



## SEDGWICK COUNTY, KANSAS

### DIVISION OF FINANCE

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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%<sup>1</sup>, as did markets not served by AirTran, instead of decreasing by 31% since 2000. It

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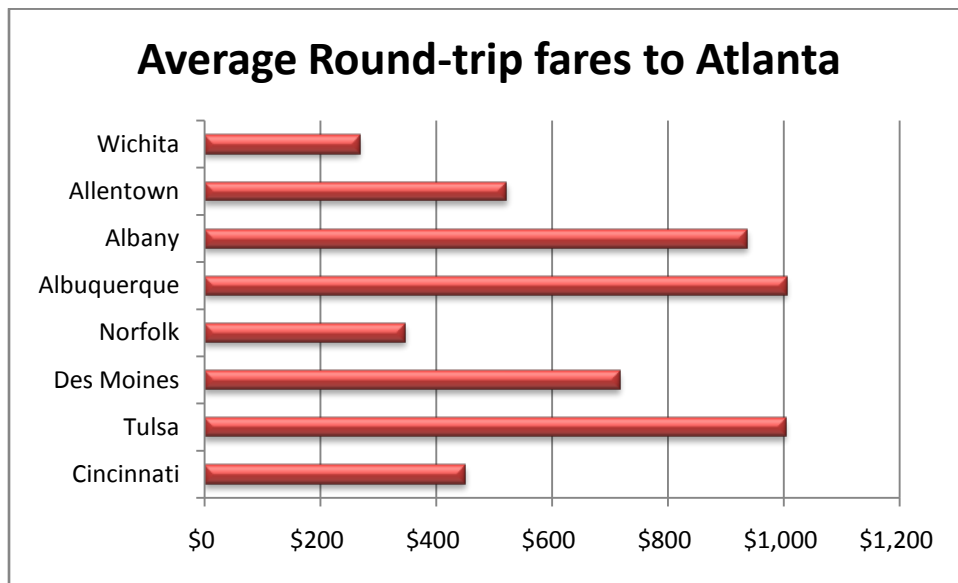
<sup>1</sup> Estimate based on a comparison of 2008 average fare vs. 2000 average fare.

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.

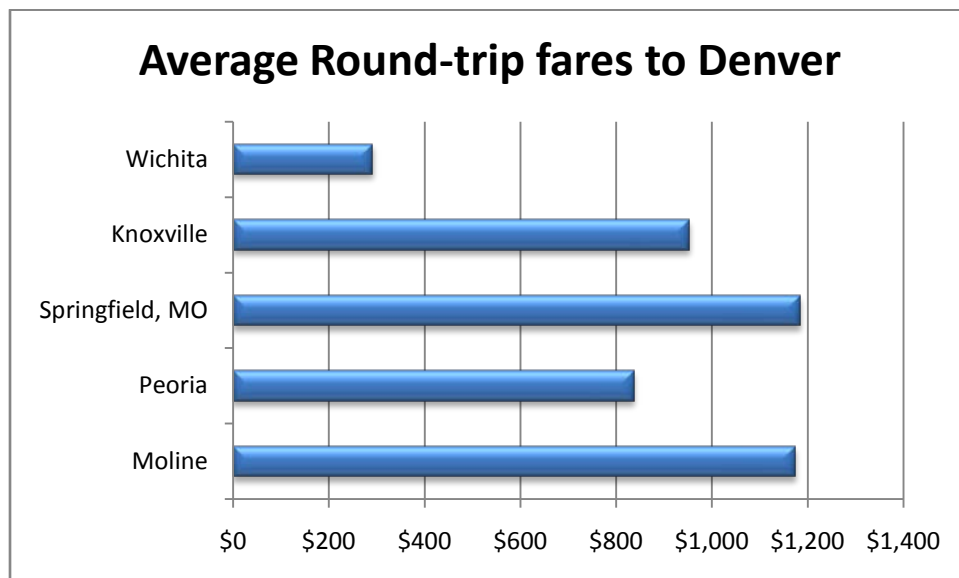
Since Frontier entered the Wichita market:

- 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