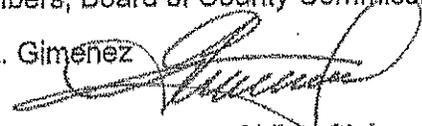


Memorandum



Date: August 28, 2013

To: Honorable Chairwoman Rebeca Sosa
and Members, Board of County Commissioners

From: Carlos A. Gimenez
Mayor 

Subject: Miami International Airport Airline Clubs

TAC
Agenda Item No. 7(C)

This memorandum on the status of airline clubs at Miami International Airport (MIA) responds to Commissioner Bruno A. Barreiro's request for information at the July 10, 2013, Transportation and Aviation Committee (TAC) meeting. A summary of Board of County Commissioners (Board) actions regarding clubs at MIA is as follows.

On July 9, 2012, at the meeting of the Regional Transportation Committee (RTC), the Miami-Dade Aviation Department (MDAD) brought an award of a management agreement to Gideon Toal Management Services LLC for the management and operation of private lounges (clubs) at MIA. That item was withdrawn from the agenda due to a protest filed by the incumbent, International Airport Management, Inc. (IAMI), who responded to the Request for Proposals. The Hearing Examiner upheld the decision to award the contract to Gideon Toal on August 6, 2012. The award of the management agreement was next heard by the Board at its September 18, 2012, meeting. A discussion ensued regarding health insurance for employees. Afterwards, the Board voted to reject all bids and directed MDAD to include provisions for health insurance at a level comparable to that of the current agreement. Furthermore the Board directed MDAD to present the revised RFP to the Board for approval prior to advertisement. At the January 14, 2013, RTC, MDAD's Request to Advertise the management agreement was forwarded to the Board with a favorable recommendation. Subsequently, at the February 5, 2013, Board meeting, the Board deferred the item to no date certain. Because MDAD was in negotiations with LAN/TAM (LATAM) to operate Club J, the Department has held off on the readvertisement.

Airports across the country allow airlines to establish their own VIP clubs for the convenience of their passengers as well as passengers of their code-share partners. MDAD has historically followed this industry practice as the desire to operate a proprietary club demonstrates a long-term commitment to this community, as well as the potential for increased aeronautical revenues.

In addition to airline-operated clubs, MDAD has an agreement with a management company to provide "Club America" VIP lounge service to non-affiliated airlines; which are typically not large enough to operate their own clubs. Since 1982, IAMI has operated various Club America lounges at MIA under this management agreement structure wherein the net operating income accrues to MDAD. Currently, under a month-to-month agreement, IAMI manages the Club America at Concourse F (Club F) which operates at breakeven and the Club America at Concourse J (Club J) which generates annual net revenues to MDAD of approximately \$2.1 million.

LATAM has requested permission to assume the operation of Club J, and MDAD staff is negotiating terms to turn it over to LATAM with a target date of October 1, 2013. LATAM passengers account for approximately 31.74% of the total sales of Club J. It is anticipated that once the new LATAM club opens, other airlines will join the LATAM club. LATAM has indicated it plans to operate the club under a

lease agreement, provide health insurance, and make every effort to retain the current fourteen Club J employees and hire an additional ten new employees.

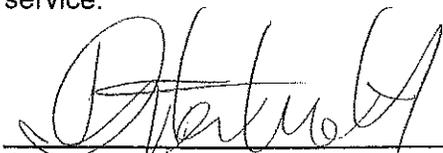
Shortly after LATAM's request for the Club J space, Avianca also requested permission to operate the Club J. Since MDAD was already conducting preliminary discussions with LATAM, Avianca was shown unfinished space for the development of its own club adjacent to the Club J location. Avianca accounts for approximately 16.42% of the total sales for Club J. If negotiations are successful and a club is developed, Avianca, as a member of the STAR Alliance would attract other STAR Alliance members to utilize its club. Alliance members include Lufthansa, which accounts for 23.28% of sales for Club J, as well as Air Canada, SWISS, United and COPA Airlines. The STAR Alliance also has a strategic alliance with Priority Pass members, which account for 22.45% of sales for Club J. Priority Pass is a membership program that allows members to visit multiple airline partner clubs, as well as Club America. *When combined, the STAR Alliance and Priority members will reduce Club J sales by approximately 62.15%.*

The withdrawal of these airline passengers and Priority Pass members from J Club America would have such a detrimental impact on gross sales that the possibility of a continued viable operation is improbable without a strong subsidy from the airlines. The airline members of the Miami Airport Affairs Committee (MAAC) are not in favor of subsidizing an MDAD-operated VIP club. MDAD has therefore concluded that the management agreement operation for Club J should be ended at this time and the facility should be turned over to the airline, as opposed to competing directly with airline-operated lounges until Club America is no longer economically viable. LATAM has stated that it can indeed operate a profitable club even if the agreement with Avianca proceeds as LATAM anticipates other non-affiliated airlines to join its club. Both new club operators will be required to accept other non-affiliated airlines to ensure the continuity of service previously provided under the management agreement.

Because of its location, F Club America will have to remain operational under the management agreement for continuity of service to the airlines in that portion of the airport. Another Request for Proposals will have to be developed to ensure an economically viable operation.

If LATAM and Avianca sign agreements to operate clubs, they will pay to MDAD i) rent, ii) opportunity fees (\$9.68 for each passenger not covered under their codeshare) and iii) concession fees (18% of gross revenues generated from liquor sales and 10% of gross revenues generated from all other amenities.) Once both airline clubs are operational, the revenue to the Department is anticipated to be similar to that of Club America. In the interim, revenue will be less than the current arrangement.

The desire of an airline to operate a proprietary club is an indication that the airline is committed to make a major investment in MIA to better serve its passengers. Furthermore, an airline-operated VIP lounge gives the airline control to ensure that its passengers receive its desired level of customer service.



Jack Osternolt, Deputy Mayor