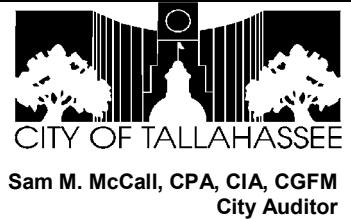


# **Project Progress Report #1**

**As of February 28, 2002**



## ***“AirTran Transportation Services Agreement”***

**Report #0214**

**April 9, 2002**

### **Summary**

**On September 12, 2001, the City Commission authorized staff to execute a transportation services agreement (agreement) with AirTran Airways, Inc. (AirTran). The intent of the agreement was to bring to Tallahassee an airline that offered quality service and affordable airfares.**

As part of this initiative, the Mayor and each Commissioner requested the City Auditor to monitor the AirTran agreement to assist in their ongoing monitoring efforts and future deliberations. Therefore, the Office of the City Auditor determined contract compliance, made an assessment of AirTran’s impact on airfares, and surveyed users to determine the level of utilization and satisfaction.

To date, we can report that:

- ✓ the City and AirTran complied with the agreement requirements;
- ✓ airfares in the current State contract are lower than the prior State contract; effective November 15, 2001, and continuing through November 14, 2004, AirTran is the State of Florida contract air carrier. Previously, from March 2001 to November 2001, there was no State contract to destinations covered in the agreement (Atlanta, Tampa, and Miami);
- ✓ thus far, AirTran airfares to destinations covered in the agreement (Atlanta, Tampa, and Miami) are lower than airfares previously offered by other airlines serving Tallahassee;
- ✓ city air travelers during December 2000 through February 2001 paid more for airfares to Atlanta, Tampa, and Miami than city air travelers during December 2001 through February 2002;
- ✓ thus far, other airlines have reduced their airfares in apparent response to AirTran entering the Tallahassee market;

- ✓ introductory airfares to destinations covered in the agreement (Atlanta, Tampa, and Miami) are consistently lower than the State’s contract price. If or when airfares increase, governments will be able to continue to benefit by taking advantage of state contract airfares;
- ✓ 66% of all city employees flying on official city business flew on AirTran;
- ✓ survey responses from local business partners and city travelers indicate a high level of satisfaction (4 out of a possible 5) with AirTran services;
- ✓ survey respondents to our AirTran customer survey reported flying on AirTran 58% of the time and also indicated a very high level of satisfaction (4.4 out of a possible 5);
- ✓ we requested but were unable to obtain a copy of a report AirTran was to provide the State for the quarter ending December 31, 2001. This data should be available for future reports; and
- ✓ the county has not established a policy requiring the use of AirTran when feasible nor has it established a process to accumulate data on usage of AirTran by its employees. This data should also be available for future reports.

There is room for improvement, in that:

- › local business partners reported 16% of the total flights they took to Atlanta, Tampa, or Miami were on AirTran, whereas 58% of our citizen survey respondents indicated flying on AirTran and 66% of all city travelers flew on AirTran; and
- › city air travelers need to consistently provide the required written justification when not flying on AirTran.

## Scope, Objectives, and Methodology

The Office of the City Auditor is providing assurance and consulting services to assist management throughout the implementation of the AirTran Transportation Services Agreement. As part of these services, we will be issuing reports throughout the first year of the agreement.

Our objectives for this report are to:

- determine compliance with the agreement;
- report on the impact on airfares to the markets covered by the agreement; and
- provide an independent assessment of the utilization of AirTran by the City, state, county, and local businesses (business partners).

To achieve our objectives, we recalculated the guaranteed revenue amounts reported by AirTran, conducted selected tests to verify that advertisements were published as invoiced to the City, and reviewed invoices and supporting documentation. In addition, we monitored the use of AirTran by City employees traveling on official city business and surveyed the City's business partners and city employees that traveled between November 15, 2001, and February 14, 2002.

Subsequent to February 28, 2002, the Office of the City Auditor provided an AirTran Customer Survey on the City's web site. During the period March 8, 2002, through March 22, 2002, we received 299 valid responses.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as applicable.

## Background

It is an initiative of the City leaders to expand Tallahassee's air service options to promote a higher level of economic viability for the community and to provide citizens and businesses with more reasonable fares. Specifically, the City's goals are to:

- secure a low fare carrier;
- improve interstate and intrastate competition and service; and
- increase intrastate jet service.

