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Kansas Affordable Airfares Program 2015 Annual Report to the Kansas Department of Commerce June 11, 2015

This report describes the results of the Kansas Affordable Airfares Program in Wichita / Sedgwick County during the 2015 state fiscal year. The source for many reported statistics is the US Department of Transportation, and as of this date most of the statistics have not yet been reported through the end of the state fiscal year. In all cases, the most recent reported data has been included in this report.

AIRLINE INDUSTRY OVERVIEW

The U.S. airline industry has been a scene of mergers and acquisitions over the past several years leading to the creation of mega airlines that dominate the market. Since each of the large airlines already had a nationwide hub network, the mega airline ends up with two airlines worth of hubs. Airlines have found it more efficient to route their passengers through a single hub per region and have downsized or eliminated hubs that are geographically close to each other. As a result, for many U.S. cities including Wichita, nonstop service to these former hubs has been eliminated. The United States had 63 large and medium-sized hub airports in 2013, down from 68 in 2005, according to the Federal Aviation Administration.

There are now only four major network carriers in the U.S. - American, Delta, Southwest, and United – and Wichita is fortunate to have all four.

2006 Airlines at Wichita:

- AirTran Airways*
- Allegiant Air
- America West*
- American Airlines
- Continental Airlines*
- Delta Air Lines
- Northwest Airlines*
- United Airlines

*AirTran was acquired by Southwest, America West was acquired by USAirways which was acquired by American, Continental was merged with United, and Northwest was merged into Delta.

2015 Airlines at Wichita:

- Allegiant Air*
- American Airlines
- Delta Air Lines
- Southwest Airlines
- United Airlines

*Allegiant is not a network carrier and does not offer daily service.

The criteria that was established in 2006 for the Kansas Affordable Airfares Program assumes that the airline industry remains constant; it is suggested that the criteria take into consideration the changes in the airline industry. For instance, the criteria of increased flight options is difficult considering the consolidation in the industry.

SEDGWICK COUNTY RESULTS

More flight options. More competition.

Southwest Airlines' entrance into the Wichita market has increased options in Wichita to three markets – Dallas Love, Chicago Midway, and Las Vegas. With the elimination of the Wright Amendment in October 2014, Southwest was able to expand service from Dallas Love Field. Access to these three markets impacts fares and connects passengers to a majority of destinations.

- Chicago Midway has 269 daily departures to 70 nonstop cities;
- Las Vegas has 220 daily departures to 61 nonstop cities;
- Dallas Love has 180 daily departures to 61 nonstop cities.

Southwest Airlines in Wichita gives Kansas passengers affordable access to their vast network. Southwest serves 94 destinations across the United States and six additional countries. Southwest Airlines operates more than 3,600 flights a day.

The following table shows destinations, flights and capacity since 2012:

Destination	2012 Flights	2012 Seats	2013 Flights	2013 Seats	2014 Flights	2014 Seats
Atlanta	2,750	256,139	2,064	185,093	1,357	141,201
Chicago-Midway			417	59,645	676	96,682
Chicago-O'Hare	2,840	137,692	2,806	135,200	2,528	128,808
Dallas-Love			418	58,847	683	97,243
Dallas/Fort Worth	1,388	194,320	1,534	194,474	1,406	179,505
Denver	2,095	183,384	1,437	127,314	1,618	136,932
Great Bend					289	2,601
Houston	1,554	77,700	1,597	80,141	1,623	82,907
Las Vegas	236	35,992	423	64,797	523	78,417
Los Angeles	28	4,200	263	19,358	385	29,466
Minneapolis	1,108	55,400	1,123	56,228	1,007	53,159
Phoenix	116	17,784	112	18,542	115	18,740
TOTALS	12,118	962,761	12,194	999,639	12,210	1,045,661

➤ **Highlights:**

- **97 more flights in 2014, a 1% increase over 2012**
- **82,900 more seats in 2014, an increase of 9%**
- **9 Nonstop destinations in 2012; 12 nonstop destinations in 2014**

Capacity.

The airline industry is continuing to practice capacity discipline, adding capacity during heavier travel seasons and reducing capacity during lighter travel seasons. The airlines are also replacing smaller regional jets with larger aircraft, but reducing frequency. This results in basically a zero change in available seats. As is shown in the following table, in Wichita, while flights have increased 1% from 2012 to 2014, available seats have increased 9%.

Airline Name	2012 Flights	2012 Seats	2014 Flights	2014 Seats
AirTran Airways Total	1,043	122,031	-	-
Allegiant Air Total	380	57,976	301	49,616
American Airlines Total	2,632	250,796	2,478	232,277
Continental Airlines Total	266	13,300	-	-
Delta Air Lines Total	2,818	189,658	2,364	194,360
Frontier Airlines Total	609	58,766	-	-
SeaPort Airlines Total	-	-	289	2,601
Southwest Airlines Total	-	-	1,724	246,114
United Airlines Total	4,370	270,234	5,054	320,693
Grand Total	12,118	962,761	12,210	1,045,661

Fare and Passenger Impact.

