

Memorandum



Date: June 30, 2009

To: Honorable Chairman Dennis C. Moss
and Members, Board of County Commissioners

11(C)1
Supplement

From: George M. Burgess
County Manager

A handwritten signature in black ink, appearing to read "Burgess", written over the printed name of George M. Burgess.

Subject: Key Non-Aeronautical Initiatives Being Contemplated by the Miami-Dade Aviation Department To Preserve the Future Competitiveness of MIA

Over the last few years, the annual cost of operating Miami International Airport (MIA), including the servicing of its debt, approximated \$600M. By the year 2015 however, that number will jump to a \$1.1B due to the increased debt associated with the current airport construction, and rising operating costs. This increase will demand that the Miami-Dade Aviation Department (MDAD) raise a staggering \$500M more each year.

Already, MIA is challenged to remain competitive due to these high costs. Competitively, it costs an airline (cost-per-emplaned passenger) approximately \$4 to board a passenger in Fort Lauderdale - MIA's key competitor for domestic traffic, and similarly \$4 in Atlanta, which is contesting MIA's dominance in its lucrative "bread and butter" Latin America and Caribbean market. By comparison, currently it costs an airline approximately \$17 to board a passenger at MIA, and that number is estimated to grow to \$25.74 by 2015. While airports may vary in what is included in calculating the cost-per-emplaned passenger, even when adjusted for such differences, MIA remains one of the highest cost airports.

For MIA to be competitive, in addition to tightly controlling costs, it is crucial that MDAD grow non-aeronautical revenue (revenue derived from sources other than airlines), to substantially reduce the burden of these high costs upon the airlines. And, while measures are being taken to build the traditional sources of non-aeronautical - parking, concessions, etc. -MDAD MUST find non-traditional sources of revenue, a task that it has been exploring over the last two years, primarily by examining what other airports around the country and indeed the world, may be doing. By way of this report, I would like to share with you, nine initiatives that are either underway or are being contemplated. While some may seem really "out of the box" thinking, they are accomplishable and if realized, could generate conservatively, an additional estimated \$65M each year.

Cargo Warehouse Development at MIA (\$4.7 million annually)

We have already reported to the Board one project, a \$110 million cargo warehouse and office space development by developer Aeroterm for Centurion Air (cargo), that also promises to begin the transformation of that portion of MIA that exists along NW 36th Street. This particular development will be roughly located at the corner of NW 36th Street and Le Jeune and is estimated to be completed by December 2012. Aeroterm also owns the expansive LAN Chile cargo warehouse facility at MIA and constructed the new FedEx facility at the Airport as well.

Another similar project is in the works as well. Pegasus, a developer of similar facilities and operations, is in advanced negotiations with MDAD for the construction of a new cargo complex for a major MIA air carrier, and separately, a major cargo airline. Both will be located in the western portion of MIA known as Cargo City and it is anticipated that both will be completed in three years.

Private Development at Opa locka Executive Airport (\$7.2 million annually)

We have been working closely with the Board as related to these developments at Opa locka Executive Airport (OPF), and the Board has taken action to urge MDAD to compel developers at this facility to build or forfeit their lease. Developers now at OPF include J. P. Robinson, MEA Executive Aviation, Ave LLC, AA Acquisitions, and the Meek Foundation. In spite of tight capital markets and lengthy negotiations to accommodate existing tenants, all are current with rental payments, and are either in various stages of negotiation with existing tenants, permitting, active construction, or solicitation of additional tenants or joint-developers.

Public Private Partnership Investment Program – Phase I (\$3.7 million annually)

The purpose of the Public Private Partnership Investment Program (PPIP) is to convert vacant land and buildings into revenue producing assets. These buildings are currently vacant because they need to be brought up to Building Code and the costs to do so are prohibitive to MDAD but not to private developers who will benefit from having their projects located near our airports. We are working to conclude negotiations that resulted from a Request for Proposals (RFP), MDAD is in the final stages of negotiating with two developers; one being the successful proposer for the development of three parcels that exists immediately outside of the MIA boundary, and another for development of two parcels at the entrance to Kendall/Tamiami Executive Airport. The MIA development is expected to be a mixed-use development, while a shopping center is being proposed for the Kendall/Tamiami project.

Public Private Partnership Investment Program – Phase II (\$5 million annually)

Three proposals were received by MDAD as a result of an RFP for an estimated \$800M investment that will dramatically transform the entrance to MIA. The development contemplates, potentially, two additional hotels with conference facilities and parking, a pet spa (hotel) and a service plaza that includes a gas station, food mart and dry cleaning operation. MDAD anticipates strong competition for this project and, coupled with the complexity of the development, expects bringing a recommendation to the BCC no earlier than October 2010.

