

**Testimony for the Review of Regional Economic Area Partnership
(Affordable Air Fares) to the Legislative Budget Committee**

Date: November 15, 2012

From: Chip Westfall, Harvey County Commissioner and REAP Legislative Chair

Good morning. I am Harvey County Commissioner Chip Westfall and I serve as the Chair of the Regional Economic Area Partnership (REAP) Legislative Committee. Thank you for allowing me to appear before you this morning on behalf of REAP. My testimony today is to detail the actions taken by REAP as the administrator of the Kansas Affordable Airfares Program (KAAP) over the past year and provide specifics on the performance and effectiveness of this program.

REAP is a coalition of 34 cities and counties in south-central Kansas. Our mission is to help guide state and national actions that affect economic development in the region. Under K.S.A. 74-50,150, REAP is assigned authority for administering the 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;
- REAP shall evaluate and report on the effectiveness of the program, as well as the expenditures from the grant and local matching moneys; and
- REAP shall be prepared to report to the legislative budget committee on program activities.

As you are aware, since 2006, REAP has administered KAAP with a commitment to the program's specific statutory objectives of providing "more air flight options, more competition for air travel and affordable air fares for Kansas, including a regional airport in western Kansas," as well as transparency and financial integrity in program administration.

Annually, on the advice of this Committee and the Kansas Department of Commerce, REAP has released a Request for Proposals (RFP) on April 1 for the KAAP program. The RFP including a description of the selection process and criteria is sent to 27 area newspapers, 4 television stations, 3 radio stations, and one professional publication (Wichita Business Journal). In addition, this information is also provided to the Kansas Department of Commerce, the Kansas League of Municipalities, and the Kansas Association of Airports. The RFP in its entirety is available for view on the REAP website: www.reap-ks.org.

Through this annual process REAP also receives presentations and utilizes interviews to determine funding recipients. We also work closely with those recipients to compile relevant and accurate performance reports.

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."*

Although the audit did find that the program has been successful at addressing the statutory objectives it also included several suggestions to enhance program performance and financial reporting. Since this audit, REAP has utilized these recommendations in its program reports; including an extensive performance report that details performance for fiscal year 2012 compiled by REAP and presented to the

Kansas Department of Commerce as required and updated Financial Status Report, both of which have been provided for your review.

In particular, the data in these reports were simplified and the performance report focuses on the key statutory indicators. Furthermore, notations were included to highlight explicit source identification for the data. Future reports will also include notations to explain any changes or corrections in data from year to year.

For fiscal year 2012 REAP awarded funds to a proposal from Sedgwick County for \$4.75 million and a proposal from Garden City for \$250,000, contingent upon approval by the US Department of Transportation. Since the awards, all indications on performance appear that these programs have had the desired effect.

The Sedgwick County commitment to 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. Today, 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.

In addition, if it is assumed that in the absence of KAAP, Wichita fares would have followed the national average of a **6.6 percentage increase** between 2000 and 2011, the more than 1.5 million passengers who departed from Wichita in 2011 would have paid an additional **\$92.18 million** without KAAP. That is a direct savings to individuals and businesses.

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 demonstrates that residents from **more than half of Kansas counties** (57 out of the 105 counties) utilize the airport.

Furthermore, air service through the Garden City Regional Airport, with the cooperation of regional partners, meets the statutory objective to be **the Western Kansas Regional Airport**. This unique partnership between the cities of Garden City and Dodge City allow the Garden City Regional Airport the ability to provide southwest Kansas passengers regional jet service that is capturing the significant market leakage that was occurring with **increases in passenger traffic and increased options and competition** that includes connection to an international hub which best reflects desired passenger destinations.

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 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.

In the 2012 legislative session, Governor Brownback recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP in fiscal year 2013 (July 1, 2012 – June 30, 2013), through Senate Bill 294. REAP engaged in an extensive review process and took action on July 9, 2012 to:

- 1) Award the proposal from Sedgwick County \$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, 2012; 3) provides for the Frontier revenue guarantee agreement to continue through June 30, 2013; and, 4) provides for the local match of at least 25%.
- 2) Award the proposal from Garden City \$250,000. This proposal: 1) addresses the statutory criteria of more flight options and more competition through a contract with American Eagle jet service through Dallas; 2) addresses the statutory clause of establishing a regional airport in Western Kansas; and 3) provides for the local match of at least 25%.

In accord with the requirements of administration of the KAAP, and in receipt of the local matching funds (25 percent or \$1,666,667) REAP officially requested funds in the amount of \$5,000,000 from the Kansas Department of Commerce with a letter on July 23, 2012. This request was confirmed as received by Commerce and funding in the amount of \$4,275,000 was forwarded to REAP on September 28, 2012. REAP staff notified Commerce of the discrepancy in funding from the request and an additional \$225,000 was forwarded on October 15, 2012. REAP staff notified Commerce of the remaining discrepancy (\$500,000) and have been informed that it is being processed.