Southwest Airlines competes directly with United Airlines and American Airlines on the Chicago route, and with American Airlines on the Dallas route (although Southwest serves different airports). Southwest and Allegiant both serve Las Vegas, however, Allegiant's service is not daily and does not offer connections. With Las Vegas being our top market, having daily nonstop service on Southwest to that hub is crucial. Southwest began service June 2013. In order to show comparisons of fare and passengers impacts before Southwest started service to today, the table below compares third quarter 2012 with third quarter 2014.

Destination	2012 Q3 Average Fare	2014 Q3 Average Fare	2014 v. 2012 Fare Change	2012 Q3 Passengers per Period	2014 Q3 Passengers per Period	2014 v. 2012 Pax Change
Chicago-O'Hare	\$215	\$177	-18%	6,523	6,269	-4%
Chicago-Midway	\$178	\$130	-27%	210	4,899	2231%
Avg/Total:	\$196	\$153	-22%	6,733	11,168	66%
Dallas/Fort Worth	\$265	\$129	-51%	3,525	4,945	40%
Dallas-Love	\$232	\$99	-57%	5	3,470	68482%
Avg/Total:	\$249	\$114	-54%	3,530	8,415	138%
Las Vegas*	\$112	\$115	3%	11,693	12,288	5%

➤ Highlights

- **Chicago fares are down 22%; passengers up 66%**
- **Dallas fares are down 54%; passengers up 138%**
- **Las Vegas fares are up 3%; passengers up 5%.**

***Las Vegas was served by low-cost carrier Allegiant prior to Southwest starting service to Las Vegas, so fares are not impacted as much. Allegiant does not offer daily service with connections.**

According to the Department of Transportation, Bureau of Transportation Statistics, Wichita's fare was **30.5% less** in the 4th quarter of 2014 than it was in the fourth quarter of 2000 (prior to the start of the Affordable Airfares Program, which operated until 2006 without state funding), and **4% less** than in 2012. The 4th quarter 2014 fare was up just .5% from 4th quarter 2013. This compares to a U.S. average fare increase of 2%. Passenger traffic is 31% higher in 4Q 2014 than 4Q 2000, and was up 2% from 4Q 2013.

	4Q 2000	4Q 2011	4Q 2012	4Q 2013	4Q 2014	2000-2014	2013-2014
Inflation Adjusted Avg Fare at Wichita	\$565.42	\$419.24	\$407.91	\$390.83	\$392.71	30.5%	0.5%
Non-Directional O&D Passengers at Wichita	145,033	177,495	177,348	186,583	190,704	31.0%	2.0%

Source: U.S. DOT Origin & Destination

To illustrate the significance of Wichita's fare decrease from 2000 to 2014, compare the fare change at Kansas City, Oklahoma City, Tulsa, and the U.S. average fare in the table below. Wichita had the largest decrease from 2000 to 2014. Wichita's average fare dropped 4% from 2012 to 2013 which is attributed to Southwest Airlines' competition. Wichita's fare is now less than two of its three competitors, Oklahoma City and Tulsa, and in line with the U.S. average fare.

INFLATION ADJUSTED FARES, 4Q 2000 – 4Q 2014							
	4Q 2000	4Q 2011	4Q 2012	4Q 2013	4Q 2014	% Change 2000-2014	% Change 2013-2014
U.S. average fare	\$458.93	\$383.31	\$382.72	\$384.93	\$392.66	-14.4%	2.0%
Kansas City	\$378.89	\$346.33	\$359.43	\$366.11	\$371.85	-1.9%	1.6%
Oklahoma City	\$412.80	\$415.70	\$414.63	\$403.44	\$415.13	0.6%	2.9%
Tulsa	\$407.88	\$429.13	\$440.04	\$427.35	\$426.79	4.6%	-0.1%
Wichita	\$565.42	\$419.24	\$407.91	\$390.83	\$392.71	-30.5%	0.5%

Note: Fares are based on domestic itinerary fares. Itinerary fares consist of round-trip fares unless the customer does not purchase a return trip. In that case, the one-way fare is included. 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 paid at the airport or onboard the aircraft. Averages do not include frequent-flyer or "zero fares" or a few abnormally high reported fares.

To further illustrate the importance of Southwest Airlines in the Wichita market, the chart below shows the impact on fares and passengers to Atlanta and Denver after AirTran and Frontier discontinued service. Without Southwest's competition in the market, we can expect fares to all markets to increase substantially.

Destination	Q1 2013		Q1 2014		% Diff	
	Passengers	Fare	Passengers	Fare	Passengers	Fare
Atlanta	9,162	\$152	5,126	\$245	-44%	61%

AirTran exited the Atlanta market 6/1/2013

Destination	Q3 2012		Q3 2013		% Diff	
	Passengers	Fare	Passengers	Fare	Passengers	Fare
Denver	10,308	\$112	5,391	\$209	-48%	87%

Frontier exited the Denver market 11/15/2012

Usage at Eisenhower Airport.

Airport 'retention rates' are the percentage of air travelers residing in an airport's catchment area that use that airport. 'Leakage' is the term used to refer to passengers residing in the catchment area that use a more distant airport. In 2001, Wichita's retention rate was 56%.