On September 12, 2001, the City Commission authorized staff to execute an agreement with AirTran to provide airline services to Tallahassee. The agreement states that the City will provide the following monetary assistance during the year:

1. \$350,000, paid in twelve equal monthly installments of \$29,167, to offset AirTran's facility costs at Tallahassee Regional Airport.
2. Up to \$250,000 for marketing used to directly promote the jet services.
3. Up to \$1.5 million as a revenue guarantee for the daily flight segments between Tallahassee and Atlanta, Tallahassee and Tampa, and Tampa and Miami.
4. Fifty percent (50%) reduction in landing fees for intra-Florida jet flights. This reduction is provided for all airlines providing intra-Florida jet flights at the Tallahassee airport. This is a one-time fee reduction determined at the end of each fiscal year.

At the September 12<sup>th</sup> City Commission meeting, Leon County Commissioner Tony Grippa and Ms. Sue Dick, President of the Chamber of Commerce and Economic Development Council appeared before the City Commission in support of the agreement. While Leon County, the business community, and the state vocally support the agreement, the City is the only organization providing direct financial guarantees to AirTran.

The City had been pursuing AirTran to provide air service in order to generate competition between airlines and bring down the airfares. AirTran began serving Tallahassee with jet service on November 15, 2001, providing daily nonstop service to Atlanta and Tampa, and service to Miami. AirTran also provides air services to other destinations, primarily through its hub in Atlanta. See Figure 1 below.

Figure 1: AirTran Destinations



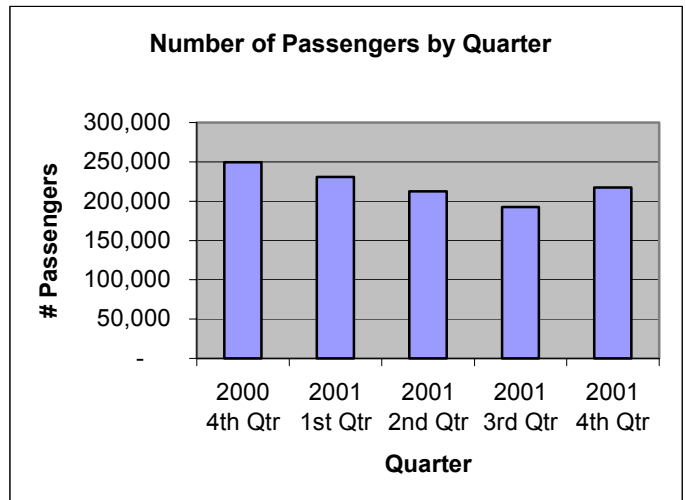
With the decrease in airfares, it was expected there would be an increase in air travel by both business and leisure travelers. In addition, it was expected that all airlines would benefit if travelers used the Tallahassee Regional Airport versus driving to surrounding cities to use their air services.

After the September 11, 2001, terrorist attacks, there was a significant decrease in air travel across the country. The Tallahassee Regional Airport experienced a 34% decrease in September 2001. According to an analysis of "Post-September 11 Air Service Changes at Tallahassee Regional Airport" by Back Aviation Solutions and Nammack Associates, Inc., air travel has decreased across the country. Possible reasons for the decrease could be the perceived increase in time needed to clear security at the airport and the public's increased concern about safety at the airport and when flying.

Figure 2, to the right, shows the number of passengers by quarter, as reported in the Tallahassee Regional Airport's Passenger Air Traffic Report. The report provides the total number of passengers by quarter that have flown into and out of Tallahassee. While there was an overall 8% decrease in passengers for the year 2001, the airport did experience an increase in passengers in the fourth quarter of 2001. The Tallahassee Regional Airport also reported a monthly increase of 4% from

December 2000 to December 2001 and of 7% from January 2001 to January 2002.

Figure 2



**Contract Compliance**

As stated above, the agreement provides that the City is financially liable for four (4) components:

- 1) monthly installments to offset facility costs;
- 2) marketing,

- 3) revenue guarantees, and
- 4) landing fee reduction.

component. As of February 28, 2002, the City has paid \$250,000 of the agreement to AirTran.