In addition, based on recommendations by the 2011 Legislative Audit REAP entered into a Memorandum of Understanding with the Kansas Department of Commerce to conduct an independent review of the financial reports and analysis of data submitted by REAP related to the Affordable Airfare Program not to exceed \$10,000. These findings will be made available upon completion of that review.

Finally, with the new costs associated with reporting, in particular with the MOU with Commerce, REAP adopted an administrative fee to be utilized to cover costs associated with reporting and overall administration and be applied to the State funds as well as both proposals proportionately. This fee will not exceed \$25,000 for the total program for fiscal year 2013 and staff will track associated costs for reporting.

REAP has taken the responsibility for administering the Kansas Affordable Airfares Program as a serious matter, dedicating staff time and efforts into maintaining the transparency and integrity of the program. REAP will continue to monitor and assess the progress of the program to assure that it meets the statutory requirements.

Thank you for allowing me to appear before you today.



ANDOVER, AUGUSTA, BEL AIRE, BENTLEY, BENTON, BUTLER COUNTY,
CHENEY, CLEARWATER, COLWICH, CONWAY SPRINGS, DERBY, EL DORADO,
GARDEN PLAIN, GODDARD, HALSTEAD, HARVEY COUNTY, HAYSVILLE, HESSTON,
HUTCHINSON, KECHI, KINGMAN COUNTY, MAIZE, MCPHERSON COUNTY, MOUNT HOPE,
MULVANE, NEWTON, PARK CITY, RENO COUNTY, ROSE HILL, SEDGWICK,
SEDGWICK COUNTY, VALLEY CENTER, WELLINGTON, WICHITA

Prepared for the Kansas Department of Commerce

Kansas Affordable Airfares Program Fiscal Year 2012 Report

Executive Summary

In accordance with KSA 74-50, 150, 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 2012 (July 2011 – June 2012).

For fiscal year 2012 REAP awarded total funding in the amount of \$6,666,667, with \$5 million in State funding and the required \$1,666,667 by local match. Sedgwick County provided local match of \$1,583,334 and was awarded \$4.75 million. Garden City Regional Airport provided \$83,333 and was awarded \$250,000.

KAAP Performance for Fiscal Year 2012

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

Programs by Sedgwick County/Wichita Mid-Continent Airport and the Garden City Regional Airport are providing access to additional flight options through low fare options across Kansas.

More competition for air travel

Programs by Sedgwick County/Wichita Mid-Continent Airport and the Garden City Regional Airport are providing more competition for air travel by providing low fare options in addition to existing service.

Affordable air fares

Programs by Sedgwick County/Wichita Mid-Continent Airport and the Garden City Regional Airport are providing affordable air fares by reducing the costs of average fares and creating substantial savings.

KAAP Additional Performance

- Air Service through the Garden City Regional Airport, with the cooperation of regional partners, meets the statutory objective to be the **Western Kansas Regional Airport**.
- Residents from **more than three quarters of Kansas counties** utilize Mid-Continent Airport.
- 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

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

Kansas Affordable Airfares Program Fiscal Year 2012 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 2012 (July 2011 – June 2012).

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.

For fiscal year 2012 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. For Fiscal year 2012 REAP also awarded funds for the Garden City Regional Airport. Total funding requested for award by REAP was \$6,666,667, with \$5 million in State funding and the required \$1,666,667 by local match. Sedgwick County provided local match of \$1,583,334 and was awarded \$4.75 million. Garden City Regional Airport provided \$83,333 and was awarded \$250,000.

In the 2012 legislative session, Governor Sam Brownback requested and the Kansas Legislature appropriated \$5 million funding of KAAP for FY2013.²

KAAP Performance for Fiscal Year 2012

REAP has established program guidelines and selection criteria to evaluate the effectiveness of the Affordable Airfares Program. The following performance indicators provide the evaluation of those criteria by detailing the Wichita Mid-Continent Airport and Garden City Airport programs in two separate sections.

¹ KSA 74-50, 150

² Senate Bill 294

Section 1: Affordable Airfares through Wichita Mid-Continent Airport

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.
- 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.

According to the US Department of Transportation's Bureau of Transportation Statistics, high fuel costs and economic recession have shrunk the airline industry through consolidation and reduction in capacity at airports nationwide. This has resulted in a decrease in traffic and capacity at Wichita and across the U.S. In fact, Wichita had experienced a record year in 2008 and witnessed this national trend as traffic was down 3 percent in 2011 from 2008. In comparison the U.S. as a whole saw a decline of 0.9 percent in the same time frame. However, Wichita's 2011 traffic declined 1.8 percent from the previous year compared to U.S. traffic which was up 1.7 percent.³

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):⁴

- Through AirTran and Frontier, travelers utilizing the Wichita airport can fly cheaply to 125 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 7.6 percent from 2000-2011**. This compares to a decrease of 6.6 percent for all US domestic fares and compares favorably to both Tulsa (26.2 percent increase) and Oklahoma City (23.3 percent increase) during the same time.
- Utilizing data on fares from the U.S. Department of Transportation, low-fare air service to **eastern** markets only saved air travelers out of Mid-Continent Airport more than **\$25 million** in reduced fares in 2011.
- Utilizing the same data source, lower fares for **all** markets saved air travelers out of Mid-Continent Airport more than **\$92 million** in reduced fares in 2011.