Based on the most recent catchment study for the year ending September 2012, Wichita's retention rate has increased to 76.4%. The analysis examined data contained in Airline Reporting Corporation tickets with zip codes in the 150-mile radius of Wichita. In addition, the study examined tickets purchased within a 100-mile radius around Garden City. Data includes:

- Traditional travel agent data reported by the zip code of the travel agency
- Online travel agent data (sites such as Orbitz) reported by the customer zip code used to purchase the ticket
- Captured for the analysis were nearly 320,000 tickets, including both domestic and international traffic using one of the following airports: Wichita, Kansas City, Oklahoma City, Tulsa, Manhattan, Fayetteville/Springdale, Dodge City, and Garden City

The study shows that Wichita sees some benefit from reverse leakage:

- 13.8% from the Manhattan Primary catchment area
- 25.4% from the Oklahoma City Primary catchment area
- 34.9% from the Dodge City/Garden City Primary catchment area
- 26.0% from the Tulsa Primary catchment area

Over the Thanksgiving holiday in 2014, a tag survey of cars parked in the parking lots at Wichita Eisenhower National Airport reveal:

- 36% of users were from Kansas counties other than Sedgwick
- 41% of users were from Sedgwick County
- 22% of users were from out of state (this includes rentals as well as personal vehicles, but all are users of the airport).

Economic Benefit.

The method that has been used to determine fare savings is a simple calculation of multiplying the difference in fares times the enplaned passengers. In the most recent full year, 2014, the 733,115 passengers who departed from Eisenhower Airport saved an estimated \$127,635,322 because of the Affordable Airfares Program. Since 2002 the accumulated fare savings is estimated to be \$1,574,546,597.

Time Frame	Enplaned Passengers	BTS Inflation Adjusted Avg Fares	Diff. from 2000 Passengers	Diff. from 2000 Fares	Fare Savings
YE 2000	560,963	\$580.51			
YE 2001	510,407	\$544.42			
YE 2002	592,899	\$423.51	31,936	(\$157.00)	(\$93,085,143)
YE 2003	657,173	\$379.24	96,210	(\$201.27)	(\$132,269,210)
YE 2004	692,163	\$407.27	131,200	(\$173.24)	(\$119,910,318)
YE 2005	678,483	\$431.16	117,520	(\$149.35)	(\$101,331,436)
YE 2006	684,178	\$461.30	123,215	(\$119.21)	(\$81,560,859)
YE 2007	722,443	\$421.16	161,480	(\$159.35)	(\$115,121,292)
YE 2008	746,812	\$412.60	185,849	(\$167.91)	(\$125,397,203)
YE 2009	706,305	\$359.73	145,342	(\$220.78)	(\$155,938,018)
YE 2010	731,210	\$372.77	170,247	(\$207.74)	(\$151,901,565)
YE 2011	723,747	\$405.73	162,784	(\$174.78)	(\$126,496,501)
YE 2012	713,421	\$410.44	152,458	(\$170.07)	(\$121,331,509)
YE 2013	709,430	\$407.74	148,467	(\$172.77)	(\$122,568,221)
YE 2014	733,115	\$406.41	172,115	(\$174.10)	(\$127,635,322)
TOTAL SINCE 2002	9,091,379				(\$1,574,546,597)

Notes:

- *Low-fare service began in 2002; the 9/11 attack skewed fares and passenger traffic. 2000 is used as the base year throughout.*
- *Passengers are one-way*
- *Source for Passengers: U.S. DOT Origin & Destination*
- *Source for Fares: U.S. Bureau of Transportation Statistics*
- *BTS average 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, such as baggage fees, paid at the airport or onboard the aircraft. Averages do not include frequent-flyer or "zero fares" or a few abnormally high reported fares.*

This is only an estimate and does not take into consideration Wichita's fare relative to the US average fare fluctuations, which is very difficult to determine. One methodology adjusts fare differences between the US and ICT, which results in estimated cumulative fare savings of \$493,309,409 since 2002. Another methodology adjusts fare differences at ICT only, which results in estimated cumulative fare savings of \$938,276,073 since 2002. Regardless of the method used, the conclusion can only be that passengers using the Wichita / Sedgwick County airport have enjoyed substantial fare savings since 2002 as a result of the Affordable Airfares Program.

In 2009, the State of Kansas commissioned an economic impact study to measure the impact of aviation in Kansas. In that study, 2,325 jobs were supported by spending from commercial air service visitors using Wichita. Annual payroll as a result of spending by commercial air service visitors using Wichita amounted to \$52,135,400. Total output related to commercial air service

visitors using Wichita in 2009 amounted to \$189,416,300. (Output, or economic activity, is defined as annual gross sales and average annual capital expenditures for on-airport businesses and activities). This was accomplished despite the economic downturn causing passenger traffic to drop 7% from the total of the prior year.

Submitted by:

Chris Chronis
Chief Financial Officer
Sedgwick County, Kansas
525 N. Main, Ste. 823
Wichita KS 67203
316.660.7130
Chris.Chronis@sedgwick.gov