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Prepared for the Kansas Department of Commerce

Kansas Affordable Airfares Program Fiscal Year 2011 Report *Executive Summary*

In accordance with Senate Bill 2968, the Regional Economic Area Partnership of South Central Kansas (REAP) is required to provide a report on activities and progress attained to develop and implement the Kansas Affordable Airfares Program (KAAP) 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 2011 (July 2010 – June 2011).

For fiscal year 2011 REAP awarded funds to Sedgwick County to provide a one year revenue guarantee for AirTran Airlines to maintain affordable airfares to eastern destinations and to provide a one year revenue guarantee for Frontier Airlines to maintain affordable airfares to western U.S. destinations. For fiscal year 2011 total funding was \$6,545,000, with \$4,875,000 in State funding and \$1,670,000 in local match.

KAAP Performance for Fiscal Year 2011

REAP established program guidelines and selection criteria to evaluate the effectiveness of the program to achieve its statutory goals. The following are performance indicators identified for this report.

KAAP Statutory Performance

On February 8, 2011, a report by the Legislative Division of Post Audit found the following: *“Overall, the program appears to have had the desired effect. Since Wichita’s original affordable airfare program (FairFares) began in 2002, fares have decreased, while the number of passengers and the number of available flights have increased.”*

“More air flight options”

Air service through Wichita Mid-Continent Airport addresses the statutory objective of more flight options, as follows:

- A total of 11 airlines provide service from Wichita to seven nonstop destinations with connecting service and four nonstop destinations with no connecting service.
- Overall, there are on average 38 daily (with 40 on weekdays) nonstop or one-stop flights by commercial air carriers, providing access to 4,989 U.S. and international destinations.

“More competition for air travel”

Air service through Wichita Mid-Continent Airport addresses the statutory objective of more competition for air travel, as follows:

- There are three markets that are served by at least two airlines from the Wichita airport: Atlanta, Denver and Chicago.
- There are 22 daily flights to these three destinations that provide passengers access to 2,873 daily connections.
- The airlines serving these three hubs provide access to a total of 728 domestic and international destinations.

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

“Affordable air fares”

Air service through Wichita Mid-Continent Airport addresses the statutory objective of affordable air fares, as follows (source of the dollar saving calculations are detailed later in this report):

- Through AirTran and Frontier, travelers utilizing the Wichita airport can fly cheaply to 79 eastern destinations and 72 western destinations with only a single stop en route.
- According to data from the U.S. Department of Transportation, Wichita has experienced a decrease in airfares of 17.7 percent since 2000. This compares to a decrease of 1.0 percent for all US domestic fares. Wichita ranked 10th best (out of 100) in regards to percentage change in average fare from 2000 to 2010. This compares favorably to both Tulsa (19.1 percent increase and ranked 78) and Oklahoma City (20.0 percent increase and ranked 80).
- Utilizing data on fares from the U.S. Department of Transportation low-fare air service to eastern markets saved air travelers out of Mid-Continent Airport more than \$30 million in reduced fares in 2010, utilizing the expectation of the US average ticket price that showed a decrease by 1 percent between 2000 and 2010.
- Utilizing the same data on fares from the U.S. Department of Transportation low-fare air service has to all markets saved air travelers out of Mid-Continent Airport more than \$100 million in reduced fares in 2010, utilizing the expectation of the US average ticket price that showed a decrease by 1 percent between 2000 and 2010.

KAAP Additional Performance

The following information provides additional performance indicators not directly stated under the statutory objectives:

- Passenger growth from Wichita due to the existence of AirTran over the period of 2000-2010 to the top 50 markets from the Wichita Airport was **35 percent**. Of those top 50 destinations, the 24 markets served by AirTran have experienced a **60 percent growth in passengers**, while those destinations not served by AirTran have only experienced a growth of 22 percent.
- Fares from Wichita to the top 50 destinations **decreased 20 percent** over the period of 2000-2010. Of those top 50 destinations, the 24 markets served by AirTran experienced a **31 percent decrease in fares**, while those destinations not served by AirTran have only experienced a decrease of 10 percent in fares.
- Passenger growth from Wichita due to the existence of Frontier over the period of 2007-2010 was **23 percent**.
- Fares from Wichita to destinations served by Frontier over the period of 2007-2010 **decreased 29 percent**.
- Residents from **more than three quarters of Kansas counties** utilize Mid-Continent Airport.
- **Over half of users were from Kansas counties other than Sedgwick County**.
- Every analyst who has studied Sedgwick County’s implementation of the KAAP has found that the State and its residents have received **net positive benefit-to-cost ratio** from this use of public funds.

Submitted by REAP

Kansas Affordable Airfares Program Fiscal Year 2011 Report

Background

Under Kansas law¹, the Regional Economic Area Partnership of South Central Kansas (REAP) is assigned authority for administering the Kansas Affordable Airfares Program (KAAP). REAP is required to provide an annual report on activities and progress attained toward achievement of the statutory purposes of KAAP. Those purposes are: “more air flight options, more competition for air travel and affordable air fares for Kansas.” This document constitutes REAP’s annual report for fiscal year 2011 (July 2010 – June 2011).

For fiscal year 2011 REAP awarded funds to Sedgwick County to provide a one year revenue guarantee for AirTran Airlines to maintain affordable airfares to eastern destinations and a one year revenue guarantee for Frontier Airlines to maintain affordable airfares to western U.S. destinations. Total funding requested for award by REAP was \$6,666,250, with \$5 million in State funding and the required \$1,666,250 by local match. However, due to timing on the funding of the second grant for fiscal year 2010, the final award for fiscal year 2011 was a total of \$6,545,000, with \$4,875,000 in State funding and the required \$1,670,000 in local match. In the 2011 legislative session, Governor Sam Brownback requested and the Kansas Legislature appropriated \$5 million for continued funding of KAAP.²

In fiscal year 2011 legislators requested the Legislative Division of Post Audit to conduct a performance audit on the Affordable Airfares program. On February 8, 2011, the legislative post audit report was released and found the following: “*Overall, the program appears to have had the desired effect. Since Wichita’s original affordable airfare program (FairFares) began in 2002, fares have decreased, while the number of passengers and the number of available flights have increased.*”

The audit also included several suggestions to enhance program performance and financial reporting, which are reflected in this report. In particular, the data in this report has been simplified and focuses on the key statutory indicators. Furthermore, notations have been included to highlight data sources. Future reports will include notations to explain any changes or corrections in data from year to year. REAP believes the KAAP contributes substantially to the Kansas economy, as the audit findings support.

