

REAP Board Meeting
July 11, 2011
Item #4

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.