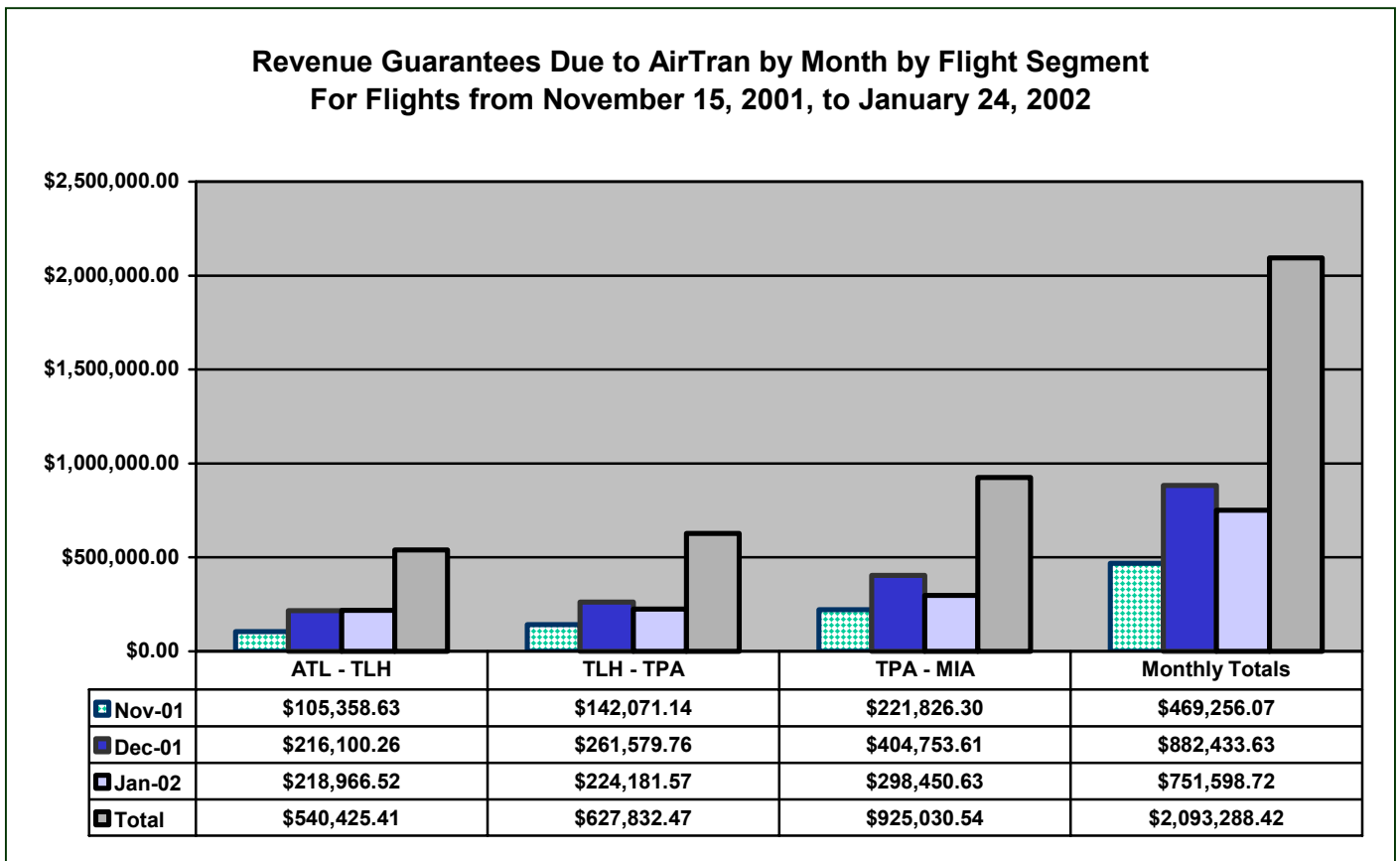
Table 1 below provides the status of each agreement

**Table 1**  
**Monetary Components in the Agreement Between the City and AirTran Airways, Inc.**

Monthly installments of \$29,167 to offset Facility Costs (totaling \$350,000)	◆ As of February 28, 2002, none of the \$350,000 has been paid to AirTran. The Aviation department will initiate payment upon receipt of proper invoices.
Marketing (up to \$250,000)	√ AirTran has invoiced and the City has paid the full \$250,000 (2/19/002) per the contract to offset a total of \$423,299.86 expended by AirTran during October-December 2001.
Revenue Guarantees (up to \$1.5 million) See Figure 3 below.	◆ From November 15, 2001, to January 24, 2002, over \$2 million of losses (actual revenues were less than the expected revenues) accumulated. As a result, payments due from the City to AirTran reached the maximum of \$1.5 million. See Figure 3 below.  The City received a letter from AirTran on February 27, 2002, requesting \$1.5 million in five monthly installments of \$300,000 each, and the City is processing the payment.
Landing fee reduction (50%) for intra-Florida jet flights	○ This amount will be determined at the end of fiscal year 2002.