KAAP Performance for Fiscal Year 2011

Under the authority granted to REAP, officials from REAP are required to evaluate and present a report on the effectiveness of the KAAP funding each year. REAP established program guidelines and selection criteria to evaluate the effectiveness of the program. The following performance indicators provide the evaluation of those criteria:

KAAP Statutory Criteria

“More air flight options”

Air service through Wichita Mid-Continent Airport addresses the statutory objective of more flight options, as follows:

- A total of 11 airlines provide service from Wichita to seven nonstop destinations with connecting service and four nonstop destinations with no connecting service.
- Overall, there are on average 38 daily (with 40 on weekdays) nonstop or one-stop flights by commercial air carriers, providing access to 4,989 U.S. and international destinations.

¹ House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968, enacted in the 2006 Kansas Legislature

² Senate Substitute for House Bill 2014

It should be noted that, according to the US Department of Transportation's Bureau of Transportation Statistics, due to high fuel costs in mid-2008 coupled with the economic recession, the airline industry has shrunk through consolidation and reduction in capacity at airports nationwide. This has resulted in a decline in traffic and capacity at Wichita and across the U.S. In fact, Wichita's traffic was down 4 percent in 2010 from 2008, a record year. However, Wichita's 2010 traffic was up 2.9 percent from the previous year compared to U.S. traffic which was up 1.9 percent.

"More competition for air travel"

Air service through Wichita Mid-Continent Airport addresses the statutory objective of more competition for air travel, as follows:

- There are three markets that are served by at least two airlines from the Wichita airport: Atlanta, Denver and Chicago.
- There are 22 daily flights to these three destinations that provide passengers access to 2,873 daily connections.
- The airlines serving these three hubs provide access to a total of 728 domestic and international destinations. (Note: these are not unique destinations, meaning there is some duplication.)

"Affordable air fares"

Air service through Wichita Mid-Continent Airport addresses the statutory objective of affordable air fares, as follows (explanation of dollar savings is included in the subsequent section of this report):

- Through AirTran and Frontier, travelers utilizing the Wichita airport can fly cheaply to 79 eastern destinations and 72 western destinations with only a single stop en route.
- According to data from the U.S. Department of Transportation, Wichita has experienced a decrease in airfares of 17.7 percent since 2000. This compares to a decrease of 1.0 percent for all US domestic fares. Wichita ranked 10th best (out of 100) in regards to percentage change in average fare from 2000 to 2010. This compares favorably to both Tulsa (19.1 percent increase and ranked 78) and Oklahoma City (20.0 percent increase and ranked 80).
- Utilizing data on fares from the U.S. Department of Transportation, low-fare air service to eastern markets saved air travelers out of Mid-Continent Airport more than \$30 million in reduced fares in 2010.
- Utilizing the same data, low-fare air service to all markets saved air travelers out of Mid-Continent Airport more than \$100 million in reduced fares in 2010.

KAAP Sedgwick County Proposal Performance

The following section provides more detail on the performance of the Sedgwick County Proposal for KAAP.

AirTran and the Eastern Effect

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.

The table below provides a comparison of round trip fares through Atlanta to selected destinations served by AirTran before and after Wichita and Sedgwick County began the Fair Fares program in 2002. It shows reductions of as much as 46 percent between 2000 and 2008 (the most recent available data for all markets at the time of this report). The table uses a base year of 2000 because 2001 is a non-representative year due to disruptions in air service caused by the September 11 attacks.

Average Wichita Fares to Selected Markets Served By AirTran

Market	2000	2008	% Decrease in Fare
Atlanta	\$233.82	\$126.00	-46%
Orlando	\$172.47	\$143.00	-17%
New York	\$263.85	\$171.00	-35%
Washington, DC	\$203.42	\$170.00	-16%
Baltimore	\$222.56	\$165.00	-26%
Pittsburgh	\$251.87	\$156.00	-38%
Tampa	\$252.52	\$143.00	-43%
Boston	\$288.91	\$166.00	-43%
Philadelphia	\$246.32	\$170.65	-31%
Miami	\$194.90	\$145.56	-28%
Baltimore	\$218.33	\$167.55	-25%
Charlotte	\$239.07	\$151.00	-37%
Fort Lauderdale	\$237.97	\$155.00	-35%

Source: US Department of Transportation, as reported by Wichita Airport Authority

The table below compares the **passenger growth** between 2000 and 2010 from Wichita to the top 50 destinations in 2000. The data illustrates the passenger growth from Wichita due to the existence of AirTran. Evaluation of these markets reveals a growth of 60 percent to AirTran destinations, whereas the markets that AirTran does not serve experience growth of only 22 percent.

(Please see table on next page)

Passenger Growth from Wichita: *The AirTran Effect*

	2000	2010	% Change
Totals: Top 50 markets	819,360	1,102,480	35% growth
Totals to AirTran destinations	277,640	443,590	60% growth
Totals to destinations w/o AirTran	541,720	658,890	22% growth

Source: US Department of Transportation, as reported by Wichita Airport Authority

It is important to note that 38 of Mid Continent Airport’s top 50 markets have low-fare service, with 24 of those being AirTran markets and 14 Frontier markets. Overall, 83 percent of Wichita’s traffic is to the top 50 markets. (Note: low fares stimulate traffic to those affected destination so the top markets in 2010 are different than those in 2000.)

In 2000 the average one-way fare from Wichita to destinations currently served by AirTran was \$229. Area residents commonly drove to the Kansas City, Tulsa or Oklahoma City to avoid the high cost. At the end of 2010, the average one-way fare to these 24 destinations was \$159, an average one-way fare savings of \$70 compared to the pre-AirTran fare.

