



Affordable Air Fares for Kansans



WICHITA METRO
CHAMBER OF COMMERCE



Sedgwick County...
working for you



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The Challenge...

Kansas is unable to compete with neighboring states in providing affordable air fares. Our state's largest commercial airport, Mid-Continent Airport, is one of the most expensive airports in terms of air fares in the United States. And, the impacts to Kansans are tremendous:

- ***Air fares impact business attraction, retention and jobs.*** Companies choose where they will locate and grow their business based on the “cost of doing business.” One of the most critical elements of economic development and recruiting new companies to Kansas is based on the ease of travel to conduct business with customers. And, air fares are an infrastructure issue – like highways and water. And, just like those resources, we can't lose affordable air service.

Kansas' high air fares impact our ability to compete for business.

- ***Air fares impact families who live in, work in and visit Kansas.*** Individuals and families choose where to live, work and visit based on quality of life issues. Affordable air service keeps most of us employed. The jobs are here in Kansas because we have affordable air fares. And, If it's affordable to travel in and out of Kansas, individuals and families will locate in Kansas.

- ***Air fares impact tourism to Kansas.*** Affordable air fares play a significant role in encouraging travel to Kansas and recruiting conventions to Kansas. Bringing others to our state means bringing dollars to our state for tourism and convention spending.

The bottom line:

In order for Kansas businesses to compete globally, for families to enjoy the opportunity for affordable leisure travel, and to increase tourism we must have a long-term strategy that makes Kansas' Mid-Continent Airport competitive with Missouri and Oklahoma.

Kansas air travel impacts us all.

How do we compete?

Kansas is not naturally competitive with Missouri and Oklahoma when it comes to airline travel for several reasons:

- Populations that we serve & passenger comparisons:*

Missouri	9,749,886	(Kansas City)
Oklahoma	6,436,666	(OKC 3,379,883; Tulsa 3,056,783)
Kansas	1,498,749	(Wichita)
- More service and direct service to Missouri & Oklahoma:*

Daily departures to:

Missouri	217	(Kansas City)
Oklahoma	156	(OKC 86; Tulsa 70)
Kansas	43	(Wichita)

Non-stop destinations:

Missouri	47	(Kansas City)
Oklahoma	35	(Tulsa 18; OKC 17)
Kansas	12	(Wichita)
- "Cash Cow" for airline industry:*