Table Legend:    √   Completed Satisfactorily            ◆   In Progress            ○   Not Due Yet

**Figure 3**



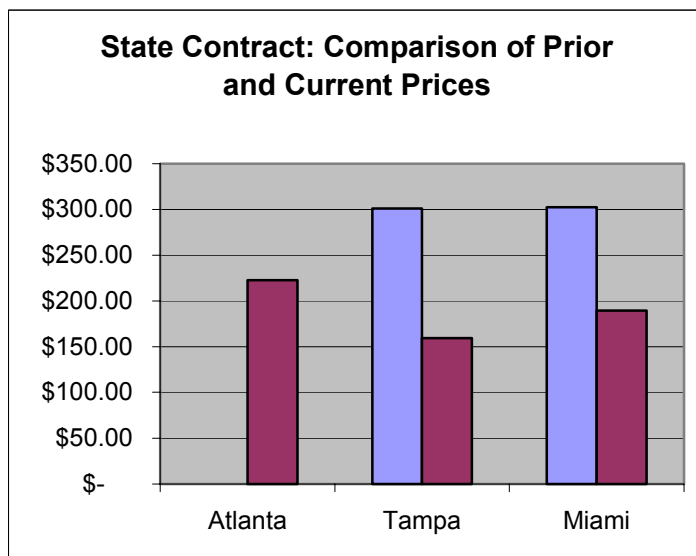
In summary, we can provide assurances that the City and AirTran have complied with all terms of the agreement to date. As of February 28, 2002, one payment of \$250,000 has been made to offset the marketing costs, and the following additional amounts are due to AirTran.

- Three of the twelve monthly installments of \$29,167 totaling \$87,500.
- The full amount for the revenue guarantees totaling \$1.5 million, to be paid in five monthly installments of \$300,000.

## Impact on Airfares

In November 2001, AirTran became the contractor for scheduled aircraft transportation for the State of Florida through November 2004 ("Scheduled Aircraft Transportation," #991-840-02-1). AirTran has provided set prices for selected destinations for government travelers when travel is made for official government business. Government travelers include, but are not limited to: legislators; state, city, and county employees; school boards, and university and community college employees. The state contract fares are available on all tickets purchased during the contract term and do not require advance purchasing. The previous state contract covered the period of December 1999 through February 28, 2001, leaving a gap from March 2001 to November 2001. Not all prior state contract airfares were available to city and county travelers. The current contract prices to Tampa and Miami are almost 40% less than the prior contract prices.

**Figure 4**



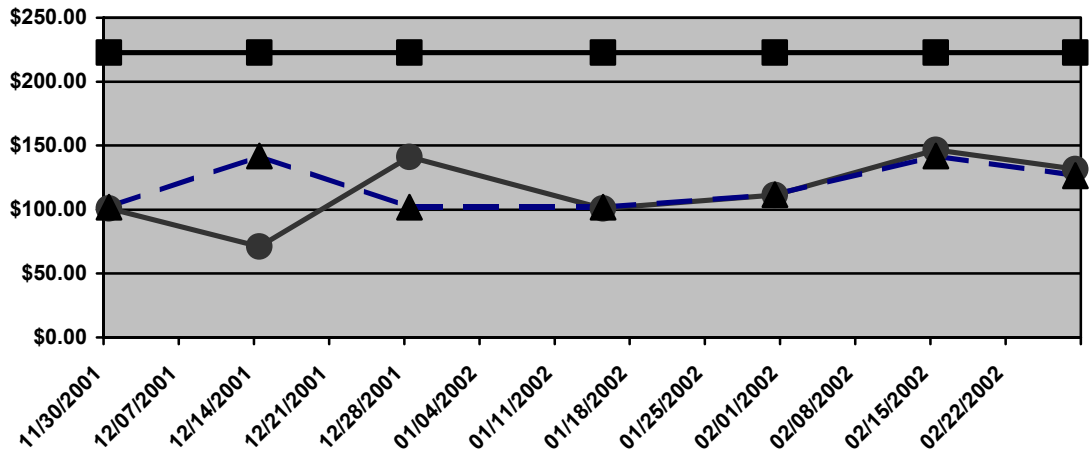
Note: Prior contract did not have a price set to Atlanta

The current contract with AirTran provides set airfares to Tampa, Miami, and selected out-of-state destinations. The prior contract provided set airfares to Tampa, Miami, Pensacola, Jacksonville, Ft. Lauderdale, Key West, West Palm Beach, Orlando, and selected out-of-state destinations.