The table below illustrates changes in average fares to all markets from Wichita. It shows that between 2000 and 2010 average fares from Wichita to the top 50 markets decreased 20 percent. Fares to non-AirTran destinations fell only 10 percent, while fares to AirTran destinations decreased by 31 percent. If low-fare competition did not exist in Wichita, it is realistic to assume that average fares to the 24 markets served by AirTran would have only decreased an average of 10 percent instead of decreasing by 31 percent. It should be noted that economic conditions in 2009 caused disruptions in the fare trends of the past decade, but those trends appear to have returned in 2010.

Fare Changes From Wichita: *The AirTran Effect*

	2000	2010	% Change
Average: Top 50 markets	\$225.32	\$180.61	20% decrease
Average to AirTran destinations	\$229.18	\$158.70	31% decrease
Average to destinations w/o AirTran	\$221.91	\$199.98	10% decrease

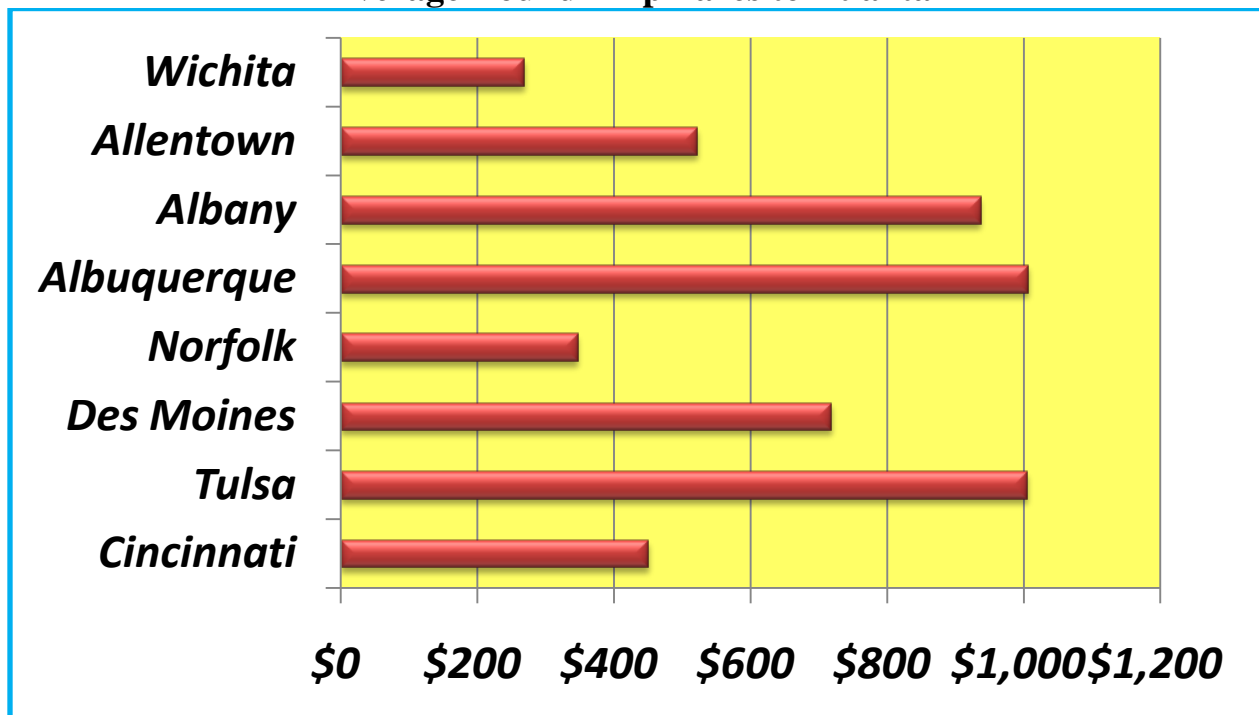
Source: Average one-way fares, US Department of Transportation, as reported by Wichita Airport Authority

In 2010, 443,590 passengers flew between Wichita and the 24 eastern destinations served by AirTran. If it is assumed that the average one-way fare to these 24 markets would have been \$70 higher without AirTran (\$229 as opposed to \$159), and that each of those passengers travelled one-way (a very conservative assumption), total savings would be **\$31.3 million**. Given national trends, it is conceivable that fares to the 24 destinations would have decreased somewhat even in the absence of the competition created by the presence of AirTran. Assuming that Wichita fares decreased at the same rate as all national rates between 2000 and 2010 (1 percent), and assuming that all fares are one-way, passengers to those 24 destinations would have paid \$69 more (\$227 as opposed to \$159), meaning the 443,590 passengers from Wichita to those markets would have paid an additional **\$30.6 million**.

The following chart compares the current round-trip fare from Wichita to Atlanta with the Atlanta fares of similar cities that do not have low-fare competition. These data suggest that if AirTran left the Wichita market, round-trip fares would increase significantly.

Whether Wichita passengers flew AirTran or another carrier, all of them benefited directly from the price competition created by the presence of a low fare carrier in the Wichita market. The experience of other similar-sized jurisdictions, Tulsa in particular, shows that without AirTran, the average round trip fares between Wichita and Atlanta could be as much as \$1000.

Average Round-Trip Fares to Atlanta



Source: Wichita Airport Authority

Note: These airports were selected for comparison because they do not have AirTran providing routes into Atlanta.

Frontier and the Western Effect

Low airfares to the west coast are also 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, Sedgwick County entered into a revenue-guarantee agreement with Frontier Airlines 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.