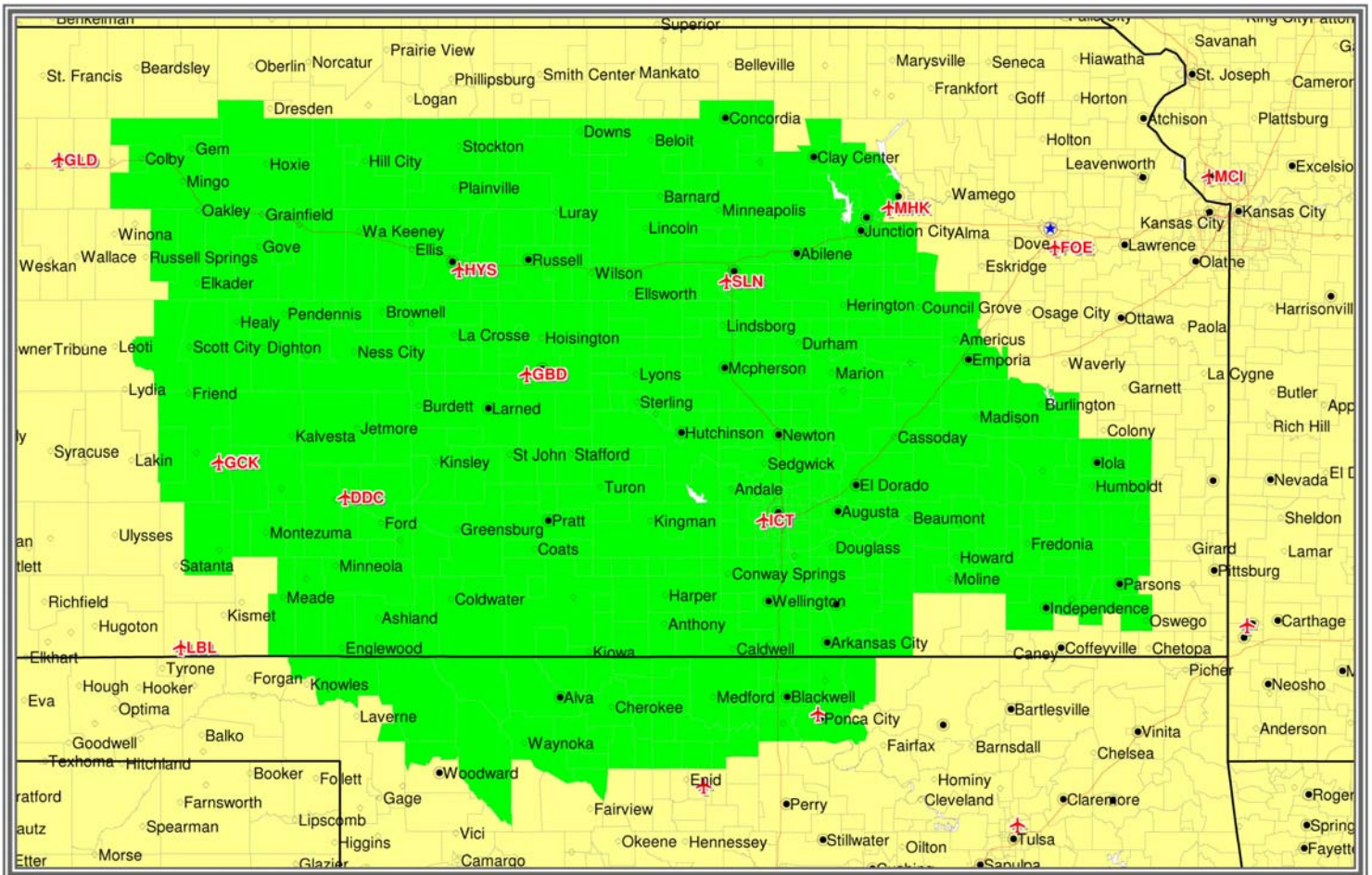
Kansas has limited flights and thus less competition for air fares to destinations – this creates the opportunity for the airline industry to set higher prices than the national average – and Kansans lose.

The higher costs of travel without a low-fare carrier in Kansas:

	Kansas	Missouri
ATL	\$222	\$134
CVG	\$248	\$165
DEN	\$232	\$122
DFW	\$131	\$112
DTW	\$231	\$155
IAH	\$185	\$135
LAS	\$123	\$113
MCO	\$161	\$114
MEM	\$177	\$139
MSP	\$255	\$ 84
ORD	\$242	\$ 79
PHX	\$167	\$104
SLC	\$188	\$130
STL	\$256	\$ 58

* Sabre study (2001) 2000 average fares

Passenger Catchment Area for Kansas' Airport




Kansas' airport is the air service portal for the majority of the state.

- It covers roughly 2/3 of the state and more than 1.3 million residents.
- 66% of passengers using Kansas' airport are from Sedgwick County.
34% of passengers using Kansas' airport are from the rest of the State.


What has happened?

1. Fewer passengers flying out of Kansas


Currently, we are seeing travelers from our Kansas flight catchment area using neighboring states for air travel departure. Of the 37% of passengers in our catchment area that we are losing:



80% of travelers going to Missouri
19 % of travelers going to Oklahoma
(1% to other airports)




And, we can make the assumption that there is also likely a close percentage of the same number of travelers who are flying *into* neighboring states for travel and driving to Kansas for either business or leisure.