³ Source: US Department of Transportation

⁴ Source: Wichita Airport Authority

Additional Performance- Sedgwick County Proposal

The following section provides more detail on the performance of the Sedgwick County Proposal for KAAP for fiscal year 2012.

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 20 of the 50 most popular destinations from Wichita.

Table 1 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 1st Quarter 2012 (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.

Table 1

AVERAGE FARES AT SELECT AIRTRAN MARKETS FROM WICHITA

Market	2000	2012	\$ Decrease	% Decrease
Atlanta	\$233.82	\$134.41	-\$106.04	-45.35%
Orlando	\$172.47	\$152.17	-\$31.02	-17.99%
New York/Newark	\$263.85	\$206.82	-\$65.98	-25.01%
Washington, DC	\$203.42	\$181.84	-\$26.35	-12.95%
Tampa	\$202.52	\$165.80	-\$41.99	-20.73%
Fort Lauderdale, FL	\$237.97	\$160.90	-\$85.97	-36.13%
Boston	\$288.91	\$201.75	-\$93.34	-32.31%
Philadelphia	\$277.58	\$209.81	-\$78.60	-28.32%
Baltimore	\$222.56	\$187.84	-\$39.38	-17.69%
Charlotte	\$239.07	\$176.08	-\$70.90	-29.66%
Raleigh/Durham, NC	\$267.37	\$175.73	-\$97.96	-36.64%
Pittsburgh, PA	\$251.87	\$174.54	-\$85.86	-34.09%

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

Table 2 compares the **passenger growth** between 2000 and 2012 from Wichita to the top 50 destinations in 2000. The data illustrates the passenger growth from Wichita due to the existence of AirTran and Frontier. The data shows that markets served by Frontier have had 26 percent passenger growth. Evaluation of these markets reveals a growth of 55 percent to AirTran destinations, whereas the markets that were not served by low cost carriers experienced a decrease in 15 percent of passenger traffic from 2007 to 2012.

Table 2

PASSENGER TRENDS AT WICHITA: The AirTran Effect

Top 50 markets	2000	2012	Change	% Change
TOTALS	766,530	1,088,420	321,890	42%
AirTran Markets	266,850	415,840	147,590	55%
	YE3Q2007	YE1Q2012	\$ Change	% Change
Frontier Markets*	366,890	461,060	94,170	26%
*Frontier began service 10/07				
Markets not served by low cost carriers	248,310	211,520	-36,790	-15%

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

It is important to note that in 2011, 35 of Mid Continent Airport's top 50 markets have low-fare service, with 20 of those being AirTran markets and 15 Frontier markets. Overall, 83 percent of Wichita's traffic is to the top 50 markets⁵.

In 2011, 426,010 passengers flew between Wichita and the 20 eastern destinations served by AirTran. If it is assumed that the average one-way fare to these 20 markets would have been \$60 higher without AirTran (\$228 as opposed to \$176⁶), and that each of those passengers travelled one-way (a very conservative assumption), total savings would be **\$22.2 million**. Given national trends, it is conceivable that fares to the 20 destinations would have decreased somewhat even in the absence of the competition created by the presence of AirTran. Assuming Wichita fares decreased at the same rate as all national rates between 2000 and 2011 (1 percent), and assuming that all fares are one-way, passengers to those 20 destinations would have paid \$60 more (\$236 as opposed to \$176⁶), meaning the 443,590 passengers from Wichita to those markets would have paid an additional **\$25.6 million**.

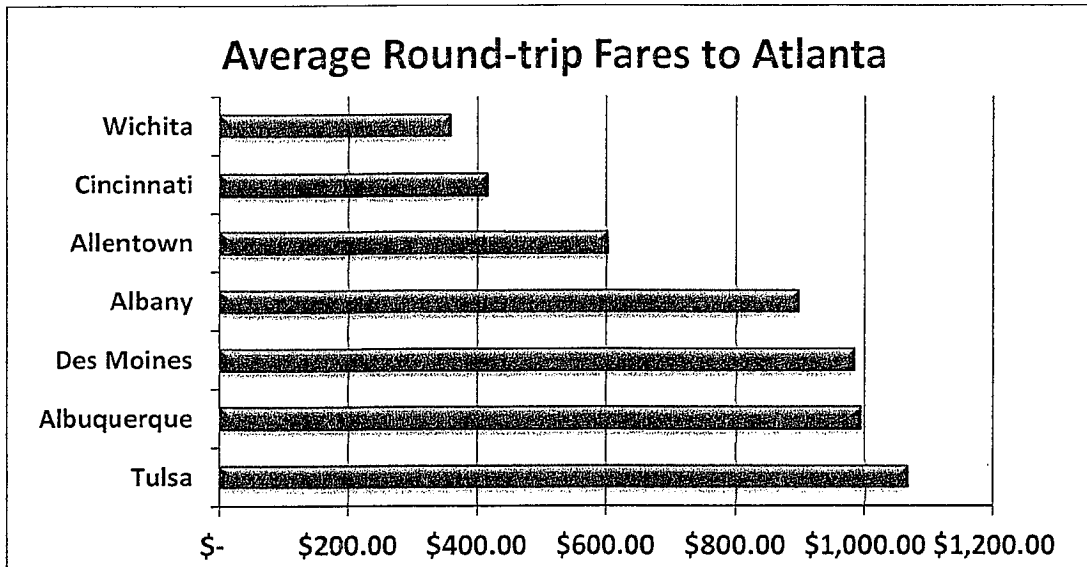
Whether Wichita passengers flew AirTran or another carrier, all of them benefited directly from the price competition created by the presence of a low fare carrier in the Wichita market. The experience of other similar-sized jurisdictions, Tulsa in particular, shows that without AirTran, the average round trip fares between Wichita and Atlanta could be as much as \$1,000.