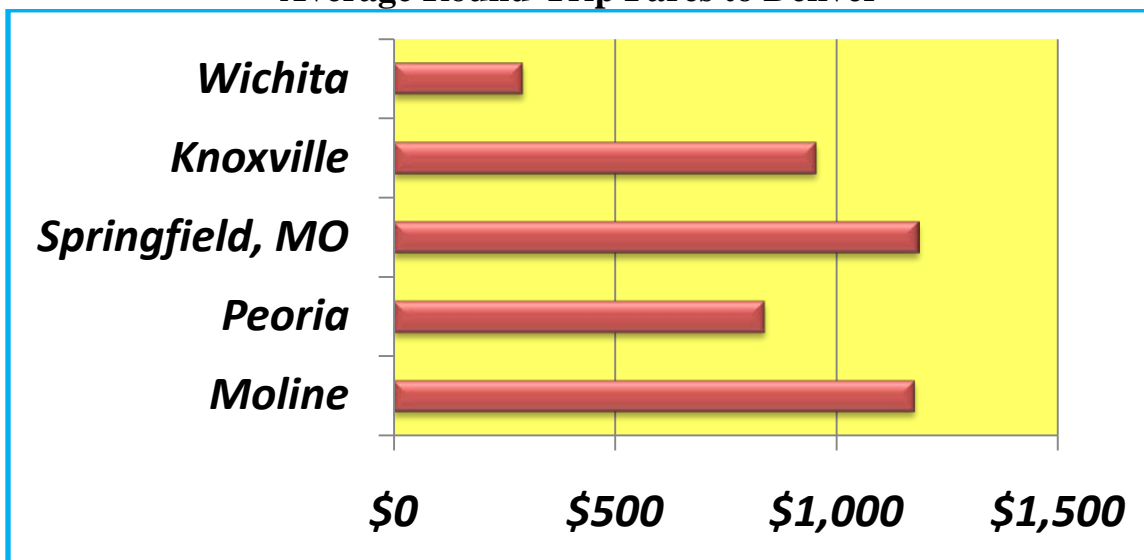
In return for a \$500,000 revenue guarantee for the 12-month contract period, Frontier agreed to provide daily non-stop round trip flights between Wichita and Denver. In addition to providing low-fare competition to that market, Frontier offered low-fare competition via one-stop service to all major western U.S. cities. Frontier serves 14 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 23 percent; and
- The 14 destinations served by Frontier have seen a 29 percent decrease of average one-way fare.

In the third quarter of 2007, immediately prior to Frontier’s entry into the Wichita market, the average one-way fare to the 14 destinations served by Frontier was \$226, 18 percent higher than the average of \$192 for all other destinations in the top 50 (including those served by AirTran). For the calendar year ending 2010 (the most recent for which data are available), the average one-way fare to the 14 destinations served by Frontier was \$161, 11 percent *lower* than the average of \$181 for all other top-50 destinations.

If Frontier abandoned the Wichita market and was not replaced by another low-fare competitor, the impact on travelers to western destinations would be immediate and severe. An indication of how substantial the fare increase might be can be inferred from the chart below. It compares the current round-trip fares from Wichita to Denver with the Denver fares of similar cities that do not have low-fare competition.

Average Round-Trip Fares to Denver



Source: Wichita Airport Authority

Note: These airports were selected for comparison because they do not have Frontier providing routes into Denver.

Passenger Growth and Fare Changes at Wichita Mid-Continent: The Combined Effect

The presence of AirTran and Frontier in Wichita has dramatically improved the ability of Kansans to fly relatively inexpensively wherever they want with a minimum of stops. In 2000, before low cost airlines entered the Wichita market, no traveler using any airport in Kansas could fly anywhere inexpensively, no matter how many stops the traveler was willing to tolerate. In 2011, travelers using the Wichita airport can fly cheaply to 79 eastern destinations and 72 western destinations with only a single stop en route. This increase of low cost, convenient travel options has directly led to the increased number of passengers using the Wichita airport.

The following chart illustrates the changes in fares from Wichita due to the existence of AirTran and Frontier. The chart identifies the savings experienced for traffic at Mid-Continent Airport over the period 2000-2010.

Fare Changes From Wichita: *The KAAP Effect*

	2000	2010	% Change	Rank
Wichita	\$419	\$345	17.7% decrease	10
US domestic	\$340	\$337	1.0% decrease	--
Tulsa	\$302	\$360	19.1% increase	78
Oklahoma City	\$306	\$367	20.0% increase	80

Source: USDOT Bureau of Transportation Statistics, Origination and Destination Survey: DB1BTicket

Note: According to the USDOT, average fares are based on domestic itinerary fares, round-trip or one-way for which no return is purchased. Fares are based on the total ticket value which consists of the price charged by the airlines plus any additional taxes and fees levied by an outside entity at the time of purchase. Fares include only the price paid at the time of the ticket purchase and do not include other fees. Averages do not include frequent-flyer or “zero fares” or a few abnormally high reported fares.

Evaluation of the information in the table above reveals that fares (average purchased domestic total ticket price) from Wichita Mid-Continent Airport have decreased 17.7 percent since 2000. The data also shows that the US domestic average has decreased only one percent. In contrast, the two closest airports, Tulsa and Oklahoma City, have experienced 19.1 percent and 20 percent increases respectively. It is also important to note that although the average fare for Wichita was higher than both Tulsa and Oklahoma City in 2000, today Wichita is \$15 to \$22 lower than those two airports, respectively.

Data in the table can be used to estimate aggregate savings from KAAP. If it is assumed that in the absence of KAAP, Wichita fares would have followed the national average of 1 percent decrease between 2000 and 2010, average fares in 2010 would have averaged \$415. That number is \$70 higher than the actual average fare of \$345. This means that the 1,549,395 passengers who departed from Wichita in 2010 (as reported by Mid-Continent Airport in their December 2011 Activity Report) would have paid an additional **\$108.5 million** without KAAP.

The table also provides a rank, which is the position among the top 100 airports of percentage change of average fare between the fourth quarter of 2000 and the fourth quarter of 2010. Wichita ranked as the 10th

best positioned airport in regards to percent change of average fare from 2000 to 2010. The ranking includes only the top 100 airports with commercial service. Therefore, Wichita is the only airport included for Kansas.