What we know is that everyday, there are 175 passengers from our Kansas catchment area who are flying out of Missouri.

So, what does it tell us?

Non-stop flights and low fares = time and money for travelers.



This means Kansas loses and Missouri and Oklahoma win. They not only benefit from ticket revenue, but also entertainment/lodging/parking/rental cars and other revenue that accompanies travel.

2. Businesses are leaving Kansas:

Major corporations and employers of Kansans, including Coleman, Rent-A-Center, Pizza Hut and others have left Kansas. Why? Access to more flights and more affordable air fares, which impacts their cost of doing business.

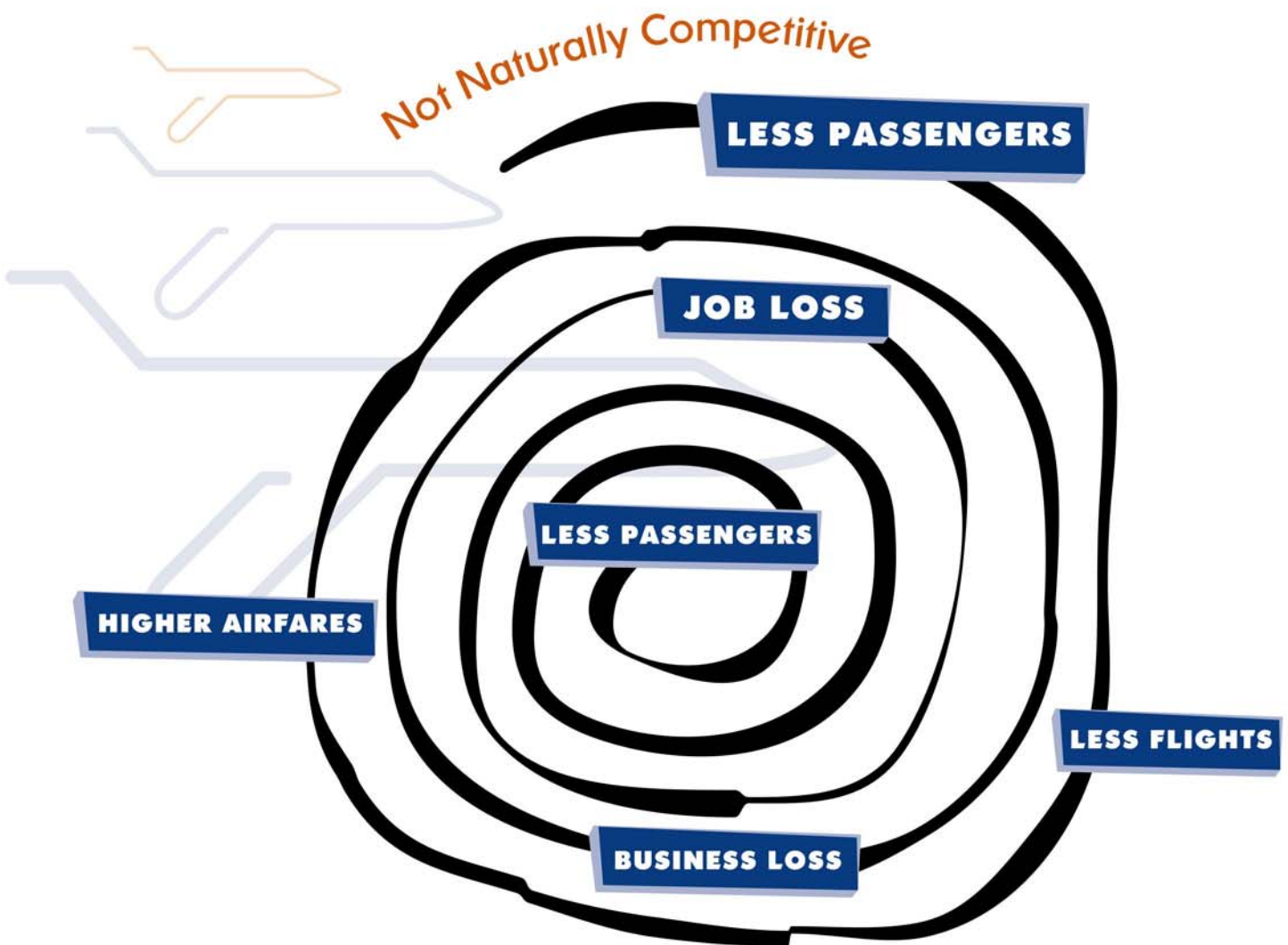
These companies are taking dollars and jobs from Kansas.