To analyze the impact that AirTran's lower prices have had on the airfares at the Tallahassee Regional Airport, our office tracked round trip airfare prices every two weeks since November 15, 2001, for the three Tallahassee destinations served by AirTran: Atlanta, Tampa, and Miami. We utilized the AirTran website (<http://www.airtran.com/>) and the Expedia.com travel website (<http://www.expedia.com/dailyhome/default.asp>). Every two weeks we selected flights 14 days in advance to get comparative airfare information. We noted the highest airfare and the lowest airfare for each destination from AirTran and from all airlines via the Expedia.com web site.

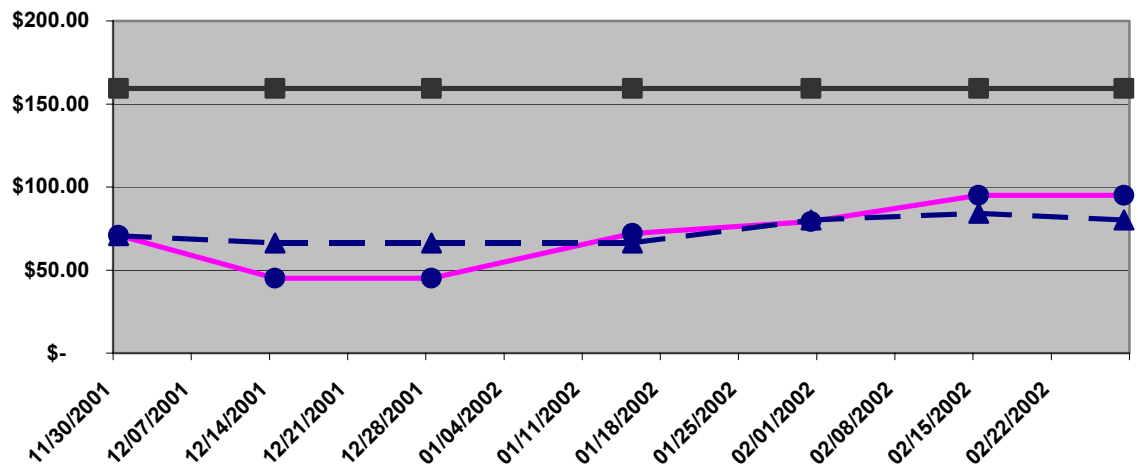
In addition, a review of City travel records indicated that City air travelers during December 2000 through February 2001 paid more for airfares to Atlanta, Tampa, and Miami than city air travelers during December 2001 through February 2002. Since AirTran started service at the Tallahassee Regional Airport, airfares have been consistently lower than the state contract price for these three destinations. Figures 5, 6, and 7 below show a comparison of the lowest airfares to Atlanta, Tampa, and Miami.

**Figure 5**  
**Tallahassee to Atlanta**  
**Lowest Round Trip Airfares per State Contract, Expedia.com, and AirTran**



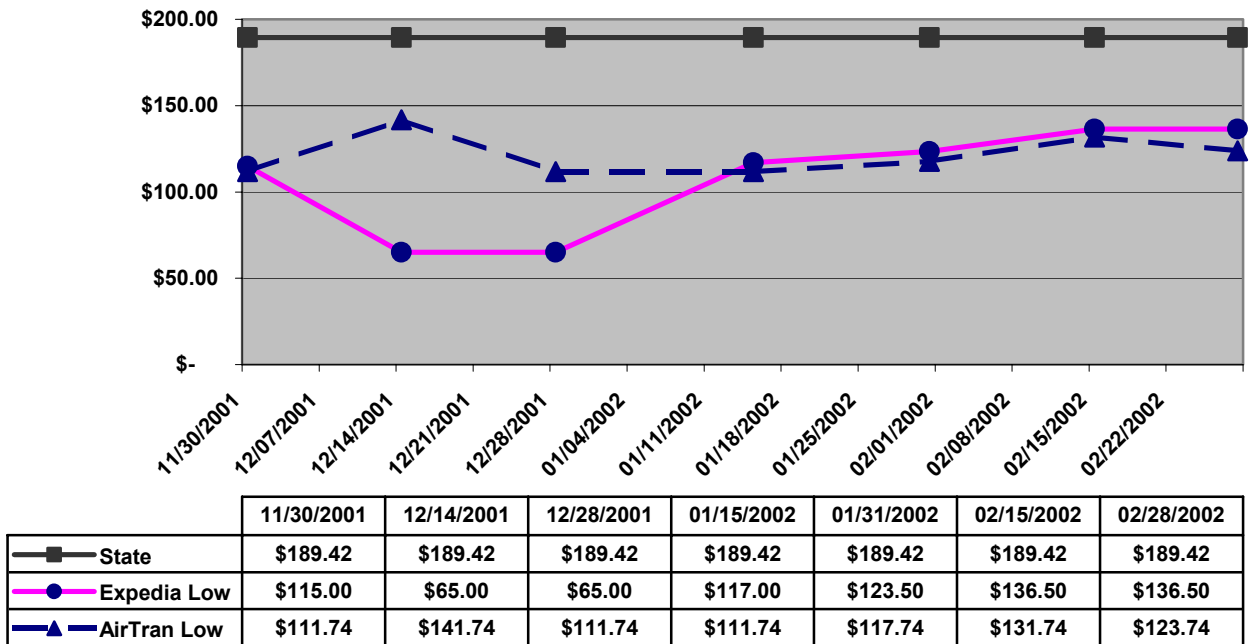
	11/30/2001	12/14/2001	12/28/2001	01/15/2002	01/31/2002	02/15/2002	02/28/2002
State	\$222.58	\$222.58	\$222.58	\$222.58	\$222.58	\$222.58	\$222.58
Expedia Low	\$101.00	\$71.00	\$141.00	\$101.00	\$111.50	\$146.50	\$131.50
AirTran Low	\$101.82	\$141.82	\$101.82	\$101.82	\$111.82	\$141.82	\$126.50

