

*oppaga*

# Progress Report



December 2000

Report No. 00-21

## State Airfare Contract Reinstated in 1999 After 1998 Suspension Failed to Produce Results

### *at a glance*

At the suggestion of local officials who contended that state term contract for air carrier service might be a disincentive for airlines for improving service to Tallahassee, the 1998 Legislature authorized the Department of Management Services to suspend the contract.

Our 1999 report found that the suspension failed to produce all the desired results. The number of commercial flights at the Tallahassee airport did increase slightly, although jet service declined and the cost of fares charged the public did not materially change. However, state air travel costs increased substantially. The 1999 Legislature rescinded the initiative, and the department entered into a new contract in December 1999.

The new contract provides standardized airfares for government travel and fully unrestricted and refundable tickets. However, the contract fares are not necessarily the least expensive available for travel to certain cities.

While the availability of commercial airline service in Tallahassee decreased overall since our 1999 report, the City of Tallahassee has recruited a new air carrier, Northwest Airlinck.

### Purpose

In accordance with state law, this progress report describes action by the Department of Management Services (DMS) in response to a 1999 OPPAGA report.<sup>1,2</sup> This report presents our assessment of the extent to which the findings and recommendations included in our report have been addressed.

### Background

For many years, the state of Florida has contracted with airlines to obtain price discounts for air carrier service for state employees. The Department of Management Services establishes annual term contracts with air carriers through a bid process. The contract establishes discounted airfares for travel between certain city pairs (e.g., Tallahassee to Tampa). The state contract enables state employees to purchase fully refundable, unrestricted tickets, which means tickets can be bought, exchanged, or refunded at any time prior to departure.

<sup>1</sup> Section 11.45(7)(f), *F.S.*

<sup>2</sup> *Preliminary Review of the Suspension of the State Contract for Air Carrier Service for Flights to and from Tallahassee*, OPPAGA [Report No. 98-70](#), February 1999.

## Progress Report

While the state air carrier contract has enabled the state to obtain economical airfares, concerns had been raised that it also adversely affected the price and availability of commercial air service at the Tallahassee Regional Airport. Over time, several airlines had reduced or eliminated service to Tallahassee, with public airfares from Tallahassee being higher than those of other Florida cities. One of the reasons given for this situation had been that the state term contract reduced the profit that airlines can earn in the Tallahassee market, inducing them to abandon the market and/or raise prices for non-state government passengers.

To address these concerns, the 1998 Legislature authorized DMS to conduct a pilot project and suspend the state contract for air carrier service. Pursuant to Ch. 98-310, *Laws of Florida*, the state contract was suspended on August 1, 1998, for flights to and from Tallahassee. However, the state contract was still in effect for travel among other Florida city pairs (e.g., Miami to Orlando). The department was authorized to reinstate the contract if state travel costs increased by at least 20% during the pilot project period.

## Prior Findings

The pilot project was intended to induce airlines to increase service to the Tallahassee Regional Airport and/or reduce the airfares charged to the public. OPPAGA's 1999 review determined that:

- the availability of commercial airline service had improved slightly during the pilot project period, although jet service had declined slightly;
- the cost of commercial air travel to and from the Tallahassee airport had not changed materially during the pilot project; and
- the number of passengers using the Tallahassee Regional Airport had declined slightly during the pilot project.

The Legislature recognized that the potential existed that the pilot project could result in increased cost of travel for state government employees. To be fiscally responsible, a safeguard was put into place that should travel costs to the state increase by at least 20% the contract may be reinstated. However, it was not specified whether the 20% threshold applied to air travel costs to state agencies or to total state travel costs.

OPPAGA's 1999 review made two observations.

- State air travel costs had increased under the pilot project for flights that formerly were under the state term contact. However, we were unable to determine the precise fiscal impact of the pilot project because the state's accounting system did not maintain summary data on the costs to state agencies to travel by air.<sup>3</sup>
- Total state travel costs increased during the pilot project by 9% over the same period in the prior fiscal year.<sup>4</sup> While airfares paid by state agencies had increased, we could not determine to what extent the change in total state travel costs resulted from the pilot project.<sup>5</sup>

OPPAGA identified three policy options the Legislature could consider regarding the pilot project, either collectively or individually.

- Because the pilot project had not resulted in improved air service to Tallahassee during its first six months, discontinue the pilot and reinstate the contract for air carrier service in and out of Tallahassee.
- Given the market may not have had enough time to react to the elimination of the state contract through improved services and/or lower airfares, allow the

<sup>3</sup> To assess the pilot project's impact on state travel costs, we surveyed state agency administrative services directors and reviewed a sample of state travel vouchers.

<sup>4</sup> August 1997 through December 1997.

<sup>5</sup> Other factors such as increased incidence of state employee travel and higher hotel costs, could also account for the higher total state travel costs.

pilot project more time to operate while taking steps to reduce its negative impact on state travel costs.

- Consider other initiatives to develop improved commercial airline service to Tallahassee, such as supporting a community partnership or aggressively pursuing “regional jet” service.

## Current Status

**State air carrier contract reinstated.** The 1999 Legislature responded to OPPAGA’s report by repealing the pilot project. DMS entered into a contract in December 1999 establishing state fares for air travel between Tallahassee and 26 cities in the United States. No bids were received for air travel between Tallahassee and 28 other cities. Tickets purchased under this contract do not have any restrictions such as advanced purchase or length of stay requirements.

Air travel tickets purchased under state contract should save the state money because the tickets do not require advance purchase, are unrestricted, and are fully refundable. This is beneficial because some state trips must be made with little advance notice to respond to emergencies. However, the contract prices are not necessarily the least expensive tickets available for travel to certain cities. DMS

recognized this in a memorandum to state agencies that stated that the price of air travel tickets purchased under the state contract is to be considered the highest/ceiling price for travel between Tallahassee and contracted cities. The memorandum recommends that travelers attempt to find lower fares via travel agents, airlines, or Internet reservation systems.

