



State Subsidies For Air Service

Two States Invest in Air Service and Reap Rewards

BY CAROL WARD

Anyone who has ever driven on the seemingly interminable highways in Kansas or experienced the wide open spaces in Wyoming knows that these are large states, albeit with relatively small populations. Neither state has a major airport located within its borders, and both have struggled for years to attract air service. In a unique twist on airport funding, state legislatures have gotten involved, allocating millions of dollars in taxpayer money to essentially subsidize carriers that will serve their states.

The **Kansas Affordable Airfares Program** (KAAP) is focused solely on bringing low-fare carriers to the state, while the **Wyoming Air Service Enhancement Program** (WASEP) is a more general effort to attract air service. Both programs rely on funding from the state. The Kansas legislature in 2006 committed to a \$25M program, with funds to be paid out in \$5M increments over five years. The legislature has to reauthorize the funding each year. In Wyoming, \$3M has been made available each year since 2002 for air service development.

THE KANSAS EFFORT

The Kansas initiative started locally in the Wichita area in 2001. With no major airport in the state, Kansas travelers were given the choice of paying the higher fares demanded from legacy carriers who saw a profit opportunity or taking their business across the border – to **Kansas**

City International (MKC) in Missouri or to **Will Rogers World Airport** (OKC) or **Tulsa International** (TUL) in Oklahoma. Community representatives and elected officials saw the drain of passengers (and the related drain of tax dollars) and decided to do something about it.

The city of Wichita in 2001 launched an effort to bring low-cost air service to the **Wichita Mid-Continent Airport** (ITC) to combat the pull of **Southwest Airlines** at MKC, OKC and TUL. "It was a public/private collaborative partnership," explains Tom Nolan, AAE, assistant director of airports. "The city of Wichita, working with the area Chamber of Commerce, put together a financial incentive package for a low-cost carrier, which was **AirTran** (Airways)." That effort lasted a few years but was ultimately challenged by **Delta Air Lines**, which objected to a unique situation in which the city council, after adjourning its meetings, essentially became the airport authority.

That issue was ultimately resolved, but the larger problem became sustaining the **AirTran Airlines** subsidy. Without AirTran, airfares skyrocketed. "When there was not a discount carrier in place (at ITC), fares would not be in line with anywhere else in the nation," says John Waltner, vice chairman of the **Regional Economic Area Partnership** (REAP) in south-central Kansas and chairman of the organization's legislative committee. "The costs more than tripled and there was huge leakage out of Kansas into Oklahoma and Missouri."

Waltner says studies undertaken by

REAP showed that more than two-thirds of the people living in Kansas used ITC when a low-fare carrier was operating there. "We were able to capture the value of what gets lost without affordable airfares," he says, noting that REAP estimated savings of \$75M a year. Using the Wichita area pilot program as a starting point, REAP expanded the effort to include nearly two dozen counties in the region and took the case to the state legislature.

The legislature authorized funding of \$5M a year over the course of five years, although the measure has to be reauthorized each year. REAP administers the program. According to Waltner, the Kansas legislature outlined three criteria for the program: to provide more flight options, more competition for air travel, and affordable airfares. Any applicant must meet those criteria, and must also provide 25% in matching funds over and above the grant amount. In 2006, the first year of the program, the sole applicant for the money was Sedgwick County (in which ITC resides). Local governments in the area came up with \$2M in matching funds, and the total \$7M was used to subsidize AirTran's service from the airport. In 2006, IHT served 1.46 million passengers.

WYOMING'S PROGRAM

Wyoming's air service subsidies are more straightforward. Each year since 2002 the legislature has authorized \$2M to

be used on efforts to enhance air service in the state, according to Amber Schlabs, aviation business and marketing manager, aeronautics division, **Wyoming Department of Transportation (DOT)**. Schlabs' division took on administering the program in 2004, a task previously handled by the **Wyoming Business Council**.

Schlabs says the Wyoming DOT considers all viable requests. "A majority of the time it is the airports approaching us with a vision for what air service they would like to attract," she says. "They send us a proposal outlining how service could be improved either through upgrading equipment or adding frequency in the market. We will either help them negotiate with airlines, or their boards or non-profit organizations will do that, then the state will approve it to be subsidized."

Wyoming's largest airport, **Jackson Hole Airport (JAC)**, had just over half a

million passengers last year, and the entire state's population numbers only half a million, making increased air service a tough sell. But Wyoming's economy is burgeoning, due in part to growth in the oil and gas industries, and efforts to enhance air service appear to be paying off.



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"We're experiencing some real success stories," Schlabs says. At **Gillette-Campbell County Airport (GCC)**, for example, **United Airlines** was subsidized over the summer months but is now operating year-round, subsidy free. At **Casper Airport (CPR)**, **Northwest Airlines** was subsidized for a year and now remains in the market without financial assistance.