The question for Kansans...

“Are affordable airfares important to Kansans?”

What does that mean to Kansans?

Kansas air travel has become a “death spiral” – we have fallen into a cycle of less flights, higher air fares, business loss and job loss. Unless we take some action, the spiral continues and continues and continues...



The question for Kansans...

“Are affordable airfares important to Kansans?”

Affordable air fares are important: A pilot program to impact change

As we witnessed passenger levels decline and major businesses and employers leave, we determined that doing something to make air fares affordable was critical. In the Wichita/Sedgwick County region, a pilot program was developed and implemented to provide more flight options, to provide more competition for air travel, and ultimately to provide affordable air fares for our Sedgwick County businesses and families - which meant affordable air fares for Kansans who use our Kansas airport.

This pilot program, “Fair Fare\$ Program,” was initiated in 2001 by the City of Wichita and the Wichita Metro Chamber of Commerce. “Fair Fare\$” was based on creating a travel bank model to recruit low-fair airlines.

Businesses in the Wichita/Sedgwick County area committed more than \$7.5 million in air travel commitments to help bring affordable air fares to Kansas. And, the City of Wichita created a “Transportation Services Agreement” with low-fare carrier AirTran to provide a revenue guarantee to offset losses, in order to keep AirTran in our air service market.

This investment has helped to provide competitive fares, added flights and reduced the predatory pricing practices of major air carriers.

What did it cost?

City of Wichita investment:

- \$3.5 million in 2002
- \$1.5 million in 2003
- \$2.5 million for 2004 & 2005

Sedgwick County

- \$1 million for 2005

Wichita Metro Chamber of Commerce

- \$650,000 for innovative frequent flyer program

and more than \$7.5 million in air travel commitments from businesses

Affordable air fares are important: A pilot program to impact change

Did the pilot program make an impact?

There were immediate positive results from the Fair Fare\$ pilot program in creating an environment for affordable air travel for not only the Wichita/Sedgwick County residents and businesses, but for all Kansans.