**Figure 6**  
**Tallahassee to Tampa**  
**Lowest Round Trip Airfares per State Contract, Expedia.com, and AirTran**



	11/30/2001	12/14/2001	12/28/2001	01/15/2002	01/31/2002	02/15/2002	02/28/2002
State	\$159.42	\$159.42	\$159.42	\$159.42	\$159.42	\$159.42	\$159.42
Expedia Low	\$71.00	\$45.00	\$45.00	\$72.00	\$79.23	\$95.00	\$95.00
AirTran Low	\$70.66	\$66.24	\$66.24	\$66.24	\$80.24	\$84.24	\$80.24

**Figure 7  
Tallahassee to Miami  
Lowest Round Trip Airfares per State Contract, Expedia.com, and AirTran**



In summary, our analysis showed that since November 15, 2001, the airlines have been very competitive with their round trip airfares from Tallahassee to Atlanta, Tampa, and Miami. In addition, all of the airfares from AirTran and the other airlines have been lower than the State of Florida contract airfares.

### Utilization of AirTran

Our third objective is to provide an independent assessment of the utilization of AirTran by the City, state, county, and local businesses (business partners).

In October 2001, the City Manager issued an "Air Travel Policy" requiring "city employees to use AirTran for official city travel whenever possible and practical.....If an employee finds a lower price to a final destination served by AirTran on another airline, AirTran reservations shall be given the opportunity to match the other carrier's price."

To determine the utilization of AirTran, we:

- reviewed travel expense forms for all City employees using air travel for transportation to

identify what airlines were used for air travel between November 15, 2001, and February 14, 2002 (Table 2);

- reviewed 41 returned surveys of 46 (89% response rate) City employees regarding their level of satisfaction (Table 2);
- reviewed 11 returned surveys of 21 (52% response rate) key Tallahassee businesses and Leon County to determine the extent that AirTran was utilized and levels of satisfaction (Table 3);
- requested but were not able to obtain a copy of the "Summary Sales Report" that AirTran was to provide to the Florida Department of Management Services for the quarter ending December 31, 2001. The next report is due for the quarter ending March 31, 2002. This data should be available for future reports; and
- noted that the county has not established a policy requiring the use of AirTran when feasible, nor has it established a process to accumulate data on usage of AirTran by its employees. This data should be available for future reports.

