000 with those in 2009. It should be noted that low fares stimulate traffic to those affected destinations; thereby the top markets in 2009 are different than those in 2000.

Evaluation of these markets reveal a similar pattern as that of the original top 50 markets as illustrated above. In fact, the chart below details that there was growth of 56% where a low-fare carrier exists, whereas the markets that do not have a low-fare carrier actually witnessed a decrease of 17%. In addition, the growth in the top 50 markets only grew by 31% during the same time.

Passengers	Top 50 Markets in 2000	Top 50 Markets in YE2Q2009*	% Change
Totals	843,040	1,101,020	31%
Low-fare markets	548,950	857,550	56%
High-fare markets	294,090	243,470	-17%

Fare Changes at Wichita Mid-Continent: The AirTran and Frontier Effect

The following charts illustrate the changes in fares from Wichita due to the existence of AirTran and Frontier. The charts identify the savings experienced traffic for Mid Continent over the period of 2000-2009 due to 2000 being the most accurate year prior to the entrance of AirTran in the Wichita market.

The chart below compares the average one-way fare to the top 50 destinations that existed in 2000 and with today's fares to the same destinations. Evaluation of these markets that are served by low-fare carriers reveal a decrease of 28% in fares, whereas the fares in markets not served by a low cost carrier only decreased 6%. In addition, the top 50 markets only witnessed a 20% decrease in fares during the same time.

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Average One-way Fares	Top 50 Markets in 2000	*Same Top 50 Markets = YE2Q2009	% Change
Overall fare	\$222	\$174	-20%
Low-fare markets	\$218	\$158	-28%
High-fare markets	\$230	\$208	-6%

The following chart compares average fares to the top markets that existed in 2000 with the top destinations in 2009. It should be noted that low fares stimulate traffic to those affected destinations, therefore the top markets in 2009 are different than those in 2000.

Evaluation of these markets reveal a similar pattern as that of the original top 50 markets as illustrated above. In fact, the chart below details that there was a decrease of 27% in fares in markets served by a low-cost carrier, whereas the fares in markets not served by a low cost carrier only decreased 1%. In addition, the top 50 markets only witnessed a 20% decrease in fares during the same time.

Average One-way Fares	Top 50 Markets in 2000	*Top 50 Markets in YE2Q2009	% Change
Overall fare	\$222	\$177	-20%
Low-fare markets	\$218	\$160	-27%
High-fare markets	\$230	\$227	-1%

AirTran and the Eastern Effect

To further evaluate the effect of the program, the impact of each low-cost carrier included in the funding was evaluated. The revenue guarantee for AirTran focuses on maintaining affordable airfares to eastern destinations. The following charts illustrate the effect AirTran has had on the Wichita market.

Research has shown that Atlanta is one of the most popular destinations for travelers from Wichita Mid-Continent Airport. Further, as Atlanta is the busiest airport in the world this route means travelers from Wichita can make a one-stop flight to virtually any destination they might choose. The competitive effects of this low-cost option to Atlanta thus permeate throughout the entire range of destination options available in Wichita. The table below provides a comparison of round trip fares through Atlanta and selected destinations served by AirTran, showing reductions of as much as 53% between 2000 and 2009.

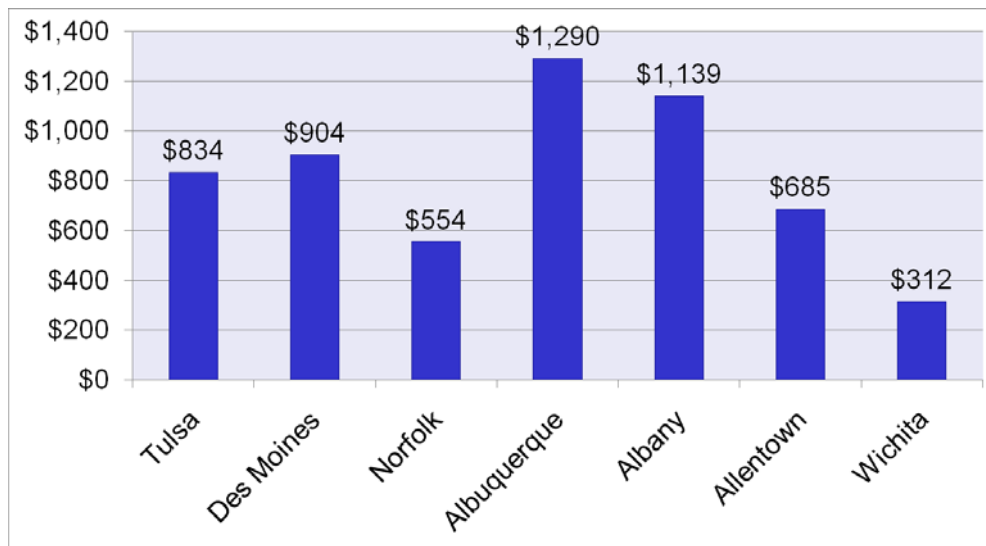
(Please see table on next page)