Chart 1 compares the current round-trip fare from Wichita to Atlanta with the Atlanta fares of similar cities that do not have low-fare competition. This data suggest that if AirTran left the Wichita market, round-trip fares would increase significantly.

⁵ Low fares stimulate traffic to affected destination so the top markets in 2012 are different than those in 2000.

⁶ Fares referenced by Sedgwick County for average one-way fare in 2000 and at year-end 2011.

Chart 1



Source: Wichita Airport Authority, 14-day advance purchase, Depart November 14, return November 15, cheaptickets.com. 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 15 of the top 50 destinations of travelers using the Wichita airport. Since Frontier entered the Wichita market:⁷

- The number of passengers using the Wichita airport for destinations served by Frontier has increased 25 percent; and
- The 15 destinations served by Frontier have seen a 24 percent decrease in average one-way fares.

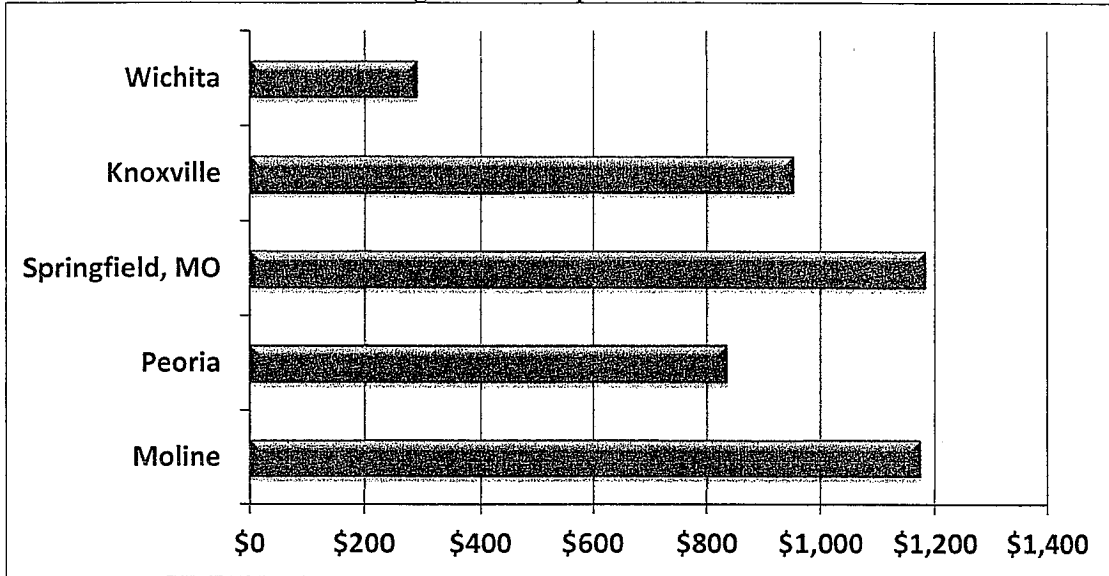
In the third quarter of 2007, immediately prior to Frontier's entry into the Wichita market, the average one-way fare to the 14 destinations served by Frontier was \$226, 18 percent higher than the average of \$192 for all other destinations in the top 50 (including those served by AirTran). For the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

⁷ Source: Wichita Airport Authority

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destinations served by Frontier was \$161, or 11 percent *lower* than the average of \$181 for all other top-50 destinations.

Chart 2
 Average Round-Trip Fares to Denver



Source: Wichita Airport Authority, 14-day advance purchase, Depart November 14, return November 15, cheaptickets.com. These comparison airports were selected because they do not have Frontier-providing routes into Denver.

If Frontier or another low-fare competitor providing western routes were not available, 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 chart 2. 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.

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 125 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.

Table 3 illustrates the changes in fares from Wichita due to the existence of AirTran and Frontier. The table identifies the savings experienced for traffic at Mid-Continent Airport over the period 2000-2011. Evaluation of the information in the table reveals that fares (average purchased domestic total ticket price) from Wichita Mid-Continent Airport have decreased 7.6 percent since 2000. The data also shows that the US domestic average has increased 6.6 percent. In contrast, the two closest airports, Tulsa and Oklahoma City, have experienced 26.2 percent and 23.3 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 \$22 and \$12 lower than those two airports, respectively.