Table 2

City Employees	
	This Reporting Period
Total number of air travelers	74
Number of final destinations served by AirTran	56 (76% of 74)
Number of final destinations not served by AirTran	18 (24% of 74)
Number of employees that flew on AirTran for all or part of a trip	49 (66% of 74)
Number of employees that did not fly on AirTran	25 (34% of 74)
Number of those not flying on AirTran that provided written justification	8 (32% of 25)
Number of City employees reporting that have flown to Atlanta, Tampa, or Miami	41 (55% of 74)
Number of employees that flew on AirTran to Atlanta, Tampa, or Miami	32 (78% of 41)
Number of those not flying on AirTran to Atlanta, Tampa or Miami	9 (22% of 41)
Number of those not flying on AirTran to Atlanta, Tampa or Miami that provided written justification	4 (44% of 9)
Number of City air travelers that were surveyed	46 (62% of 74)
Number of returned surveys	41 (89% of 46)
Level of satisfaction with AirTran service (1 lowest to 5 highest)	4.0
Most common reasons for not flying on AirTran	<ol style="list-style-type: none"> <li>1. Travel was to another destination</li> <li>2. Flights were not convenient</li> </ol>
Most common compliments:	<ul style="list-style-type: none"> <li>• Good prices</li> <li>• Courteous and friendly staff</li> <li>• New jets provide fast flights</li> </ul>
Most common complaints:	<ul style="list-style-type: none"> <li>• Inconvenient schedule</li> <li>• Destinations were not served</li> <li>• Seats are uncomfortable</li> </ul>

In summary, City employees are generally satisfied (averaging 4 out of a possible 5) with the air services provided by AirTran. Over half of the flights during this reporting period were to one of the three destinations covered in the City's contract with AirTran (Atlanta, Tampa, or Miami). City air travelers have flown on AirTran all or part of a trip 66% of all trips taken during

the period. The most common reasons for not flying AirTran were also related to the most common complaints: destination was not served or the flight schedule was inconvenient. An area that can be improved is the low number of employees (17 of 25) that did not comply with City policy by providing written justification on the appropriate travel forms as to why they were not flying on AirTran.



Table 3

<b>Business Partners (local businesses)</b>	
	<b>This Reporting Period</b>
Number of business partners surveyed	21
Number of returned surveys	11 (52% of 21)
Number of travelers that have flown to or through Atlanta, Tampa, or Miami	289
Number of travelers that flew on AirTran to or through Atlanta, Tampa or Miami	47 (16% of 289)
Level of satisfaction with AirTran service (1 lowest to 5 highest)	4.0
Most common reasons for not flying on AirTran	<ol style="list-style-type: none"> <li>1. Travel was to another destination</li> <li>2. Flights were not convenient</li> </ol>
Most common compliments:	<ul style="list-style-type: none"> <li>• Good prices</li> <li>• Courteous and friendly staff</li> <li>• New larger jets provide fast flights</li> </ul>
Most common complaints:	<ul style="list-style-type: none"> <li>• Limited flights and times</li> <li>• Destinations were not served</li> <li>• Longer check-in process</li> </ul>
Number of business partners that issued a policy regarding use of AirTran Airways	1

In summary, business partners are generally satisfied (averaging 4 out of a possible 5) with the air services provided by AirTran. Business partners reported that their air travelers are using AirTran on approximately 16% of all air travel. Once again, the most common reasons for not flying on AirTran were also related to the most common complaints: destination was not served or the flight schedule was inconvenient.

### **Citizen Survey**

Subsequent to February 28, 2002, the Office of the City Auditor provided an AirTran Customer Survey on the City's web site. The survey was made available on March 6, and on March 8 the *Tallahassee Democrat* published a story about the survey. During the period of March 6 through March 22, 2002, we received 299 valid responses. To determine if a response is valid, we checked for duplicate IP addresses and duplicate wording. We also eliminated those responses with only comments not related to the AirTran survey. Of the 299 respondents, 293 reported flying on AirTran. These 293 respondents reported flying a total of 1,194 times; 688 of these trips or 58% were on AirTran.

We requested information regarding air travel occurring after November 15, 2001 (when AirTran began providing service in Tallahassee). Seventy-two respondents (24%) reported not flying on AirTran because the destination was not served by AirTran, 50 (17%) reported that AirTran flight times were not convenient, 19 (6%) indicated that the cost on other airlines was less, and 10 (3%) indicated that the cost may be higher on other airlines but they preferred not to fly on AirTran.

The 293 respondents were asked to identify up to three benefits of flying on AirTran. Of the 293, 230 respondents identified an aggregate number of 511 unduplicated benefits. These were grouped into five categories. See Table 4.

Table 4

<b>Benefits of Flying AirTran (per Citizen Survey)</b>		
<b>Benefits</b>	<b>Number Responses</b>	<b>Percentage of 230 Respondents</b>
Price, low cost, etc.	201	87%
Jets, new planes, etc.	107	47%
On-time, schedule, etc.	47	20%
Courteous staff	65	28%
Miscellaneous items	91	40%

We also asked respondents to identify up to three least favorable aspects of flying on AirTran. Of the 293 total respondents, 36 respondents reported no least favorable aspects while 146 respondents identified an aggregate

number of 194 unduplicated least favorable aspects of flying on AirTran. These were grouped into four categories. See Table 5.