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Market	2000*	YE 2Q 2009	%Decrease
Atlanta	\$234	\$110	-53%
Orlando	\$172	\$133	-23%
New York	\$264	\$166	-37%
Washington, DC	\$203	\$155	-24%
Baltimore	\$223	\$144	-35%
Pittsburgh	\$252	\$142	-44%
Tampa	\$252	\$134	-47%
Boston	\$289	\$156	-46%
Philadelphia	\$246	\$169	-31%
Miami	\$195	\$174	-11%
Charlotte	\$239	\$133	-53%

Source: U.S. DOT

In addition, evaluation of comparable markets that are not served by AirTran reveal significant disparity in fares to Atlanta and illustrate the direct impact of the presence of AirTran. The table below provides a comparison of average round trip fares to Atlanta from six other markets (Tulsa, OK; Des Moines, IA; Norfolk, VA; Albuquerque, NM; Albany, NY; and Allentown, PA) that are similar to Wichita but not served by AirTran. *Note: The information for this table was researched and collected on November 24, 2009 and provides a 14-day advance purchase fare according to Cheaptickets.com.*



Frontier and the Western Effect

In addition, the revenue guarantee for Frontier focuses on maintaining affordable airfares to western U.S. destinations. The following charts illustrate the effect Frontier has had on the Wichita market.

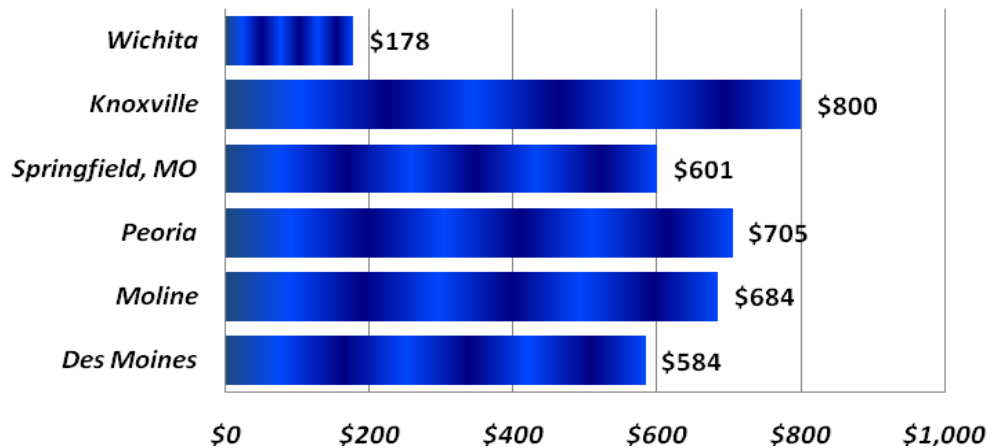
Frontier began service in October, 2007 and the competitive effects of this low-cost option has provided travelers reduced fares to the west and increased use of the airport for those destinations. The table below provides a comparison of round trip fares through Denver and selected destinations served by Frontier, showing reductions of as much as 46% between 2007 and 2009.

Market	3Q 2007*	YE 2Q 2009	%Decrease
Denver	\$193.97	\$132.00	-32%
Phoenix	\$192.06	\$177.00	-8%
Seattle	\$287.00	\$178.00	-38%
Los Angeles	\$208.75	\$178.00	-15%
Orange County	\$251.48	\$139.00	-45%
San Diego	\$220.00	\$128.00	-42%
San Francisco	\$181.36	\$153.00	-16%
Portland	\$233.91	\$208.00	-11%
San Jose	\$255.30	\$138.00	-46%
Sacramento	\$276.02	\$210.00	-24%

Source: U.S. DOT

In addition, evaluation of comparable markets that are not served by Frontier reveal significant disparity in fares to Denver and illustrate the direct impact of the presence of Frontier. These data suggest that if Frontier left the Wichita market, round-trip fares quickly would increase to at least three times the current price.