KAAP Additional Performance

KAAP Usage at Mid-Continent Airport

The initial estimates for the KAAP 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, research conducted by Mid-Continent in December demonstrates that residents from **more than three quarters of Kansas counties** (83 out of the 105 counties) utilize the airport. To update the usage study, Mid-Continent Airport staff conducts random samples of license plates using parking lots. In July 2010 a tag survey was conducted and the findings revealed that on any given day:

- **51 percent of users were from Kansas counties other than Sedgwick County**
- **36 percent of users were from Sedgwick County.**
- **13 percent of users were from out of state** (Note: This includes rentals as well as personal vehicles, but all are users of the airport.)

Economic Indicators

These lower fares add up to substantial economic savings. According to the Wichita Airport Authority:

*Prior to May 8, 2002, Wichita's airfares were among the highest in the nation. In fact, Mid-Continent Airport ranked among the 10 highest priced markets in the U.S. Wichita's fares to the top seven non-stop markets were 116 percent higher on average than those from Kansas City. Further, studies documented that 44 percent of the Kansas air service potential used out-of-State airports or didn't fly at all. This situation hampered economic development efforts and crippled tourism development efforts... It is estimated that the savings to the air travelers using Wichita Mid-Continent Airport as a result of the presence of AirTran and Frontier is roughly **\$400 million dollars.***

Providing a substantial positive economic benefit is not a stated objective of the legislation implementing the KAAP, nor is it a stated priority or proposal selection criterion of REAP. Even so, assessing the program benefits in relation to its costs provides a valuable affirmation of the actions of the legislature in creating and continuing to fund the program.

A fiscal impact study conducted by the Center for Economic Development and Business Research (CEDBR) 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.

Using different methodology and data sources, earlier this year the Kansas Legislative Division of Post Audit examined the benefits and costs of the entire program – not just AirTran, as was done by CEDBR – and similarly found a positive economic impact that returns money to the State government. Post Audit concluded that the program creates 3,178 annual jobs on average, and returns \$2.32 in state tax dollars for every \$1.00 invested in the program by state government.

Depending on assumptions made and data sources used, different evaluators can be expected to arrive at different conclusions about the exact benefits of the program. However, the consistent finding of every analyst who has studied Sedgwick County's implementation of the KAAP is that the State of Kansas and its residents have received **net positive benefits from this use of public funds**. REAP believes that

REAP
KAAP Fiscal Year 2011 Report

KAAP contributes substantially to the Kansas economy and provides significant benefits to the citizens of Kansas. REAP is committed to administering this program with a focus on its statutory objectives and a commitment to transparency, integrity, and accuracy in reporting.

Additional Information

Attached to this report is documentation provided through the Fiscal Year 2011 submittal by Sedgwick County as well as the official action taken by the REAP Board on July 11, 2011. Both of these documents help to provide additional progress and background information. REAP will also provide any additional information as requested.

Submitted by the Regional Economic Area Partnership of South Central Kansas



SEDGWICK COUNTY, KANSAS

DIVISION OF FINANCE

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

June 17, 2011

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, 2011 – June 30, 2012. 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 \$229 and area residents commonly drove to the Kansas City, Tulsa or Oklahoma City airports to avoid the high cost. At the end of 2010, the average one-way fare to these 24 destinations was \$159, an average one-way fare savings of \$70 when compared to the pre-AirTran fare.

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 increased 5%¹, as did markets not served by AirTran, instead of decreasing by 31% since 2000. It

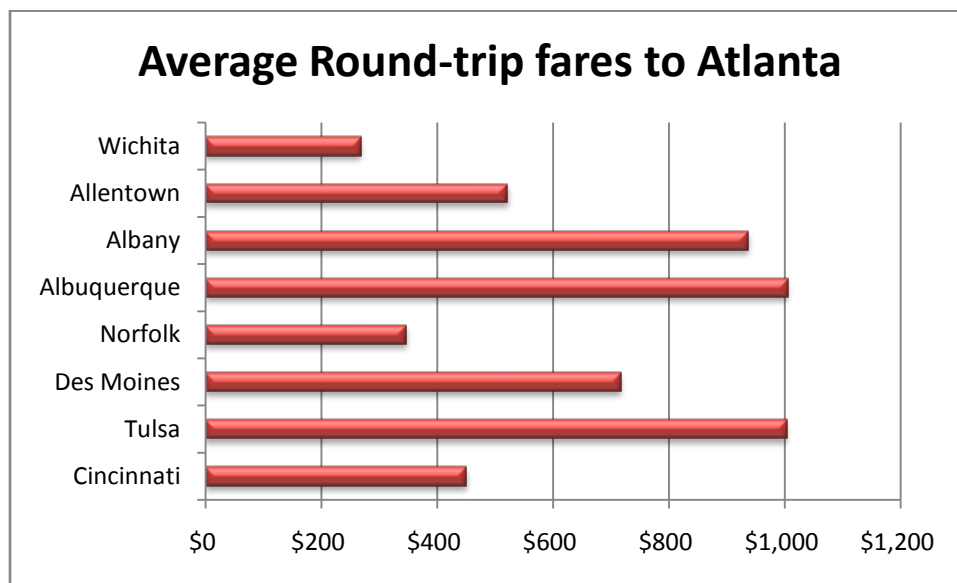
¹ Estimate based on a comparison of 2008 average fare vs. 2000 average fare.

is important to note that economic conditions in 2009 caused disruptions in the fare trends of the past decade; those trends appear to have returned in 2010.

Without AirTran, the average one-way fare to these 24 markets thus might be expected to have been \$70 more than it actually was at the end of 2000. If this had been the case, the 443,590 passengers from Wichita to those markets would have paid an additional \$31.3-million for round-trip airfares in 2010.

In 2010, 443,590 passengers flew between Wichita and these 24 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, Tulsa in particular, shows that without AirTran, the average round trip fare between Wichita and Atlanta could be as much as \$1000.

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



To assure this does not happen, Sedgwick County will 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, 2011. 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.

In return for a \$500,000 revenue guarantee for 12-month contract periods, Frontier agreed to provide 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 14 of the top 50 destinations of travelers using the Wichita airport.