Table 3

Fare Changes From Wichita: The KAAP Effect			
	2000	2011	% Change
Wichita	419	387	7.6% decrease
US domestic	340	364	6.6% increase
Tulsa	302	409	26.2% increase
Oklahoma City	306	399	23.3% increase

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. For 2010 a ranking was provided but omitted in this report.

Data in the table above can also 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 6.6 percent increase between 2000 and 2011, average fares in 2011 would have averaged \$447. That number is \$60 higher than the actual average fare of \$387. This means that the 1,536,354 passengers who departed from Wichita in 2011 (as reported by Mid-Continent Airport in their 2011 Enplanements & Deplanements Activity Report) would have paid an additional **\$92.18 million** without KAAP.⁸

Usage at Mid-Continent Airport⁹

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 half of Kansas counties** (57 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 December 2011 a tag survey was conducted and the findings revealed that on any given day:

- **28% percent of users were from Kansas counties other than Sedgwick County**
- **50% percent of users were from Sedgwick County.**
- **22% 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.

⁸ Source: US Department of Transportation

⁹ Source: Wichita Airport Authority

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 2002 to 2007 the state government received \$5.25 of increased tax revenue for every \$1 of funding provided through the Kansas Affordable Airfares Program.¹⁰

Using different methodology and data sources, in February 2011 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 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.¹¹

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.**

Section 2: Garden City Regional Airport

Regional Airport in Western Kansas

Securing Regional Jet Service

Air Service through the Garden City Regional Airport, with the cooperation of regional partners, meets the statutory objective to be the Western Kansas Regional Airport by:

- Providing competitive jet service through American Eagle. Under K.S.A. 74-50,150 and in the 2011 post audit, it was expressly stated that KAAP should include "a regional airport in western Kansas."
- The City of Garden City was selected to receive \$250,000 of Kansas Affordable Airfares Program funding to secure regional jet service from the regional airport in western Kansas for

¹⁰ Center for Economic Development and Business Research (CEDBR) at Wichita State University: "*Economic and Fiscal Impact of AirTran Airways on the Wichita MSA*," February 2008 is available on the REAP website: www.reap-ks.org/kaap.

¹¹ State of Kansas Legislative Division of Post Audit: "*Affordable Airfares: Reviewing the Benefits Claimed As a Result of State Funding to Lower Airfares*," February 2011 is available on the REAP website: www.reap-ks.org/kaap.

fiscal year 2011 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.

More air flight options

As of April 2012, four of the five airports in western Kansas provide identical service to Denver. The fifth airport (Garden City) provides an additional flight option to fly south to Dallas/Fort Worth.

Table 4
April and May Commercial Enplanements

Airport	Total
Garden City	2,460
Hays	1,779
Dodge City	1,062
Liberal	1,020
Great Bend	134
Total	6,455

Source: Department of Transportation, as reported by Garden City Airport Authority

More competition for air travel

Garden City Regional Airport (GCK) is able to provide more competition for air travel with American Eagle. In 2011, a market retention study for southwest Kansas passengers indicated that 34.5% western Kansans travel out of state to utilize airports. Over a quarter (28.8%) of those passengers traveled to Amarillo to utilize air service to Dallas. GCK is now able to provide a competitive air travel option and retain passengers to utilize a Kansas airport. The net result for the two communities who are partners in the regional jet service venture (Garden City and Dodge City) is that 1,085 more people chose to fly local over these two months than the previous year.

The City of Garden City is one of five communities in western Kansas that receive Essential Air Service (EAS) funding for commercial air service.¹²

- Garden City Regional Airport consistently serves more passengers than the other western Kansas airports and it has long been a priority of local leaders, the regional business community, and US Congressional delegation to look for opportunities to grow Garden City Regional Airport out of the EAS program and into a more commercially viable service provider.
- Garden City conducted a market analysis in advance of the 2011 EAS bidding cycle to recruit regional jet service providers in hopes of ultimately landing a carrier capable of capturing the significant market leakage and growing passenger loads 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 passenger destinations.

Affordable Air Fares for Kansans

The Department of Transportation (DOT) received EAS air carrier proposals on May 2, 2011. American Eagle was the only air carrier that offered a southern hub (DFW) with a regional jet. It was, however, the most expensive proposal. Garden City and Dodge City collaborated to provide a funding solution to the DOT that eliminated one of the Dodge City Great Lakes flights and applied the subsidy savings to the Garden City American Eagle service. The two entities also received a total of \$333,333.33 in funding from the Kansas Affordable Airfares Program to assist in establishing regional jet service from western

¹² Source: Garden City Airport Authority

REAP
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Kansas. On November 14, 2011 the Department of Transportation awarded American Eagle and service began service on April 3, 2012.