Average Round-trip Fares To Denver



REAP
KAAP Fiscal Year 2010 Report

Additional Information

Attached to this report is documentation provided through the Fiscal Year 2010 submittal by Sedgwick County as well as the Executive Summary of the Center for Economic Development and Business Research (CEDBR), Wichita State University: *Economic and Fiscal Impact of AirTran Airways on the Wichita MSA*, March 2008. Both of these documents help to provide additional progress and background information.

Submitted by REAP



SEDGWICK COUNTY, KANSAS

DIVISION OF FINANCE

* 525 N. Main, Suite 823 * Wichita, Kansas 67203 * Telephone (316) 660-7591 * FAX (316) 383-7729 *

June 18, 2010

Mr. Joe Yager
Executive Officer
REAP
Box 155
1845 Fairmount
Wichita KS 67260

Dear Mr. Yager:

Sedgwick County requests the award of \$5-million through the Kansas Affordable Airfares Program for the period of July 1, 2010 – June 30, 2011. Sedgwick County commits to provide matching funds in the amount of \$1.67-million, 33% of the requested award. The County will provide the matching funds from general revenues of the county and, to the extent they are received, anticipated payments to the County by the City of Wichita.

These funds will be used to assure affordable airfares from Wichita Mid-Continent Airport to both the east and the west.

Travelers to eastern destinations will benefit from direct low-fare service to Atlanta with connections to other destinations throughout the country as well as Europe, the Caribbean and South America. We will do this by providing revenue guarantees to AirTran in return for offering three direct daily flights to and from Atlanta, and to Frontier in return for offering daily direct flights to and from Denver.

Research has shown that Atlanta is one of the most popular destinations for travelers from Wichita Mid-Continent Airport. Further, as Atlanta is the busiest airport in the world this route means travelers from Wichita can make a one-stop flight to virtually any destination they might choose. The competitive effects of this low-cost option to Atlanta thus permeate throughout the entire range of destination options available in Wichita. AirTran serves 24 of the 50 most popular destinations from Wichita. In 2000 the average one-way fare to these destinations out of Wichita was \$223 and area residents commonly drove to the Kansas City, Tulsa or Oklahoma City airports to avoid the high cost. At the end of 2009, the average one-way fare to these thirteen destinations was \$142, an average one-way fare savings of \$81 when compared to the pre-AirTran fare.

In 2007, 405,200 passengers flew between Wichita and these thirteen eastern destinations. Whether they flew AirTran or another carrier, due to price competition every one of them benefited directly from the presence of a low fare carrier in the Wichita market. The experience of

other similar-sized jurisdictions shows that without AirTran, the average one-way fare between Wichita and Atlanta would be at least \$410 if not higher.

These lower fares add up to substantial economic savings. If low-fare competition did not exist in Wichita, it is realistic to think average fares to the 24 markets served by AirTran would have decreased 15%, as did markets not served by AirTran, instead of decreasing by 36% since 2000. Without AirTran, the average one-way fare to these 24 markets thus might be expected to have been \$47 more than it actually was at the end of 2009. If this had been the case, the 627,000 passengers from Wichita to those markets would have paid an additional \$29.5-million for round-trip airfares in 2009.

A fiscal impact study conducted by the Center for Economic and Business Research at WSU in 2008 concluded that AirTran's departure from Wichita would have a pronounced negative impact on the local economy and on state and local tax receipts. The study shows AirTran's presence in the Wichita market was responsible for 9,720 jobs having an average annual payroll of \$283.4-million. It shows that during the period of 2002 – 2007 the state government received \$5.25 of increased tax revenue for every \$1 of funding provided through the Kansas Affordable Airfares Program. Clearly, Kansans and their government have a lot to lose if AirTran leaves Wichita.

To assure this does not happen, Sedgwick County has renewed a contract with AirTran guaranteeing revenues that will cover the airline's costs to provide three daily round-trip flights between Wichita and Atlanta for the 12 months beginning July 1, 2010. Based on historical travel patterns and ridership projections, the County expects to pay AirTran approximately \$6.5-million during the term of the contract.

Retention of low airfares to the west coast also is important to south-central Kansas. The lack of low western fares prior to the last quarter of 2007 caused passenger traffic to stagnate and average fares to those destinations to increase. In order to provide low fares to most major western destinations, late in 2007 Sedgwick County entered into a revenue-guarantee agreement with Frontier Airlines. This service began in October, 2007. Wichita travelers immediately started to experience reduced fares to the west, and responded by increasing their use of the airport for those destinations.