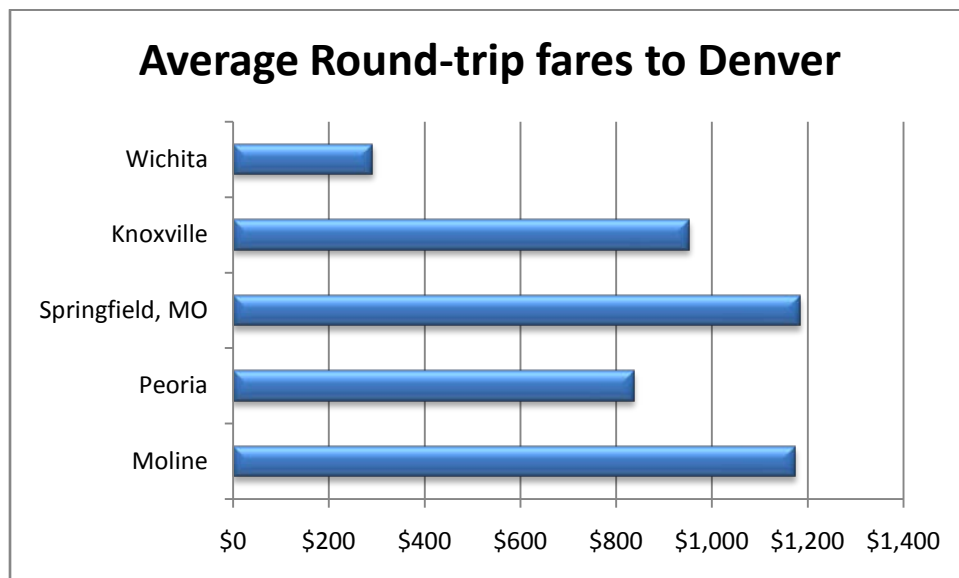
Since Frontier entered the Wichita market:

- the number of passengers using the Wichita airport for destinations served by Frontier has increased 23%; and
- the 14 destinations served by Frontier have seen a 29% decrease of average one-way fare.

If abandoned the Wichita market and was not replaced by another low-fare competitor, 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 14 destinations served by Frontier were \$226, 18% higher than the average of \$192 for all other destinations in the top 50 (including those served by AirTran). For the year ending 2010 – the most recent for which data are available – average one-way fares to the 14 destinations served by Frontier were \$161, 11% lower than the average of \$180 for all other top-50 destinations.

If Frontier were to leave Wichita, fares to those 14 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.



The presence of AirTran and Frontier in Wichita has dramatically improved the likelihood Kansans will be able to fly inexpensively wherever they want with a minimum of stops. In 2000, before low cost airlines entered the Wichita market, no traveler using any airport in Kansas could fly anywhere inexpensively, no matter how many stops the traveler was willing to tolerate. In 2010, travelers using the Wichita airport can fly cheaply to 79 eastern destinations and 72 western destinations with only a single stop en route. This increase of low cost, convenient travel options has directly led to the increased number of passengers using the Wichita airport instead of others in Missouri or Oklahoma.

Providing a substantial positive economic benefit is not a stated objective of the legislation implementing the Kansas Affordable Airfares Program, nor is it a stated priority or proposal selection criterion of REAP. Even so, assessing the program benefits in relation to its costs provides a valuable affirmation of the actions of the legislature in creating and continuing to fund the program.

Depending on assumptions made and data sources used, different evaluators can be expected to arrive at different conclusions about the exact benefits of the program. However, the consistent finding of every analyst who has studied Sedgwick County's implementation of the Kansas Affordable Airfares Program is that the state government and its residents have received net positive benefits from this use of public funds.

A fiscal impact study conducted by the Center for Economic Development 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.

Using a different methodology and data sources, earlier this year the Kansas Division of Legislative Post Audit examined the benefits and costs of the entire program – not just AirTran, as was done by CEDBR – and similarly found a positive economic impact that returns money to the State government. The post audit concluded that the program creates 3,178 annual jobs on average, and returns \$2.32 in state tax dollars for every \$1.00 invested in the program by state government.

Clearly, Kansans and their government have a lot to lose if Wichita loses low-fare air service.

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

REAP Board Action
July 11, 2011

Item

Kansas Affordable Airfares Program (KAAP) Update

Background

In the 2006 session of the Kansas Legislature, the Regional Economic Area Partnership (REAP) was assigned responsibility for administering the Kansas Affordable Airfares Program (KAAP) through enactment of House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968. Those legislative actions assigned REAP responsibility for administering KAAP, as follows:

- REAP shall be the grant recipient of state appropriations for development and implementation of the program;
- REAP shall receive matching moneys from local governments; and
- REAP shall evaluate and report on the effectiveness of the program, as well as the expenditures from the grant and local matching moneys.

In 2006, REAP assigned the Executive Committee responsibility for overseeing KAAP, and a \$5 million grant from state appropriations was awarded to Sedgwick County, the only entity requesting funding in FY 2007.

In 2007, Governor Sebelius recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through House Bill 2368. REAP took actions to increase awareness and transparency of KAAP by adopting guidelines that focused on the statutory objectives for KAAP and established a timetable for proposals.

Two proposals for funding were received and evaluated in an open-forum at which time the proposers were given an opportunity to present the proposal in person to the REAP Executive Committee. Based on a review of the proposals and presentations, the REAP Executive Committee recommended and REAP agreed that the proposal from Sedgwick County be awarded \$5 million. This proposal addressed all statutory criteria for the allocation of funding including the priorities of maintaining affordable airfares to eastern U.S. destinations and developing affordable airfares to western U.S. destinations.

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. REAP took actions to establish a timetable for proposals, and the REAP Executive Committee recommended and REAP agreed that a \$5 million grant from state appropriations be awarded to Sedgwick County, the only entity requesting funding in FY 2009.