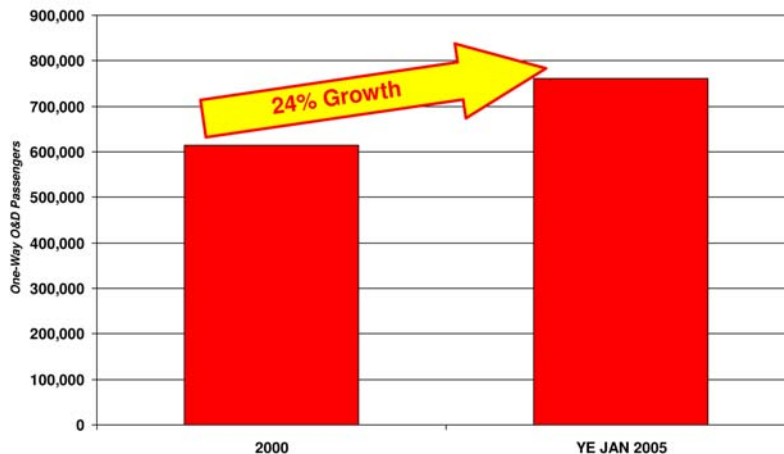
1. Air fares dropped significantly

	Kansas			Missouri		
	2000	2004	% Change	2000	2004	% Change
ATL	\$222	\$104	-53%	\$134	\$102	-24%
CVG	\$248	\$208	-16%	\$165	\$189	15%
DEN	\$232	\$137	-41%	\$122	\$128	5%
DFW	\$131	\$135	3%	\$112	\$155	38%
DTW	\$231	\$191	-17%	\$122	\$155	27%
IAH	\$185	\$210	14%	\$135	\$147	9%
LAS	\$123	\$105	-15%	\$113	\$116	3%
MCO	\$161	\$110	-32%	\$114	\$ 99	-13%
MEM	\$177	\$121	-32%	\$139	\$218	57%
MSP	\$255	\$127	-50%	\$ 84	\$233	177%
ORD	\$242	\$137	-43%	\$ 74	\$ 79	7%
PHX	\$167	\$145	-13%	\$122	\$104	-15%
SLC	\$188	\$145	-23%	\$130	\$145	12%
STL	\$256	\$118	-54%	\$ 58	\$ 57	-2%

* Sabre study (2001) based on 2000 and 3Q2004 average fares

2. Passenger travel increased by 24%

The addition of a low-fare carrier, which impacted flight availability and more affordable fares, increased passenger travel at Kansas' airport by 24%!



* Sabre study (2001)

Affordable air fares are important: A pilot program to impact change

Did the pilot program make an impact?

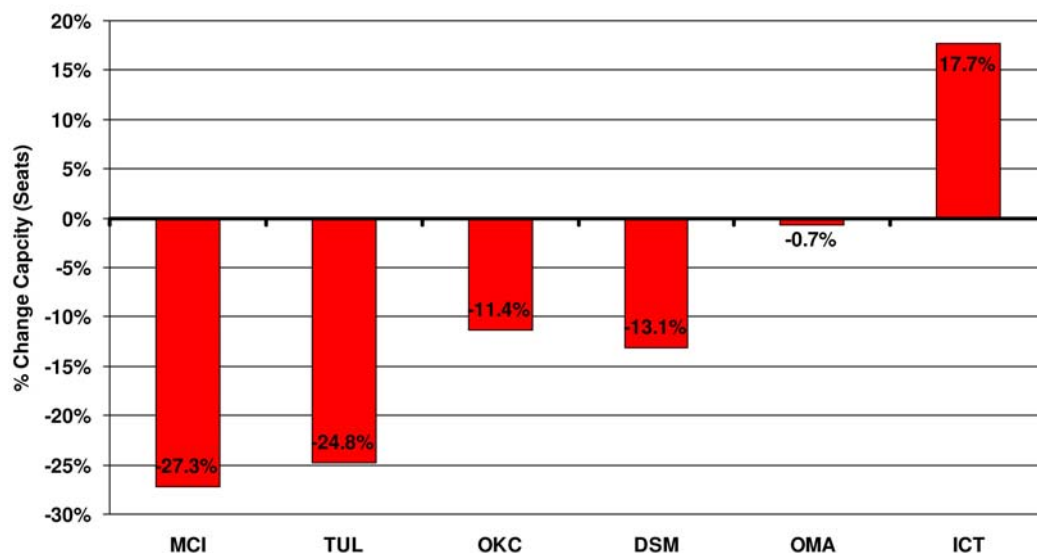
3. Less passenger “leakage” to other markets

Prior to the pilot program, 44% of passengers in our catchment area were driving to Missouri or Oklahoma for air travel departures. With the pilot program, this “leakage” has reduced to 37% of our catchment area.

And, we can assume that we have also reduced the leakage of air travel arrivals to Missouri and Oklahoma by increasing the availability of flights into Kansas and at a competitive rate.

4. Increasing passenger capacity

As a result of the Fair Fare\$ pilot program, the passenger capacity for Kansas’ airport has witnessed a nearly 18% increase, while all of our peer competitors in neighboring states have observed a decline! This is a result of additional flights being made available through the low-fare carrier and the competition with major air carriers.