Table 5
Price Comparison between American Eagle and Great Lakes as of June 2012
Top domestic and international destinations*

Destination	American Eagle	Great Lakes
Dallas	\$357.25 (26%)	
Denver		\$263.00
Las Vegas	\$392.25 (4%)	
Atlanta	\$359.00 (25%)	
Houston	\$445.50 (3%)	
Chicago	\$481.00 (9%)	
Orlando	\$385.50 (16%)	
Austin		\$407.00
Seattle	\$434.50 (6%)	
Phoenix	\$321.75 (16%)	
San Antonio	\$289.00 (56%)	
New York	\$447.00 (21%)	
San Diego		\$441.00
Los Angeles		\$346.08
Washington DC	\$382.00 (20%)	
Frankfurt		\$955.17
London	\$734.25 (8%)	
Cancun		\$557.58
San Juan	\$527.50 (16%)	
Paris	\$1481.00 (13%)	

Source: Department of Transportation, as reported by Garden City Airport Authority

Note: Data provided represents historically consistent top destinations as well as trending top destinations using a 21-day advance purchase. Air fare reported represents the lower fare to that destination and in instances where American Eagle offered a lower air fare; the percentage decrease is shown in parenthesis.

In comparing the average air fare for the top 15 domestic and 5 international destinations as indicated in Table 5, the new jet service on American Eagle offers western Kansas travelers lower fares to 14 of 20 destinations.

Additional Information

REAP is committed to administering the Kansas Affordable Airfares Program with a focus on its statutory objectives and a commitment to transparency, integrity, and accuracy in reporting. Attached to this report is documentation provided through the official action taken by the REAP Board on July 9, 2012 and the Kansas Affordable Airfares Program Fiscal Year 2012 Financial Status Report. 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

REAP Board Action
July 9, 2012

Item

Kansas Affordable Airfares Program (KAAP) Update

Background

Under K.S.A. 74-50,150, the Regional Economic Area Partnership (REAP) is assigned authority for administering the Kansas Affordable Airfares Program (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;
- REAP shall evaluate and report on the effectiveness of the program, as well as the expenditures from the grant and local matching moneys; and
- REAP shall be prepared to report to the legislative budget committee on program activities.

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 Fiscal Year (FY) 2007.

In 2007, Governor Kathleen 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 for FY 2008. 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 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.”*

Although the audit did find that the program has been successful at addressing the statutory objectives it also included several suggestions to enhance program performance and financial reporting. REAP utilized these recommendations in its most recent program reports: 1) Kansas Affordable Airfares Program Fiscal Year 2011 Report prepared and presented to the Kansas Department of Commerce July 29, 2011; and 2) Kansas Affordable Airfares Program Fiscal Year 2011 Financial Status Report prepared and presented to the Kansas Department of Commerce and the Legislature on January 9, 2012.

In particular, the data in these reports were simplified and the performance report focuses on the key statutory indicators. Furthermore, notations were included to highlight explicit source identification for the data. Future reports will also include notations to explain any changes or corrections in data from year to year.

In the 2011 legislative session, Governor Sam Brownback 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 for FY 2012, and 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 \$4.75 million and the proposal from Garden City be awarded \$250,000, contingent upon approval by the US Department of Transportation.

In the 2012 legislative session, Governor Brownback recommended and the Kansas Legislature appropriated \$5 million for continued funding of KAAP, through Senate Bill 294.

Fiscal Year (FY) 2013 Request for Proposals (RFP) Process

In order to continue the KAAP and maintain transparency, REAP took action to again release an RFP that established a process for fiscal year 2013 (July 1, 2012 through June 30, 2013).

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 2013 proposals was as follows:

April 2	Release RFP
June 15	Deadline for submittals (approximately 53 business days)
July 2	REAP Executive Committee Review
July 9	REAP Meeting/Selection of FY 2013 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 2, 2012, 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 and the City of Wichita through an interlocal agreement.

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 45 eastern and 9 international destinations and 27 western and 4 international 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's average fare is 3.8% less than in 2000. Compared to the US domestic average of a 8.3% increase for the same time, the Bureau has ranked Wichita as the 20th best positioned airport (out of 100) in regards to % change of average fare from 2000 to 2011. This compares favorably to both Tulsa (36.5% increase and ranked 93) and Oklahoma City (30.6% increase and ranked 89).

It is estimated that this program provides an additional 89,000 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 \$41.8 million in reduced fares in 2011, compared to 2000 (note: AirTran was recruited into the Wichita market through local support in 2001 and began operations in 2002. Although 2001 is actually the year before the program started, and would normally make sense to use as the base year, because the terrorist events of 9/11 significantly affected air travel across the country that year, using 2001 as a base would skew comparisons.)

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 20 of the 50 most popular destinations.

- The top 50 markets from the Wichita Airport have experienced a 34% growth in passengers since 2000. Of those top 50, the 20 markets served by AirTran have experienced a 55% growth in passengers, while those destinations not served by AirTran have only experienced a growth of 23% in passengers. (Data from the US Department of Transportation, as reported by the Wichita Airport Authority)
- At the same time, the top 50 markets from the Wichita Airport have experienced a 15% decrease in average one-way fares since 2000. Of those top 50, the 20 markets served by AirTran have experienced a 24% decrease in average one-way fares, while those destinations not served by AirTran have only experienced a decrease of 11% in average one-way fares. (Data from the US Department of Transportation, as reported by the Wichita Airport Authority)
- 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 could be as much as \$1,000.
- Without AirTran, the average one-way fare to these 20 markets would likely have been \$60 more than it actually was, meaning the 426,010 passengers from Wichita to those markets would have paid an additional \$25.6-million for round-trip airfares in 2011.

