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Prepared for the Kansas Department of Commerce

Kansas Affordable Airfares Program Fiscal Year 2008 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 2008 (July 2007 – June 2008).

For fiscal year 2008 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 \$7 million, with the \$5 million in State funding, the required \$1.7 million by a local match, and an additional \$300,000 of local funds.

KAAP Performance for Fiscal Year 2008

- residents from **three quarters of Kansas** counties utilize the airport
- **14%** of users were coming from **out of state**
- **41%** of users were from Kansas counties **other than Sedgwick County**
- **Less than half** of the users (45%) were **from Sedgwick County**.
- AirTran’s existence translated into a direct savings of **\$51.8 million saved** on airfares, **nearly \$3 million more** than the \$48.5 million saved on airfares in fiscal year 2007.
- Frontier’s existence projected to translate into a direct savings of **\$48 million saved** on airfares.
- **The combined effect of these two services result in nearly 750,000 travelers benefiting from lower fares, with \$99.8 million saved on airfares in fiscal year 2008.**
- 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**
- Markets served by AirTran have experienced a **passenger growth of 104%**, whereas markets not served by AirTran have only grown 24%, and the top 25 markets have only had a 60% growth.
- Markets served by AirTran have experienced a **32% decrease in fares** while markets not served by AirTran only experienced a 3% decrease. In addition, the top 25 markets only had a 19% decrease in fares.
- Markets served by Frontier reveal a **passenger growth of 12%**, whereas the markets not served by Frontier only grew by 4%. In addition, the top 25 markets only had a 5% growth.
- Markets served by Frontier reveal a **9% decrease in fares** while markets not served by Frontier only experienced a 2% decrease. In addition, the top 25 markets only had a 4% decrease in fares.

Submitted by REAP

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

Kansas Affordable Airfares Program Fiscal Year 2008 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 2008 legislative session, Governor Sebelius recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Sub. for House Bill 2946.

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 2008 (July 2007 – June 2008).

For fiscal year 2008 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 \$7 million, with the \$5 million in State funding, the required \$1.7 million by a local match, and an additional \$300,000 of local funds.

KAAP Performance for Fiscal Year 2008

Overall Mid-Continent Performance

A record 1,596,229 passengers flew in and out of Wichita Mid-Continent Airport in 2007, an increase of 9.31% over 2006. The new record broke the 2004 record of 1,498,749 by almost 100,000 more passengers. Even more impressive is that there were an average of 12,000 more passengers each month in 2007 than in 2006. At the same time, the national average was an increase of only 3.2% according to the Bureau of Transportation Statistics.

In addition, average airline fares at Wichita Mid-Continent Airport decreased nearly 7% during the fourth quarter of 2007, according to a report released by the U.S. Bureau of Transportation Statistics (BTS). This decrease was the third biggest drop of the top 100 U.S. airports. At the same time the national average fares increased 4%. Comparing average airline fares from 2000 to 2007, Wichita’s air fares dropped by 17%, which was the 12th largest decrease of the top 100 U.S. airports.

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 for fiscal year 2008, another study was conducted in November 2007 and a usage map is attached to this report that illustrates the findings of that study. In particular, the study found:

- **14% of users were coming from out of state**
- **41% of users were from Kansas counties other than Sedgwick County**
- **Less than half of the users (45%) were from Sedgwick County.**

KAAP Economic Impact

In fiscal year 2008 there were 405,000 passengers that traveled to 13 markets served by AirTran. In addition, the fares were on average \$64 less each way, based on record of markets not served by AirTran. This translates into a direct savings of **\$51.8 million saved on airfares in fiscal year 2008**. That is **nearly \$3 million more than the \$48.5 million saved on airfares in fiscal year 2007**.

However, the program also expanded service through Frontier in October of 2007. This service is estimated to impact the current 264,000 passengers that travel to 7 western markets served by Frontier by encouraging a similar growth of that of AirTran which could increase passenger counts by 30% or more. The immediate impact has been realized with the fares on average \$70 less each way. This translates into a direct savings of **\$48 million saved on airfares in fiscal year 2008**.

The combined effect of these two services result in nearly 750,000 travelers benefiting from lower fares, with \$99.8 million saved on airfares in fiscal year 2008.

In addition, the direct investment of the \$7 million funding resulted in a direct return on investment to the program funders of **3.6 to 1**, with the following benefit-to-cost ratio as calculated by the Center for Economic Development and Business Research (CEDBR) at Wichita State University:

- **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**

Eastern Impact with AirTran

The table below illustrates the passenger growth from Wichita due to the existence of AirTran. The table identifies the growth in the passenger traffic for Mid Continent over the period of 2001-2007 due to 2001 being the year prior to the entrance of AirTran in the Wichita market. Evaluation of the markets that are served by AirTran reveal a growth of 104%, whereas the growth in markets not served by AirTran only grew by 24%. In addition, the top 25 markets only witnessed a 60% growth during the same time.