In the 2009 legislative session, Governor Sebelius recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Sub. For House Bill 2373. REAP took actions to establish a timetable for proposals, and the REAP Executive Committee recommended and REAP agreed that a \$4,875,000 million grant from state appropriations be awarded to Sedgwick County, the only entity requesting funding in FY 2010. The remaining funds of \$125,000

were made available through an addendum to the original request for proposals and the REAP Executive Committee recommended and REAP agreed that a grant from state appropriations be awarded to Sedgwick County, the only entity requesting funding for the FY 2010 Addendum.

In the 2010 legislative session, Governor Mark Parkinson recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Bill 572. REAP took actions to establish a timetable for proposals, and the REAP Executive Committee recommended and REAP agreed that a \$5,000,000 million grant from state appropriations be awarded to Sedgwick County, the only entity requesting funding in FY 2011.

In the 2011 legislative session, Governor Sam Brownback recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Substitute for House Bill 2014.

Fiscal Year (FY) 2012 Request for Proposals Process

In order to continue the Kansas Affordable Airfares Program (KAAP) and maintain transparency, REAP took action to again release an RFP for proposals that established a process for fiscal year 2012 (July 1, 2011 through June 30, 2012).

At its March meeting, REAP adopted guidelines for administration of KAAP (see attachment). These guidelines focus on the statutory objectives for KAAP, specifically: 1) more flight options; 2) more competition for air travel; and 3) affordable airfares for Kansas. REAP also indicated that highest priority would be given “to maintaining affordable airfares to eastern and western U.S. destinations” and next highest priority will be given to “proposals that impact a majority of Kansans.”

The timeline for FY 2011 proposals was as follows:

April 1	Release RFP
June 17	Deadline for submittals (55 business days)
July 6	REAP Executive Committee Review
July 11	REAP Meeting/Selection of FY 2012 program recipient

The adopted guidelines were released through State-wide media, the Kansas Association of Airports, Kansas Department of Commerce, and the League of Kansas Municipalities, as well as being placed on the REAP website.

The REAP Executive Committee met on July 6, 2011, to hear presentations from two applicants for funding through the Kansas Affordable Airfares Program (KAAP). The two proposals for funding received were: one from Sedgwick County and another from Garden City, Kansas. The following provides details on each proposal:

Sedgwick County Proposal

Sedgwick County requested funding in the amount of \$5 million for fiscal year 2012 with matching funds in the amount of \$1.67 million, or 33% of the requested amount to be provided by Sedgwick County.

In presenting its proposal Sedgwick County provided evidence documenting that low-fare air service to eastern and western U.S. destinations through Wichita Mid-Continent Airport had been successful in providing more air flight options, more competition for air travel, and affordable air fares for Kansas.

Through revenue guarantees to AirTran and Frontier, travelers utilizing the Wichita airport can fly cheaply to 79 eastern destinations and 72 western destinations with only a single stop en route. This increase of low cost, convenient travel options has directly led to the increased number of passengers using the Wichita airport instead of others in Missouri or Oklahoma.

In reviewing the program as a whole and utilizing data from the Bureau of Transportation Statistics, Wichita has experienced a decrease of 17.7% in fares since 2000. Compared to the US domestic average of 1.0% decrease for the same time, the Bureau has ranked Wichita as the 10th best positioned airport (out of 100) in regards to % change of average fare from 2000 to 2010. This compares favorably to both Tulsa (19.1% increase and ranked 78) and Oklahoma City (20.0% increase and ranked 80).

It is estimated that this program provides an additional 106,000 passengers in the top 50 destinations coming from throughout Kansas and Oklahoma. This program also saved air travelers out of Mid-Continent Airport more than \$33.2 million in reduced fares in 2010, compared to 2000 (note: AirTran was recruited into the Wichita market through local support in 2001 and began operations in 2002).

The benefit of AirTran's presence in Wichita is demonstrated further by the following:

- Research has shown that Atlanta is one of the most popular destinations for travelers from Wichita Mid-Continent Airport and AirTran serves 24 of the 50 most popular destinations.
- The top 50 markets from the Wichita Airport have experienced a 35% growth in passengers since 2000. Of those top 50, the 24 markets served by AirTran have experienced a 60% growth in passengers, while those destinations not served by AirTran have only experienced a growth of 22% in passengers. (Data from the US Department of Transportation)
- At the same time, the top 50 markets from the Wichita Airport have experienced a 20% decrease in average one-way fares since 2000. Of those top 50, the 24 markets served by AirTran have experienced a 31% decrease in average one-way fares, while those destinations not served by AirTran have only experienced a decrease of 10% in average one-way fares. (Data from the US Department of Transportation)
- Whether passengers fly AirTran or another carrier, due to price competition every one of them benefits 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 as much as \$1,000.
- Without AirTran, the average one-way fare to these 24 markets would likely have been \$70 more than it actually was, meaning the 443,590 passengers from Wichita to those markets would have paid an additional \$31.3-million for round-trip airfares in 2009.

The benefit of Frontier's presence in Wichita is demonstrated further by the following:

- Frontier offers low-fare competition via one-stop service to all major western U.S. cities and serves 14 of the top 50 destinations of travelers using the Wichita airport.
- Since Frontier entered the Wichita market in 2007:
 - The number of passengers using the Wichita airport for destinations served by Frontier has increased 23%; and

- The 14 destinations served by Frontier have seen a 29% decrease of average one-way fares.
- If Frontier left Wichita 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 14 destinations served by Frontier were \$226, 18% higher than the average of \$192 for all other destinations in the top 50 (including those served by AirTran). In the year ending 2010 – the most recent for which data is available – average one-way fares to the 14 destinations served by Frontier were \$161, or 11% lower than the average of \$180 for all other top-50 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. This data suggest that if Frontier left the Wichita market, round-trip fares quickly would increase to at least three times the current price.
- Whether passengers fly Frontier or another carrier, due to price competition every one of them benefits directly from the presence of a low fare carrier in the Wichita market. The experience of other similar-sized jurisdictions shows that without Frontier, the average one-way fare between Wichita and Denver would be as much as \$800.

