



Legislative Post Audit Performance Audit Report Highlights

Highlights

Affordable Airfares: Reviewing the Benefits
Claimed as a Result of State Funding to Lower Airfares

Report Highlights

February 2011 • 10PA15

Audit Concern

Since 2008, Regional Economic Area Partnership (REAP) officials have presented an annual report summarizing the expenditures of the State annual grant and local matching funds and the results obtained. Recently, legislators have expressed an interest in knowing whether those reports present an accurate assessment of what is being accomplished with the money.

Other Relevant Facts for the Question

The City of Wichita created its own affordable airfare program known as Fair Fares in 2001. This was a partnership with private and public interests.

Since fiscal year 2007, the State has contributed \$5 million annually to the State Affordable Airfares Fund.

The funding was intended to accomplish three main goals:

- More flight options
- More competition for air travel
- Affordable air fares for Kansas, including a regional airport in western Kansas

AirTran entered the Wichita market in May 2002 and Frontier entered the market in December 2007. Both airlines had revenue guarantee contracts to provide low-cost air services at Mid-Continent airport in Wichita.

AUDIT QUESTION: *Has the Regional Economic Area Partnership used reasonable methods to evaluate the effectiveness of the program, and do its reports accurately present what is being accomplished with the State grants?*

AUDIT ANSWER and KEY FINDINGS:

- Since Wichita's original program began in 2002, fares have decreased while passengers and flights have increased.
 - In 2002 average round trip airfares in Wichita were more than 20% above the national average. Fares have fluctuated over the years in relation to the national average. By 2009, the average fare in Wichita was about 5% the national average.
 - Both the number of passengers flying out of Wichita and the number of available flights increased. The numbers of passengers and flight options have fluctuated over the years, but not as dramatically as fares.
- The Regional Economic Area Partnership's (REAP) annual reports on the program contains numerous inconsistencies and inaccuracies.
 - They used 2001 as the baseline year for showing program impact in 2007 and 2000, as the baseline in the next year.
 - REAP reported a 17% decrease in fares from 2000 to 2007, while the U.S. Department of Transportation data shows a 12.7% decrease.
 - REAP reported a 23% increase in passengers in 2009 over 2000 while the U.S. Department of Transportation data actually showed a 38% increase.
- REAP claims the annual investment of State and local moneys has resulted in more than 9,700 average annual jobs and a return on investment for the State of \$5.25 for every \$1 invested. These impacts are more than double what they should be because of key methodological errors and the use of inaccurate data. Despite this it still appears the State is getting a positive return from the State Affordable Airfares Fund.
- We also found that overall accountability for the State funds is lacking.
 - REAP officials provide information to the Legislature based on unverified data.
 - No one appears to review the REAP annual financial reports.

Appropriations Committee

Date February 14, 2011

Attachment 3

We Recommended

- The Legislature should consider ways to verify that the information it receives is correct.
- REAP officials should simplify the data they report, report on all key indicators, be consistent and explain any changes or corrections in data from year to year.

Agency Response: In general, the Department of Commerce agreed with the report and our recommendations,

REAP agreed with our overall assessment of the program but did not agree with all of our recommendations.

The Center for Economic Development and Business Research at Wichita State University raised numerous concerns regarding our critique of its 2008 economic impact study. After careful review of their response, we continue to think our analysis is correct and the economic impact of both jobs and return on investment are overstated.

HOW DO I GET AN AUDIT APPROVED?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.ks.gov
Website:
<http://kansas.gov/postaudit/>

Scott Frank
Legislative Post Auditor

For more information about this
audit report, please contact

Lynn Retz
(785) 296-3792
Lynn.Retz@lpa.ks.gov

Appropriations Committee

Date February 14, 2011

Attachment 3-2