	2001	2007	% Change
TOTALS: TOP 25 MARKETS	557,250	891,390	60% growth
TOTALS TO AIRTRAN DESTINATIONS	198,560	405,170	104% growth
TOTALS TO DESTINATIONS W/O AIRTRAN	313,640	387,640	24% growth

In addition to the increase in passengers, fare changes from Wichita have been significant since the entrance of AirTran in the Wichita market. The table below illustrates these changes. Evaluation of the markets that are served by AirTran reveal a 32% decrease in fares while markets not served by AirTran only experienced a 3% decrease. In addition, the top 25 markets only witnessed a 19% decrease in fares during the same time.

	2001	2007	% Change
AVERAGE: TOP 25 MARKETS	\$214.07	\$173.37	19% decrease
AVERAGE TO AIRTRAN DESTINATIONS	\$220.13	\$149.20	32% decrease
AVERAGE TO DESTINATIONS W/O AIRTRAN	\$214.47	\$207.48	3% decrease

Western Impact with Frontier

The table below illustrates the passenger growth from Wichita due to the existence of Frontier. The table identifies the growth in the passenger traffic for Mid Continent over the period of 2006-2007 due to 2006 being the year prior to the entrance of Frontier in the Wichita market. It is important to note that the information for Frontier is only for a 3 month period of time since the service began in October of 2007. Evaluation of the markets that are served by Frontier reveal a growth of 12%, whereas the growth in markets not served by Frontier only grew by 4%. In addition, the top 25 markets only witnessed a 5% growth during the same time.

	2006	2007	% Change
TOTALS: TOP 25 MARKETS	837,150	891,390	5% growth
TOTALS TO FRONTIER DESTINATIONS	264,400	297,110	12% growth
TOTALS TO DESTINATIONS W/O FRONTIER	572,750	594,280	4% growth

In addition to the increase in passengers, fare changes from Wichita have already been significant since the entrance of Frontier in the Wichita market. The table below illustrates these changes. Evaluation of the markets that are served by Frontier reveal a 9% decrease in fares while markets not served by Frontier only experienced a 2% decrease. In addition, the top 25 markets only witnessed a 4% decrease in fares during the same time.

REAP
KAAP Fiscal Year 2008 Report

	2006	2007	% Change
AVERAGE: TOP 25 MARKETS	\$180.73	\$173.37	4% decrease
AVERAGE TO FRONTIER DESTINATIONS	\$218.15	\$199.35	9% decrease
AVERAGE TO DESTINATIONS W/O FRONTIER	\$166.27	\$163.27	2% decrease

Additional Information

Attached to this report is documentation provided through the Fiscal Year 2009 submittal by Sedgwick County as well as the Executive Summary of the Economic Impact study conducted by the Center for Economic Development and Business Research (CEDBR) at Wichita State University. 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 20, 2008

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, 2008 – June 30, 2009. 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. Before the AirTran program was initiated in 2002, Wichita had one of the nation's highest average fares. In 2001 the average one-way fare to the thirteen most popular east coast destinations out of Wichita was \$220 and area residents commonly drove to the Kansas City, Tulsa or Oklahoma City airports to avoid the high cost. In 2003, the first full year of AirTran service in Wichita caused the average one-way fare to these thirteen destinations to drop to \$116. With changing national market conditions, Wichita's overall average one-way fare to the most popular eastern destinations has increased to \$149 since that low point.

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 13 markets served by AirTran would have decreased 3%, as did markets not served by AirTran, instead of decreasing by 32% since 2001. The average one-way fare to these 13 markets thus might be expected to have been \$64 more than it actually was in 2007. If this had been the case, the 405,000 passengers from Wichita to those markets would have paid an additional \$51.8-million for round-trip airfares in 2007.

The benefit of AirTran's presence in Wichita is demonstrated further by four attached charts showing:

- ▶ a comparison of round trip fares between Atlanta and a variety of similar sized markets, each of which except Wichita does not have low-fare competition;
- ▶ a comparison of one-way fares between Wichita and seven popular eastern destinations;
- ▶ a comparison of one-way fares to the 25 top travel markets from Wichita each year from 2001 to 2007, showing that airfare to markets served by AirTran have dropped an average of 32%; and
- ▶ annual passenger counts between Wichita and the 25 most popular destinations each year since 2001, showing an 104% rate of growth for markets served by AirTran contrasted with a 24% rate of growth for those not so served.

A fiscal impact study conducted by the Center for Economic and Business Research at WSU in 2005 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 exit would reduce employment by 3,867 jobs and labor income by \$128.37-million. It shows the state government would suffer a \$10.51-million reduction of tax revenue, and the City of Wichita would suffer a \$2.41-million reduction of municipal revenue. Clearly, Kansans and their government have a lot to lose if AirTran leaves Wichita.

To assure this does not happen, Sedgwick County plans to renew 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, 2008. Based on historical travel patterns and ridership projections, the County expects to pay AirTran approximately \$6.5-million during the term of the contract.