Section 112.061, *Florida Statutes*, provides that non-contract carriers can only be used when their use is cost-effective, considering the salary of the traveler and any additional travel cost incurred in using the contract provider. Exhibit 1 shows that, although some airfares found on the Internet are higher than those available under state contract others were as much as one third lower.

**Other initiatives pursued to improve airline service.** DMS has participated in meetings with various airline executives to explore improvements in air service to Tallahassee. These carriers include AirTran, Southwest, Gulfstream, and Northwest. As a result of an active recruiting campaign, the City of Tallahassee recruited Northwest AirlinK to operate four daily flights (later expanded to six daily flights) between Tallahassee and Memphis beginning in July 2000. This has increased competition in the Tallahassee market.

### Exhibit 1

Comparison of Prices for Round-Trip Flights to and from Tallahassee <sup>1</sup>

City	State Contract	Next Day Internet Purchase		7-Day Advance Internet Purchase		14-Day Advance Internet Purchase	
		Low	High	Low	High	Low	High
Miami	\$278.00	\$428.00	\$529.50	\$423.50	\$472.00	\$303.00	\$481.00
Pensacola	608.60	407.00	598.00	407.00	488.00	407.00	447.50
Tampa	184.00	187.00	231.00	187.00	231.00	187.00	231.00

<sup>1</sup> Internet purchase prices included in this exhibit were obtained at one point in time. Airfares vary by time of day, seat availability, sales promotions, etc.

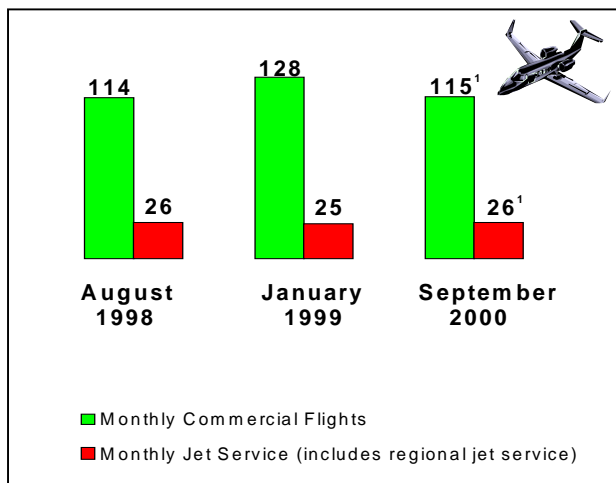
Source: Department of Management Services and Expedia.com, as of October 16, 2000.

## Progress Report

**Scheduled flights have decreased.** However, even with the additional flights offered by Northwest Airlink, the availability of commercial airline service (including jet service) has decreased to roughly the same number of flights as before the pilot project (see Exhibit 2). According to Tallahassee Regional Airport data, the number of scheduled monthly commercial flights decreased by 13 between January 1999 and September 2000. Commercial jet service flights using large commercial jets (e.g., Boeing 737) decreased by 13 monthly flights, but this decline was offset by the addition of 14 flights using 50-seat regional jets, for an overall increase in commercial jet service of one flight during this period.

### Exhibit 2

The Number of Scheduled Commercial Flights at Tallahassee Regional Airport Has Declined Since the Contract Was Reinstated



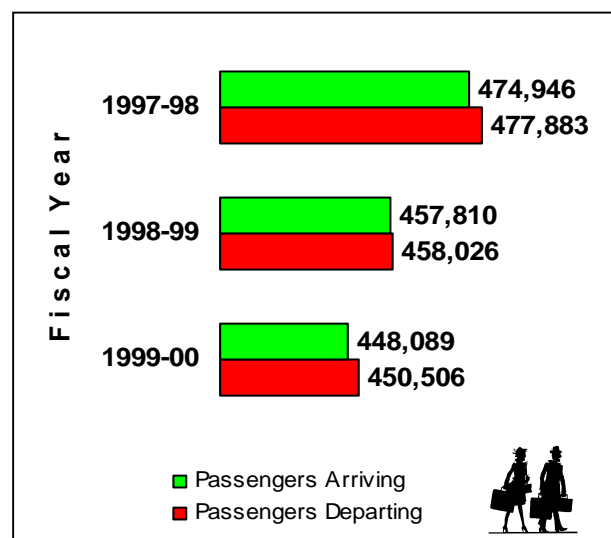
<sup>1</sup> Does not include seven commercial flights (four jet and three prop) effective for one flight only, or when scheduled flights were discontinued and were in operation for less than one-half a month.

Source: City of Tallahassee.

**Airport usage has continued to decline.** Data provided by the Tallahassee Regional Airport shows that the number of passengers using the Airport in state Fiscal Year 1999-2000 declined approximately 2% (17,000 passengers) over the previous year (see Exhibit 3). The level of customer demand can substantially affect flight availability and airfare prices. This trend could complicate future efforts to improve air carrier service in Tallahassee.

### Exhibit 3

Passenger Usage at Tallahassee Regional Airport Has Declined Slightly Since Fiscal Year 1998-99



Source: City of Tallahassee.

OPPAGA provides objective, independent, professional analyses of state policies and services to assist the Florida Legislature in decision making, to ensure government accountability, and to recommend the best use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475).

**The Florida Monitor:** <http://www.oppaga.state.fl.us/>

Project supervised by Debbie Gilreath (850/487-9278)

Project conducted by Richard Woerner (850/487-9217)

John W. Turcotte, OPPAGA Director