The Frontier revenue guarantee agreement continued through June 30, 2009. In return for a \$500,000 revenue guarantee for the 12-month period beginning July 1, 2008, Frontier continued providing daily non-stop round trip flights between Wichita and Denver. In addition to providing low-fare competition to that market, Frontier offered low-fare competition via one-stop service to all major western U.S. cities. Frontier serves 17 of the top 50 destinations of travelers using the Wichita airport.

Since Frontier entered the Wichita market:

- ▶ the number of passengers using the Wichita airport for destinations served by Frontier has increased 15%; and
- ▶ the 17 destinations served by Frontier have seen a 32% decrease of average one-way fare.

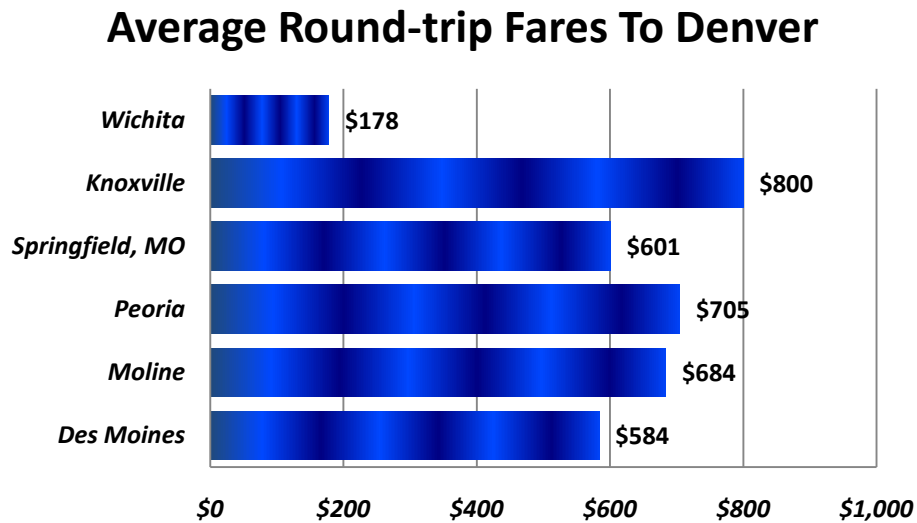
If a new revenue guarantee is not provided it is likely that Frontier will leave Wichita.

If that happened the impact on travelers to western destinations would be immediate and severe. In the third quarter of 2007, immediately prior to Frontier's entry into the Wichita market, average

one-way fares to the 17 destinations served by Frontier were \$225, 25% higher than the average of \$180 for all other destinations in the top 50 (including those served by AirTran). In the third quarter of 2009 – the most recent for which data are available – average one-way fares to the 17 destinations served by Frontier were \$152, 9% lower than the average of \$168 for all other top-50 destinations.

If Frontier were to leave Wichita, fares to those 17 destinations would immediately increase to levels well above the current ones, and the sudden rise in cost would be matched by a decrease in the number of passengers using the Wichita airport to travel to those destinations.

An indication of how substantial the fare increase might be can be inferred from the following chart. It compares the current round-trip Denver fares of Wichita, which has low-fare competition provided by Frontier, with the Denver fares of other similar cities that do not have low-fare competition. These data suggest that if Frontier left the Wichita market, round-trip fares quickly would increase to at least three times the current price.



Sedgwick County government values accountability and transparency of public actions. Understanding that REAP has special obligations to report progress of the Kansas Affordable Airfares Program to the Legislature and Commerce Secretary, the County will provide REAP reports at least once each quarter showing the number of riders, average fare per rider and use of state and matching local funds. If REAP requests additional information or different report formats or frequency the County will endeavor to comply. The County also will prepare written reports for REAP to deliver to its state overseers.

I look forward to your favorable consideration of this request. Please contact me if you have questions about it or require additional details.

Cordially,

A handwritten signature in black ink, appearing to read "Chris Chronis". The signature is fluid and cursive, with the first name "Chris" and last name "Chronis" clearly distinguishable.

Chris Chronis
Chief Financial Officer

Attach.