Achievement of low airfares to the west coast also is important. The lack of low western fares has caused passenger traffic to stagnate and average fares those destinations to increase. In order to provide low fares to most major western destinations, last autumn Sedgwick County entered into a similar revenue-guarantee agreement with Frontier Airlines. This service began in October, 2007. Despite the abbreviated term of service, Wichita travelers already have started to experience reduced fares to the west, and have responded by increasing their use of the airport for those destinations. From 2006 to 2007, the average one-way fare to the seven destinations that are served by Frontier in Wichita's top 25 decreased 9%, while fares to all other destinations in the top 25 only decreased 2%. Passenger traffic to the seven locales served by Frontier increased 12% from 2006 to 2007, compared to 4% growth for all other destinations in the top 25. Any portion of the requested state funding not paid to AirTran will be used to support Frontier Airlines.

The Frontier revenue guarantee agreement will continue through June 30, 2009. In return for a \$500,000 revenue guarantee for the 12-month period beginning July 1, 2008, Frontier will continue providing daily non-stop round trip flights between Wichita and Denver. In addition to providing low-fare competition to that market, Frontier has added low-fare competition via one-stop service to all major western U.S. cities. Based on actual experience with AirTran, the addition of Frontier to the Wichita market can reasonably be expected to:

- ▶ increase passengers using the Wichita airport for western destinations by at least 30% from the 2006 pre-Frontier level;
- ▶ reduce airfares to western destinations by 30% from 2006 prices, or about \$70 savings per one-way ticket; and
- ▶ create total airfare savings of as much as \$48-million per year.

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.

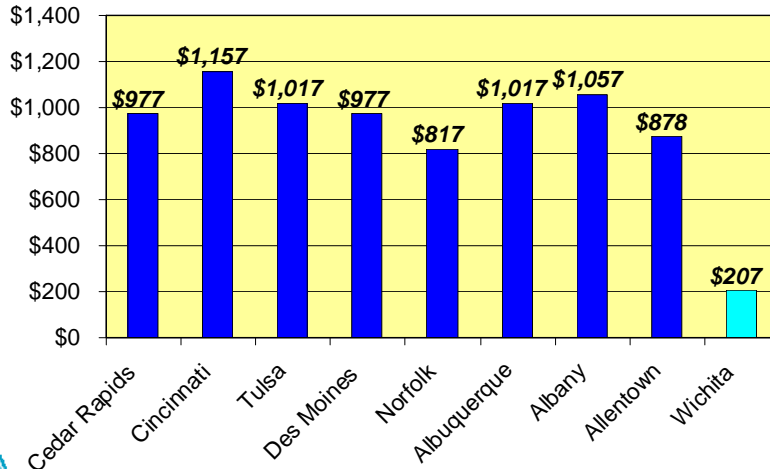
I look forward to your favorable consideration of this request. Please contact me if you have questions about it or require additional details.

Cordially,

Chris Chronis
Chief Financial Officer

Attach.

Round-Trip Fares to Atlanta



14-day advance purchase fares
 Researched on 3/20/08

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Actual Round-Trip Fares Before and After AirTran

Top Eastern Destinations	Delta Fares Prior to 2/28/02		AirTran fares 11/26/07	
	Walk-up	Advance Purchase	Walk-up	Advance Purchase
Atlanta	\$1,298.24	\$550.25	\$403.80	\$198.80
Washington (IAH)	\$1,667.50	\$575.50	\$324.60	\$329.60
New York (LGA)	\$938.26	\$560.25	\$454.60	\$263.60
Orlando	\$1,654.24	\$1,147.35	\$459.60	\$295.60
Boston	\$1,718.50	\$560.25	\$369.60	\$323.60
Philadelphia	\$1,667.50	\$575.50	\$454.60	\$329.60
Tampa	\$1,654.24	\$1,147.35	\$459.60	\$339.60



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Fare Changes From Wichita: *The AirTran Effect*

	2001	2007	% Change
AVERAGE: TOP 25 MARKETS	\$214.07	\$173.37	19% decrease
AVERAGE TO AIRTRAN DESTINATIONS	\$220.13	\$149.20	32% decrease
AVERAGE TO DESTINATIONS W/O AIRTRAN	\$214.47	\$207.48	3% decrease



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Average Wichita Fares To Markets Served By AirTran

Market	2001	2007	% Decrease in Fare
Atlanta	\$201.76	\$120.19	-40%
Orlando	\$177.25	\$133.13	-25%
New York	\$251.25	\$164.50	-35%
Washington, DC	\$202.60	\$152.60	-25%
Minneapolis	\$240.49	\$142.72	-41%
Memphis	\$168.26	\$119.89	-29%
Tampa	\$208.63	\$148.40	-29%
Boston	\$271.07	\$176.87	-35%
Philadelphia	\$246.32	\$170.65	-31%
Miami	\$194.90	\$145.56	-28%
Baltimore	\$218.33	\$167.55	-25%
Charlotte	\$245.24	\$144.03	-40%
Fort Lauderdale	\$235.63	\$153.56	-35%



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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
Wichita State University

Janet Harrah, Director
Kasey Jolly, Regional Economic Analyst

Wichita State University, 1845 Fairmount St., Wichita, KS 67260-0121
Telephone: (316) 978-3225 Fax: (316) 978-3950 www.wichita.edu/cedbr

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 |