Table 5

<b>Least Favorable Aspects of Flying AirTran (per Citizen Survey)</b>		
<b>Least Favorable Aspect</b>	<b>Number Responses</b>	<b>Percentage of 146 Respondents</b>
Poor flight times, schedules	96	66%
Poor customer service	32	22%
No cabin service in the air	12	8%
Miscellaneous items	54	37%

The overall level of satisfaction was 4.4 on a 5-point scale.

Resident Opinion Survey” was released in early March. There were two questions on the survey relevant to AirTran and airfares shown in Table 6 below.

In addition, the Kerr and Downs Research “2002

Table 6

<b>Relevant 2002 Resident Opinion Survey</b>				
Do you support or oppose using your tax dollars to subsidize operations of the Tallahassee Airport if it results in lower airfares for Tallahasseeans?	<b>Support</b>	<b>Oppose</b>	<b>Don't Know</b>	
	61%	30%	9%	
In your opinion have airfares out of Tallahassee, on average, increased, decreased, or stayed the same over the past six months?	<b>Increased</b>	<b>Decreased</b>	<b>Remained the Same</b>	<b>Don't Know</b>
	10%	35%	22%	33%

The results of the Kerr and Downs 2002 Resident Opinion Survey indicate that there appears to be citizen support for the City to use tax dollars to subsidize airport operations if it results in lower airfares for citizens. As noted above, our review of City travel records indicated that city air travelers to Atlanta, Tampa, and Miami during December 2001 through February 2002 paid less than city air travelers during December 2000 through February 2001.

## Conclusion

In conclusion, during this reporting period:

- ✓ We can provide assurance that the City and AirTran are complying with the agreement requirements.
- ✓ Airfares to the destinations covered in the agreement (Atlanta, Tampa, and Miami) were consistently lower than the state's contract price.
- ✓ 66% of all city employees flying on official city business flew on AirTran during this reporting period.
- ✓ City survey respondents indicated flying on AirTran 58% of the time.
- ✓ Survey responses from local business partners and city travelers indicate a high level of satisfaction (4 out of a possible 5) with AirTran services.
- ✓ Citizen survey respondents indicated a very high level of satisfaction (4.4 out of a possible 5).

There is room for improvement, in that:

- ◆ Local business partners reported 16% of the total flights they took to Atlanta, Tampa, or Miami were on AirTran, whereas 58% of our citizen survey respondents indicated flying on AirTran; and 66% of all city travelers flew on AirTran; and
- ◆ City air travelers need to consistently provide the required written justification when not using AirTran.

As a result of issues identified to date, we intend to:

- ◇ Provide the Tallahassee Regional Airport a detailed listing of comments received relating to AirTran and the airport; and
- ◇ Provide to the Tallahassee Economic Development Council responses received from business partners and request from the Council a listing of any additional business partners that we should contact.

During the next quarter, our office will continue to monitor compliance with the agreement as well as analyze the impact on airfares; utilization of AirTran by City, County, State, and local business travelers; and the level of air travelers' satisfaction with AirTran. In addition, we will continue to collect input from citizens regarding their satisfaction with AirTran services on our Internet site (<http://www.talgov.com/citytlh/auditing/index.html>).

We would like to thank the Aviation Department, AirTran, City air travelers, City business partners, and City survey respondents for their cooperation, assistance, and participation during the development of this progress report.

## Appointed Official Response

### City Manager:

I have reviewed Project Progress Report # 1, related to the "AirTran Transportation Service Agreement," with my staff. We concur with your report as presented. I have requested Mike Wright, Assistant City Manager - Transportation and Development, to discuss the level of AirTran utilization by the business community with Sue Dick, President of the Chamber of Commerce/Director Economic Development Council, to see what she may be able to do to encourage greater participation. Also, I have requested David Reid, Department of Management and Administration, to reject and return any travel request submitted by a department that does not contain a statement concerning why AirTran was not used when the method of travel was air travel.

Copies of this progress report #0214 (project #0206) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([dooleym@mail.ci.th.fl.us](mailto:dooleym@mail.ci.th.fl.us)).

AirTran Transportation Services Agreement Implementation Audit is being conducted by:  
 Beth Breier, CPA, CISA, Senior IT Auditor  
 Jim Carpenter, Audit Manager  
 Sam M. McCall, CPA, CIA, CGFM, City Auditor