Public Private Partnership Investment Program – Phase III (annual revenue undetermined)

In short, MDAD's \$6.3B Capital Improvement Program (CIP) is scheduled for completion in 2012. Upon completion of the CIP, MIA will then boast new state-of-the-art North and South Terminals, but the Central Terminal will remain a spruced up 1959 facility in need of re-development. The financial capacity to complete such a redevelopment, including a new terminal and concourses (E, F and G) estimated to exceed \$2.0B, will not exist for 25 years or more.

MDAD is examining an alternative whereby a commercial developer might finance, design, and construct new Central Terminal facilities, in exchange for a long term concession agreement. Capitalizing on the major shopping destination that Miami has become for patrons from Latin America and the Caribbean, this Central Terminal concession program would more resemble that of a shopping mall experience, rather than that of a traditional airport concessions

program, whereby international passengers could purchase anything from radios to appliances – duty free. While Dubai’s airport is pursuing a similar expansive duty-free concept, it is not known to have been done previously in the U.S. If the project is determined to be viable for MDAD, its airlines and the developer, MDAD estimates a solicitation document to come before the Board for its approval by the first quarter of 2011.

Rock Mining (\$20 million annually for approximately 19 years)

The Board previously approved an agreement between the County and the Florida Department of Transportation for the mining and sale of limestone at Opa locka West Airport which has been decommissioned as an airport for this purpose. An application for a permit to mine has been filed with the U. S. Army Corps of Engineers (Corps). The processing of the application has been delayed due to litigation that has resulted in the requirement for an Environmental Impact Statement (EIS) to be conducted. The EIS was completed, but found to be inadequate by the presiding U. S. Federal Judge Hoeveler. The comments to the amended EIS were due by June 8, 2009. The Corps will respond to the comments, draft a Record of Decision (ROD), and submit to the judge for his consideration. The approval of MDAD’s application therefore depends upon whether Judge Hoeveler accepts or rejects the amended EIS.

Oil & Gas Exploration – Dade-Collier Training & Transition Airport (\$7 million)

Miami-Dade County owns and operates Dade-Collier Training and Transition Airport (TNT) consisting of 23,840 acres; only approximately 1,000 acres is required to operate the airport. In 2008, MDAD commissioned a study to determine what revenue-generating opportunities exist at the airport and an assessment of the value of such opportunities. The report has just been completed and a complete report will be provided to the BCC by September 2009. The TNT property lies within the Sunniland Trend, an oil-prone area that extends 140 miles from Fort Myers to Miami. More than 140 wells drilled in the Sunniland area since 1943, have led to discoveries and development of 13 oil fields. Even though the County owns 100 percent of the surface land associated with the 23,840 acres, the Collier family owns most of the mineral rights, approximately 70 percent, which they are free to explore. The Exxon Corporation has operated Raccoon Point Field that is adjacent to TNT since 1978. Through 2008, it has produced an estimated 20 million barrels of oil using technology and equipment that is so unconventional and environmentally friendly, one would not suspect the nature of the operation. MDAD intends to recommend to the Board during the next year, that the County enter into discussions with the Collier family to develop a plan for the exploration and sale of oil and natural gas on the TNT premises.

MIA Business Ventures (\$1 million annually)

Amongst foreign airports, MIA enjoys a great reputation for its airport operations, particularly in Latin America and the Caribbean. The result is that over the past several decades, MDAD has often been approached by airport and aviation interests in the region to provide a variety of technical assistance. The requesting airports pay any direct costs incurred by MDAD, but the advice has been free. This has been a valuable tool in perpetuating MIA’s status as the “gateway” to Latin America and the Caribbean.

MDAD is in a position to capitalize on this history, converting such assistance into revenue generating opportunities. MDAD is therefore in consultation with the airlines at MIA to support the formation of an entity called MIA Business Ventures. The goal of MIA Business Ventures is to offer a variety of services to foreign airports and governments, using the substantial

knowledge and skills of MDAD professionals/staff to conduct or oversee work in airport related fields. Over the last three years, having not yet concluded discussions with its MIA airlines, MDAD has rejected several requests from various airports and aviation companies to participate in such ventures, but is continuing to work to secure the support of its carriers.

Slot Machines at MIA Beyond Security Check-Point (\$17 million annually)

A growing interest from airports in recent years has been the installation of slot machines beyond the security checkpoints of the terminal. MIA passengers average 1.5 hours of free time between the Security Checkpoint and flight departure and one option to provide entertainment during this time is to install slot machines. It is estimated that slot machines would generate net revenue of approximately \$17 to \$20 million annually if an estimated 1,000 slot machines were placed throughout the concourses at MIA. Las Vegas (\$40 million net annual revenue) and Reno airports have long had this as a revenue source and Baltimore and Phoenix and others are seriously considering this as a method to augment revenues.