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 15 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 25%; and
 - The 15 destinations served by Frontier have seen a 24% 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 2011 – the most recent for which data is available – average one-way fares to the 15 destinations served by Frontier were \$175, or 9% lower than the average of \$193 for all other top-50 destinations.

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 KAAP 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, in 2011 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 under K.S.A. 74-50,150 and in the audit conducted in 2011 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 a 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 five communities in western Kansas that receive Essential Air Service (EAS) funding for commercial air service. Garden City Regional Airport consistently served more passengers than the other western Kansas airports and it has long been a priority of local leaders, the regional business community, and US Congressional delegation to look for opportunities 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 in advance of the 2011 EAS bidding cycle to recruit regional jet service providers in hopes of ultimately landing a carrier capable of capturing the significant market leakage and growing passenger loads 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 passenger destinations.
- The Department of Transportation (DOT) EAS air carrier proposals on May 2, 2011. American Eagle was the only air carrier that offered a southern hub (DFW) with a regional jet, however it was the most expensive proposal. Garden City and Dodge City collaborated to provide a funding solution to the DOT that eliminated one of the Dodge City Great Lakes flights and applied the subsidy savings to the Garden City American Eagle service. The two entities also received a total of \$333,333.33 in funding from the Kansas Affordable Airfares Program to assist in establishing regional jet service from western Kansas. On November 14, 2011 the Department of Transportation awarded American Eagle and service began service on April 3, 2012.

- As of April 2012, four of the five airports in western Kansas provide identical service to Denver. The fifth airport (Garden City) provides an additional flight option for western Kansans. Consumers now have the option to fly west to Denver or fly south to Dallas/Fort Worth.
- Garden City Regional Airport is able to provide more competition for air travel with American Eagle. In 2011, a market retention study for southwest Kansas passengers indicated that 34.5% western Kansans travel out of state to utilize airports. 28.8% of those passengers traveled to Amarillo to utilize air service to Dallas. GCK is now able to provide a competitive air travel option and retain passengers to utilize a Kansas airport. The net result for the two communities who are partners in the regional jet service venture (Garden City and Dodge City) is that 1,085 people chose to fly local over these two months than the previous year.
- In comparing the average air fare for the top 15 domestic and 5 international destinations the new option of jet service on American Eagle offers the western Kansas traveler a lower air fare in 14 of 20 comparison destinations. Data provided represents historically consistent top destinations as well as trending top destinations and is provided by the Garden City Airport using a 21-day advance purchase.

KAAP Administration

MOU with Commerce

At the January 4, 2012 Executive Committee meeting, staff notified the Committee of a proposed Memorandum of Understanding (MOU) and reporting requirements proposed by the Kansas Department of Commerce as a result of the 2011 Legislative Audit. The Committee also received an update of the discussions with the Secretary of Commerce on January 3, 2012. From this report the Committee asked staff to negotiate specifics to the required reporting request. Recently the negotiations were completed and the MOU was reviewed and recommended for approval by the Executive Committee.

REAP Administration Fee

The assignments from state statutes and from Commerce required the REAP Executive Committee to determine appropriate measures to support the required administration of the KAAP.

Staff estimated costs associated with the program, not including possible legal expenses, to equate to \$25,000 at a minimum. This amount assumes that \$10,000 is utilized under the MOU with Commerce for an independent review and \$15,000 for staff assistance, production, printing and other expenses related to reporting requirements. However, it was noted that REAP has utilized more than \$15,000 in administration expenses per year prior to the independent review request.

Assuming the State of Kansas continues to provide a lump sum grant of \$5 million, staff recommended that all monies intended for use in the program, including matching funds, be received into the REAP depository, as required by statute, allowing for an initial balance of no less than \$6,250,000 prior to disbursement. Staff also recommended that REAP continue to disburse funds in equal payments on a quarterly basis, with the interest accrued being utilized to maintain the minimum balance required in the airfares account. This interest can also be used to cover future unexpected administrative costs and/or future program use.

Under this plan the first payment will continue to be made immediately upon receipt of required state and local matching monies, and then on the first banking day of the quarter thereafter (October, January, and April).

Interest Based Fee

In 2006 REAP adopted an approach that utilized the interest on the funds received from the State and local jurisdiction to cover administrative costs. This approach included a staff projection of annual accrued interest associated with administration of the Kansas Affordable Airfares Program to be approximately \$98,000 per year. The projection was derived from the assumption that state funding would be received in a timely fashion (by August) and interest would accrue based on the projections that included use of a Treasury Management with Overnight Repurchase Agreement that was yielding a rate of 4.055%.