Executive Summary
Economic and Fiscal Impact of AirTran
Airways on the Wichita MSA
March 2008

Prepared by
Center for Economic Development and Business Research
W. Frank Barton School of Business
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Janet Harrah, Director
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Executive Summary

Good airline service is an important factor in urban economic development. Frequent service to a variety of destinations at competitive rates are reflected in a high level of passenger enplanements, which facilitates easy face-to-face contact with businesses in other cities, attracting new firms to the metro area and stimulating employment at established companies.¹ Recognizing the importance of air service to the area's economic growth, business and government leaders spearheaded the development of the FairFares program in the spring of 2002. As a joint public/private initiative between the city of Wichita and local businesses, the FairFares program was designed to attract and retain new low-cost carriers to Wichita's Mid-Continent Airport through the use of subsidies. As a result of the FairFares program, low-cost carrier AirTran Airways started service at Wichita's Mid-Continent Airport in 2002. After several years of success, the Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University was contracted by the Wichita Airport Authority to determine the economic impact of AirTran Airways on the Wichita Metropolitan Statistical Area (MSA) comprised of Butler, Harvey, Sedgwick and Sumner counties.

Low-cost carrier AirTran Airways' entrance into the Wichita market generated positive economic and fiscal impacts for the Wichita MSA.

The economic impact of low-cost air service occurs in a number of ways including:

- Increased sales, wages and employment generated by business activity. In the case of this analysis, the operations of AirTran were analyzed including the firm's Wichita employment, payroll, and expenditures of AirTran flight crews on overnight stays.
- Increased airport activity measured by enplanements and increased airport spending, such as increased concession and parking revenues.
- Decreased ticket prices as a result of increased competition, benefiting all Mid-Continent passengers whether flying AirTran or not.

Taking into account multiplier impacts, the average annual number of Wichita metro area jobs attributed to low-cost carrier AirTran Airways' entrance into the Wichita market totaled 9,720 during the six-year analysis period from 2002 through 2007. The average annual payroll for these jobs totaled \$283.4 million.

Fiscal impacts are usually estimated using two measures 1) a return on investment percentage and 2) a benefit-cost ratio. These measures view the taxing entities' expenditures as a public investment. Public benefits are measured by tax collections. If public benefits exceed public costs then the rate of return is greater than 100 percent and the benefit-cost ratio is greater than 1. For example, a benefit-cost ratio of 1.55 would show benefits during the relevant analysis period were 155 percent of public costs. In other words, for every \$1 of public expenditures the taxing entity received back that dollar plus another 55 cents. Conversely, a benefit-cost ratio of 0.75

¹ Brueckner, Jan K., *Airline Traffic and Urban Economic Development*, Urban Studies, Vol. 40, No. 8 1455-1469, July 2003, pg. 1467.

would show that public benefits were only 75 percent of public costs ó costs exceed benefits. In other words, for every \$1 of public expenditures the taxing entity received back only 75 cents.

An opportunity cost exists for the use of public funds for subsidies. If public funds were not used to provide subsidies, they would be available for alternative use. Estimating the potential economic impact of alternative uses of these opportunity costs was beyond the scope of this analysis.

For the purpose of this analysis, subsidy data amounts were given to the Center for Economic Development and Business Research from the Kansas Affordable Air Fares Program. It should be noted that the Center is aware that not all funds provided by the city of Wichita, Sedgwick County and the state of Kansas to the Kansas Affordable Air Fares Program were given directly to AirTran Airways. We acknowledge that some of these funds were used to subsidize other low-cost carriers, for marketing expenditures and for administrative costs. Consequently, the costs of subsidies for AirTran were overstated in this report.

Taking into account multiplier impacts, total fiscal benefits attributed to low-cost carrier AirTran Airways entrance into the Wichita market totaled \$15.4 million for the city of Wichita, \$7.2 million for Sedgwick County and \$107.3 million for the state of Kansas during the six-year analysis period from 2002 through 2007. During this same period, the city of Wichita has provided subsidies to the FairFares and Kansas Affordable Air Fares program totaling nearly \$10 million, Sedgwick County has provided \$2,275,000 million and the state of Kansas has provided \$10 million.

Using these estimates of fiscal costs and benefits arising from the entrance of low-cost carrier AirTran Airways into the Wichita market, the rate of return and fiscal benefit-cost ratios for FairFares and the Kansas Affordable Airfares Program were estimated for the six-year analysis period. For each of the taxing entities under consideration the benefits exceeded the costs of the program.

- | | | |
|-----------------------------------|-----------------------|-------------------------|
| • For the city of Wichita | 34.8% rate of return | 1.35 benefit-cost ratio |
| • For Sedgwick County | 86.2% rate of return | 1.86 benefit-cost ratio |
| • For the state of Kansas | 425.4% rate of return | 5.25 benefit-cost ratio |
| • For the three entities combined | 263.9% rate of return | 3.64 benefit-cost ratio |