Our research has uncovered a window of opportunity for obtaining a permit, which will make the County eligible for applying for and obtaining a slot-machine license. This eligibility comes through securing a permit to race quarter horses off-site. The window of opportunity may close shortly with the final approval of Senate Bill 788 (SB 788). SB 788 provides terms and conditions for a gaming compact between the State of Florida and the Seminole Tribe of Florida, whereby the payout percentage of a slot machine gaming facility must be at least 85 percent and revises the requirements for initial issuance of various gaming licenses. The Governor has until August 31, 2009, to sign a new compact with the Seminole Indians. The Legislature then must ratify the pact, and if approved, it is forwarded to the US Department of the Interior for approval. Upon being published in the Federal Register and the end of the comment period, SB 788 will become law. This is estimated to occur near the end of November 2009 or early January 2010. If the Governor and the Seminole Indians cannot reach agreement, SB 788 disappears and current rules will apply. However, it is in the best interest of the Seminole Indians to close the agreement or lose the right to table gaming.

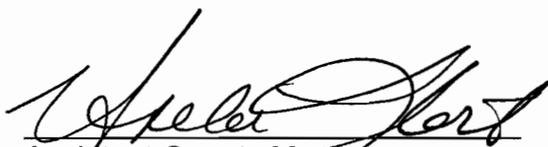
On the other hand, SB 788 will also close the existing window of opportunity and regulation that permits quarter horse racing permit holders to be eligible for a slot machine license. For the County to have a chance of meeting this deadline to apply for a permit for quarter horse racing before the rules essentially change, the Department would need to apply by the first week in July. This permit, if granted by the Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering, would make the County eligible to apply for a license that would also include slot machines and card rooms. This can be a valuable tool for the County – whether or not it ever chooses to ever apply for the required license in the future.

Under Florida law, horse racing and pari-mutuel gaming are highly regulated, extremely complex and tied to generating significant revenues for the State, with protections for the horse racing industry. Current requirements include providing 5 to 6 acres of land to be set aside for quarter horse racing. State law also provides that in lieu of conducting such races, the permittee may arrange for utilization of an existing venue or facilities within Miami-Dade and Broward Counties. The licensee, the County, would have to share revenues on a percentage basis between 3 and 6.5 percent with either the Florida Quarter Horse Racing Association or the Florida Horsemen Benevolent Protection Association and enter into an arms-length contract to provide such revenue at a negotiated rate. The shared revenue may be distributed

through an existing racing venue to which the racing component of the permit may be leased/assigned. The lease (of the racing component) to an existing racing venue for quarter horse racing would be an incentive to those facilities as it assists them in generating larger purses for horse racing. Over the course of the last few years, horse racing has been experiencing declining purses and this provides an incentive to some venues to attract higher caliber of horses and jockeys. Agreements for the above and the venues would need to be in place in order to obtain the license – after the County receives a permit. The State will collect 35 percent in tax under the operations reporting to the Florida Department of Business and Professional Regulation Division of Pari-mutuel Wagering which also administers the permitting and licensing. The County would seek proposals for a management company to execute a lease and operating agreement and to allocate square feet use restrictions. Typically, the net revenue after taxes are split 60%/40% between the permittee (the County) and the management company. Permit qualifications for quarter horse racing would include landowner information, procurement plan, business plan, intentions not to compete with existing venues, and possible intention to conduct the races at another venue (Gulfstream, Calder, Hialeah and Pompano Tracks etc.).

The County must file the permit by the first week of July 2009 to have a chance of taking advantage of this window of opportunity. Upon filing the permit to the State's Division of Pari-mutuel Waging (DPW), there is a 30-day deficiency review period, whereby it usually asks for additional information or clarification. The County needs to respond to any DPW-identified deficiencies within one or two days. DPW then has another 30 days to conduct its second deficiency report. By then, estimated to be no later than September 14, 2009, the County must have formally approved (by resolution) the filing of the application. Assuming DPW finds no further deficiencies in its second review and the County or its agent is so notified, the 120-day clock then begins for DPW to make its "administrative determination" as to whether or not the permit should be granted to the County. The approved permit would enable the County to seek the separate pari-mutuel license for slot machine. Due to the tight window of opportunity, I recommend that the County file the application by the first week of July, for later ratification of the permit by the Board, and if the Permit is approved by the DPW, for subsequent ratification by the Board of all licenses required to effect any parts of the permit.

The Aviation Department will continue to provide periodic progress reports to the Airport and Seaport Committee and the Board as to the progress of the above initiatives, as well as information on any other projects developed.


Assistant County Manager