Sabre study (2001) April 2001 vs. April 2005 seating capacity

**Affordable air fares are important:
A pilot program to impact change**

5. Business Growth & Retention

We know that businesses choose to locate their companies based on the convenience and cost of doing business. Air travel plays a significant role for those companies that compete nationally and globally for customers.

The Greater Wichita Economic Development Coalition specifically targets recruitment of new corporate headquarters operations and assisting the expansion of existing area headquarters. In addition, the Regional Economic Area Partnership (REAP) seeks opportunities to encourage business growth in the South Central region.

Business growth & expansion we have observed in the past year include:

- A new headquarters in Wichita, with 200 new jobs
- An expanding financial services company, with 600 jobs
- An expanding air service, with 180 new jobs
- 3 headquarters expansions with 61 new jobs

6. Actual savings to Kansans

Since the Fair Fare\$ program was initiated, with more competitive air fares, the savings to Kansans have been tremendous!

In 2002:	\$65,766,403
In 2003:	\$88,017,906
In 2004:	\$76,369,584
2005 to date:	\$63,904,611

And, average fare savings for Kansans have ranged from

2002	\$56.64
2003	\$70.15
2004	\$57.47
2005	\$51.26

Affordable air fares benefits Kansans and Kansas!

Affordable air fares are important: A pilot program to impact change

The bottom line:

There have been significant savings for Kansans.

- The traveling public has saved nearly \$300 million since the Fair Fare\$ pilot program was instituted.
- Businesses have been better able to compete without high costs of travel to conduct business.
- We have reaped the reward of attracting and retaining business and witnessed increased revenue through passenger expenditures for lodging, rental cars, food and entertainment.
- The State of Kansas has benefited with increases in sales tax, corporate and personal income tax and other state revenues.
- A public investment of \$9.5 million has resulted in a return on investment of 21 to 1!
- The pilot Fair Fare\$ program has been an investment in the economic security and future of Kansas.

Affordable air fares are important to Kansans!

Short-term fix vs. Long-term solution

Our local Fair Fare\$ program has indicated that affordable air fares are important.

And, while the pilot program helped to address some of the problems, there are still issues to resolve:

1. ***Kansas' airport doesn't serve all markets.*** We still are unable to compete with neighboring states who offer more flights to the destinations that Kansans desire. This requires additional time to make connections in other communities and higher costs.
2. ***Predatory pricing exists*** – in those markets that are served with low-cost carriers, the major airlines compete and offer lower fares to reduce competition.
3. ***Kansans pay higher costs for destination travel that is not served by low-fare carriers.*** These air fares are above the national average, and thus, Missouri and Oklahoma capture passengers from our catchment area for flights.
Example: Destination— Chicago; travelers use Missouri for affordable fares
4. ***Still have "leakage" from our catchment area.*** 37% of passengers from our catchment area are using Missouri airport for travel departures. And, we can assume that there is approximately the same percentage of arriving travelers who use neighboring states' airports.
5. ***Businesses and taxpayers in Wichita and Sedgwick County have carried the burden of the costs*** to provide the benefits of affordable air travel for all Kansans. This is not a solution that can be sustained for the long-term.

A long-term, sustainable and equitable solution for all Kansans is needed, because affordable air fares are important to Kansans.

A Critical Juncture:

1. Short-term fix:

The idea of continuing with a short-term fix for affordable air fares may soon fall upon “donor fatigue.” The business community is to be praised for stepping up to allow Kansas to remain an encouraging business locale through their donations and support. However, at some point, the cost of the short-term fix to prop up affordable air fares may be too costly for business to sustain. It may just become easier to relocate businesses elsewhere, where air travel costs do not significantly impact business expenditures as they have in Kansas.

As well, local government officials have the pressure of using their local taxpayers’ dollars to pay for services for citizens beyond their jurisdictions.