However, due to several factors the following were the results of this approach:

- In the first year of the program (2006-07) State funding was not received until October 6, 2006; and the account only realized \$51,637 in actual interest earnings.
- In 2007-08 State funding was not received until November 13, 2007; and the account only realized \$27,644 in actual interest earnings.
- In 2008-09 State funding was not received until September 3, 2008; and the account only realized \$21,244 in actual interest earnings.
- In 2009-10 State funding was not received until August 20, 2009; REAP also changed the account to a straight interest bearing account due to changes in the banking industry and uncertainty over federal rates and the account only realized \$13,580 in actual interest earnings.
- In 2010-11 State funding was not received until October 26, 2010; and the account only realized \$6,987 in actual interest earnings.
- In 2011-12 State funding was not received until November 2, 2011; and the account only realized \$3,744 in actual interest earnings.

Alternative Administrative Fee

Staff reviewed common practices of the federal and state governments in grant funding and allocations of administrative fees. For federal grants the amount applied varies; however, the norm is 10 percent of grant funds. State grants vary with each grant, with 5 percent being the set aside for WIA funding (until recently when it was eliminated); however, several grants are as high as 10 percent. Another possible option presented was to apply a set administrative amount, such as \$25,000, \$30,000, etc.

With the new costs associated with reporting, in particular with the MOU with Commerce, staff reported that a set administrative fee is now necessary as use of interest accrued has not been able to sustain a level that could cover all administrative costs.

Recommendations

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 2013 and administrative requirements, 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, 2012; 3) provides for the Frontier revenue guarantee agreement to continue through June 30, 2013; and, 4) provides for the local match of at least 25%.

- 2) That the proposal from Garden City be awarded \$250,000. This proposal: 1) addresses the statutory criteria of more flight options and more competition through a contract with American Eagle jet service through Dallas; 2) addresses the statutory clause of establishing a regional airport in Western Kansas; and 3) provides for the local match of at least 25%.
- 3) That REAP enter into the proposed Memorandum of Understanding with the Kansas Department of Commerce to conduct an independent review of the financial reports and analysis of data submitted by REAP related to the Affordable Airfare Program not to exceed \$10,000.
- 4) That an administrative fee be utilized to cover costs associated with reporting and overall administration and be applied to the State funds as well as both proposals proportionately. This fee will not exceed \$25,000 for the total program for fiscal year 2013 and staff will track associated costs for reporting.

The Executive Committee also reserves the right to re-allocate any of these funds prior to June 30, 2013 if necessary.

Action was approved by REAP Board on July 9, 2012.

Regional Economic Area Partnership (REAP)

Kansas Affordable Airfares Program Fiscal Year 2012 Financial Status Report

	Fiscal Year 2007 (7/1/06 - 6/30/07)	Fiscal Year 2008 (7/1/07 - 6/30/08)	Fiscal Year 2009 (7/1/08 - 6/30/09)	Fiscal Year 2010 (7/1/09 - 6/30/10)	Fiscal Year 2011 (7/1/10 - 6/30/11)	Fiscal Year 2012 (7/1/11 - 6/30/12)
Revenues						
Prior Year Carryover	\$0	\$38,687	\$36,331	\$42,575	\$56,155	\$38,142
Local Program Operator Match (Required)	\$1,670,000	\$1,670,000	\$1,670,000	\$1,625,000	\$1,711,667	\$1,666,667
Additional Local Program Match (Not Required)	\$22,050	\$0	\$0	\$0	\$0	\$0
State Funding	\$5,000,000	\$5,000,000	\$5,000,000	\$4,875,000	\$5,000,000	\$5,000,000
Total Interest Earned for Fiscal Year	\$51,637	\$27,644	\$21,244	\$13,580	\$6,987	\$3,744
Total Program Revenues	\$6,743,687	\$6,736,331	\$6,747,575	\$6,556,155	\$6,774,809	\$6,708,551
Expenditures						
Total Program Payments	\$6,680,000	\$6,680,000	\$6,680,000	\$6,500,000	\$6,711,667	\$6,666,667
Total Administrative Payments	\$25,000	\$0	\$25,000	\$0	\$25,000	\$10,000
Total Remaining Funds to Date	\$38,687	\$56,331	\$42,575	\$56,155	\$38,142	\$31,886

Notes:

- All amounts are rounded to the nearest dollar.
- In FY07 there was \$22,050 from a consortium of 25 Kansas cities and counties for additional local program match.
- In FY09 due to changes in the banking industry and volatility of the money market sweep account, REAP modified this account to become a standard interest bearing account.
- In FY10 REAP released two separate Request for Proposals (RFPs):
 - * The original RFP was released on April 1, 2009 and funding awarded under this request was \$4,875,000, thereby leaving \$125,000 in uncommitted state appropriations.
 - * The FY10 RFP Addendum was released on March 16, 2010 and funding under this request was \$125,000.
- The FY11 financials includes the FY10 Addendum due to receiving of matching funds following June 30, 2010.
- The original submission of this FY12 report was on January 9, 2012 and has now been revised to account for all revenues and expenditures recorded through the end of the fiscal year (July 1, 2011-June 30, 2012), January 9, 2012.