Providing a substantial positive economic benefit is not a stated objective of the legislation implementing the Kansas Affordable Airfares Program, nor is it a stated priority or proposal selection criterion of REAP. Even so, assessing the program benefits in relation to its costs provides a valuable affirmation of the actions of the legislature in creating and continuing to fund the program.

Depending on assumptions made and data sources used, different evaluators can be expected to arrive at different conclusions about the exact benefits of the program. However, the consistent finding of every analyst who has studied Sedgwick County's implementation of the Kansas Affordable Airfares Program is that the state government and its residents have received net positive benefits from this use of public funds.

A fiscal impact study conducted by the Center for Economic Development 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.

Using a different methodology and data sources, earlier this year the Kansas Division of Legislative Post Audit examined the benefits and costs of the entire program – not just AirTran, as was done by CEDBR – and similarly found a positive economic impact that returns money to the State government. The post audit concluded that the program creates 3,178 annual jobs on average, and returns \$2.32 in state tax dollars for every \$1.00 invested in the program by state government.

Garden City Proposal

The City of Garden City requested funding in the amount of \$250,000 for fiscal year 2012 with matching funds in the amount of \$\$83,333.33, an amount equal to or greater than the required 25% local match to be provided by the City of Garden City.

In presenting its proposal Garden City provided documentation in support of establishing the Garden City Regional Airport, with the cooperation of regional partners, as the Western Kansas Regional Airport by providing competitive jet service through American Eagle. It was noted that in the enabling legislation, House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968, it was expressly stated “including a regional airport in western Kansas.”

In addition, the proposal specified that regional jet service in the western half of Kansas will boost enplanements from Kansas airport and prevent leakage to air carriers providing jet services from nearby states (Colorado and Texas).

Some specifics on the proposal are as follows:

- The City of Garden City is one of three southwest Kansas communities that receive essential air service (EAS) funding for commercial air service, and one of five in the western half of Kansas. All five communities are currently serviced by Great Lakes Aviation with Beechcraft 1900 turboprop planes with service to Denver. Enplanements are higher out of Garden City Regional Airport than the other western Kansas EAS and it has long been a priority of local leaders, the regional business community, and our US Congressional delegation to look for ways to grow Garden City Regional Airport out of the EAS program and into a more commercially viable service provider.
- To that end, Garden City conducted a market analysis by Sixel Consulting in advance of the 2011 EAS bidding cycle. This market analysis was used to recruit jet service providers in hopes of ultimately landing a carrier capable of capturing the significant market leakage to Amarillo, Denver and Wichita, and growing passenger load to a profitable level. Furthermore, it was a desire to attract an air carrier which would provide service to an international hub which best reflected where our passengers wanted to go.
- American Eagle is one of four airlines proposing service to Garden City. American Eagle is the only proposal to offer a southern hub (Dallas – DFW) and is the only proposal to offer jet service. Unfortunately, this is the most expensive of the four proposals. However, it is the intent of the City of Garden City to present a regional funding solution to the US Department of Transportation which underwrites the \$1.3 million differential between the American Eagle jet service bid and the lowest turboprop bid. The proposal will incorporate regional partners and ultimately bring viable jet service to western Kansas, thereby making it the first truly regional airport in the western half of Kansas.
- While at the onset there would only be one carrier out of Garden City Regional Airport, there still exists competition in western Kansas EAS communities and very competitive jet service out of Wichita Mid-Continent Airport (which by the market study, most of the market considers to be their primary airport). The additional competition will help bring down pricing and make air travel a more affordable option.
- The primary use of funds is to assist in filling the gap between American Eagle’s proposed cost to serve Garden City Regional Airport and the proposal to the USDOT.
- Garden City Regional Airport also committed to providing current and historical data for enplanements as well as enplanement numbers for other western Kansas airports with commercial service to provide analytical evidence of the “regional” nature of the service being provided. Garden City Regional Airport also commits to providing average daily fare information to validate the “competitiveness” of that service.

Recommendation

The Executive Committee has administered the Kansas Affordable Airfares Program with a commitment to the program's specific statutory objectives, as well as transparency and financial integrity in program administration.

Based on a review of the proposals for funding in FY 2012, the Executive Committee recommends the following:

- 1) That the proposal from Sedgwick County be awarded \$4.75 million. This proposal: 1) addresses all statutory criteria (more air flight options, more competition for air travel, and affordable air fares for Kansas) for the allocation of funding including the priorities of maintaining affordable airfares to eastern and western U.S. destinations and impacting a majority of Kansans; 2) renews a contract with AirTran for the 12 months beginning July 1, 2011; 3) provides for the Frontier revenue guarantee agreement to continue through June 30, 2012; and, 4) provides for the local match of at least 25%.
- 2) That the proposal from Garden City be awarded \$250,000, contingent upon the following:
 - 1) Approval by US Department of Transportation on the use of these funds for the purpose of contracting with American Eagle service;
 - 2) Approval of the US Department of Transportation to utilize the City of Dodge City EAS funding under the "Alternate Air Service Pilot Program"; and
 - 3) Receipt of the local match.

This proposal: 1) addresses the statutory criteria of more flight options through a contract with American Eagle jet service through Dallas; 2) addresses the statutory clause of establishing a regional airport in Western Kansas; 3) provides a market analysis; and 4) provides for the local match of at least 25%.

The Executive Committee did note that there is a concern that the Garden City proposal does not clearly meet two of the statutory requirements: more competition and more affordable airfares for Kansas. It was noted that the proposal from Garden City does attempt to address these requirements and competition and affordability would be desired outputs from the initial service. In addition, the Garden City proposal does clearly address the "Western Kansas clause," which has not been addressed in previous KAAP awards and was noted in the recent post audit report.

Finally, it was proposed that REAP offer assistance in exploring additional opportunities for the Garden City program to connect with the Wichita affordable airfares program to enhance affordable airfares for Kansas residents.

The Executive Committee also reserves the right to re-allocate any of these funds prior to June 30, 2012 if any of the required contingencies are not met.

Action was approved by REAP Board on July 11, 2011.