The short-term fix has provided evidence that when affordable air fares are available, Kansans will use Kansas’ airport. But, when the short-term fix cannot be sustained, we have to choose – to do nothing or to create a long-term strategy for affordable air fares.

2. Do nothing:

If Kansas is unable to retain a low-fare carrier, the savings in air fares (ranging from \$63.9 million to \$88 million per year) would be lost. Missouri and Oklahoma would be the major beneficiaries of this loss. And, Kansans would lose, by paying higher prices and having less convenience for air travel.

Based on an economic benefit study conducted by Wichita State University’s Center for Economic Development and Business Research (CEDBR), there are significant impacts both at the local and state level when Kansas is no longer served by a low-fare carrier.

Taking into account the direct impacts and the multiplier effects, ***the total annual economic impact from AirTran’s exit would be a loss of 513 jobs and \$18.4 million in labor income.*** And, the expected long-term economic impact, due to reduction in airline competition at Kansas’ airport, would be a loss of 3,354 jobs and \$111 million in labor income.

A critical juncture:

2. Do nothing (Con't)

The overall expected loss in State revenues would be:

- \$3.7 million sales tax
- \$3.3 million corporate and personal income tax
- \$3.5 million other state revenues
- \$8.7 million net benefits (\$10.5 million total benefits; \$1.9 million total costs)

The overall expected loss in local revenues would be:

- \$411,000 sales tax
- \$10,000 transient guest taxes
- \$2 million other local revenues
- \$2 million net benefits (\$2.4 million total benefits, \$349,000 total costs)

The costs to Kansans without affordable air fares are real. Lost revenue means lost businesses, which means lost jobs – this all means Kansans lose.

3. Long-term Strategy for Affordable Air Fares

As evidenced by the Fair Fare\$ pilot program, competitive air fares are possible when a low-fare carrier is in the market. However, without a long-term solution (5-7 years +), airlines will use predatory pricing practices to drive the low-fare carriers out of the market to recapture their profits.

We have the opportunity to create a long-term, equitable solution that benefits all Kansans. Because affordable air fares affect 2/3 of the state of Kansas, it is more than just a Wichita/Sedgwick County/South Central Kansas issue. It is a Kansas issue. And, it is about the economic security and growth of the state.

Our goal is to create a partnership with the State of Kansas to assure affordable air fares for our future. We want Kansans to continue to see savings averaging \$73 million per year. We believe a small investment from the State of Kansas, \$5 million, will help in creating that long-term strategy. And, the long-term strategy is more than just the cost of a ticket – it's about business attraction, retention and jobs; creating opportunities for leisure travel for Kansas families; and encouraging travel and tourism to Kansas. \$5 million is a small price tag for the reward that Kansans reap with competitive air fares.

Air travel will not go away. But, if Kansas does not have affordable air fares, Missouri and Oklahoma will reap the financial benefits.

We believe affordable airfares are important to Kansans.

A decorative graphic on the left side of the page consists of several stylized paper clips in orange and blue, connected by thin lines that form a zig-zag pattern across the list of organizations.

City of Wichita
Sedgwick County
Wichita Metro Chamber of Commerce
and community businesses
Regional Economic Area Partnership (REAP)
Visioneering Wichita
Greater Wichita Economic Development Coalition (GWEDC)
Central and Western Kansas Building Trades
Fair Fare\$
Wichita Convention & Visitors Bureau
Wichita Independent Business Association (WIBA)
Wichita Area Builders Association (WABA)
Mid-Continent Airport Advisory Board
South Central Kansas Economic Development District
(SCKEDD)
Wichita Downtown Development Corporation (WDDC)
South Central Chambers of Commerce

Next steps in assuring affordable airfares for Kansans.

- Meeting with Governor Kathleen Sebelius to discuss long-term solutions for affordable air fares for Kansans.
- Further define tax-neutral implications for affordable air fares to the state.
- Engage support to encourage a long-term solution for affordable air fares for Kansans.