MOVING FORWARD

Back in Kansas, Nolan says some level of subsidy for AirTran is essential to keep the airline at ITC. The 2007 application process is underway for the fiscal 2008 grant appropriation, and Nolan anticipates

that Sedgwick County will be in the mix. "As long as that money is available I can guarantee that the county is going to continue to apply for those funds," Nolan says. "Naturally the intent would be to maintain that partnership with AirTran that has been so key over the last several years. But the community is going to have to look at what other options are available." Nolan stresses that it is the county, not the airport, applying for the funding. "Because it is not running through the airport there is more latitude in how they can provide that financial support to the airline. With airports, there is very strict guidance from the federal government as to what an airport can and cannot do."



from Wichita to Kansas City.

In fact, the REAP grant application notes that "In making awards, REAP will give highest priority to maintaining affordable airfares to eastern US destinations. Next highest priority will be given to developing affordable airfares to western US destinations." That language, and the use of the word "maintaining," could mean Sedgwick County is ideally situated to receive at least a portion of the grant money again this year. AirTran currently flies from ITC to **Hartsfield-Jackson Atlanta International (ATL)**. Michael Humberd, president, **Metropolitan Topeka Airport Authority**, admits that Sedgwick County "has a strong case because of its historical

LEFT: A \$5M grant authorized by the Kansas state legislature helped Wichita Mid-Continent Airport secure service from AirTran Airways.

FAR LEFT: Manhattan Regional Airport serves the same passenger base as neighboring Salina Airport, and wants to develop air service beyond Kansas City.

BELOW: The Salina Airport Authority found in a recent study that the airport could serve about 60,000 potential passengers, most of whom are using other nearby airports.



Sedgwick County will likely see some competition for that \$5M this year. Smaller airports are looking to increase their service and expand it beyond the connecting flights some now have to Kansas City. In fact, one key goal of the subsidy program is to expand from airlines' reliance on MKC as a stopover point. "Our big thing is having affordable airfares going to the east and affordable airfares going to the west," says Waltner. We're not really looking for a connection

build on that program."

But other airports think they can boost their air service as well, with the right support. **Topeka Airport (TOP)**, for example, will apply for an as yet undetermined amount of funding to enhance its air service efforts. "There are many other airports that are smaller like we are, and interested in either increasing their service or starting new service, that are trying to get a piece of this \$5M a year pie" says Humberd.

Humberd says a portion of that money could be used to help "seal the deal" with airlines that TOP is trying to attract. Located just 70 miles from MKC, Topeka has just one scheduled carrier currently – **Allegiant Air** with two flights weekly to Las Vegas. However, that doesn't fill the needs of the business travelers, who have been "begging for years" for more service from TOP, Humberd says.

Salina Airport (SLN) is in the midst of an air service development program and is eyeing the state money as a possible supplement to its own efforts, says Laura Robertson, marketing specialist, **Salina Airport Authority**. The airport, which currently has service to Kansas City under the **US Department of Transportation's** (USDOT) essential air service program, wants to expand with air service to another major hub, Robertson says. A recent air service study conducted for the airport shows a potential passenger base of 255,000 people, although that includes residents of Manhattan, Kansas, where **Manhattan Regional Airport** (MHK) is located. SLN just landed expanded service in the form of two non-stop flights to Kansas City operated by **Air Midwest**. The service replaces three one-stop (at MHK) trips a day.

MHK is separately vying for a portion of the grant money, according to Peter Van Kuren, airport director. Manhattan is also an essential air service community, with Air Midwest flying three flights daily to MKC. Van Kuren hopes to wean the community off essential air service and to broaden the reach beyond Kansas City. "We're currently in the middle of an air service development project," he says. "Once we analyze the data we'll be able to determine what the best use of any money will be." The essential air service contract ends in February of 2008, which means the USDOT will be requesting proposals from airlines willing to serve the market federal-subsidy free this fall. "Our goal is we'll have an airline ready and willing to step up and provide service," Van Kuren says. "Anything we look to do with this money will be geared towards putting us in a position where we are not reliant on the essential air service program."

That could be problematic for REAP, however. "One thing we've commented to several of the airports is we do not want to put the federal funding in jeopardy," says Waltner. "In many cases that is why they even have air service."

REAP will accept applications for grants through June 15, and Waltner says he's expecting more activity than last year, but it remains to be seen whether the local government can make a compelling case for support for another airport. The REAP guidelines call for a feasibility study from a professional air service consultant or a letter of intent from an air carrier. "They need to develop the program, then we can help them take that program even further."

Noting the unique nature of the program and its huge impact on ITC, Nolan says he anticipates interest from his colleagues in other states. He stresses the unique collaborative effort involving the city, county and state, an achievement realized only because of the huge economic impact the program can and is having in the state. "You've got to be in a situation where there are absolutely no other alternatives," Nolan says. "This is the ultimate example of how a community exercises its right to proactively influence the dynamics that drive airfares." *P*

We'd like to hear your opinion about this article. Please direct all correspondence to Carol Ward at carol@airportrevenue.com

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