

# Memorandum



**Date:** February 29, 2012

**To:** Honorable Chairman Joe A. Martinez  
and Members, Board of County Commissioners

**From:** Carlos A. Gimenez  
Mayor 

**Subject:** Status Report - Miami International Airport North Terminal Baggage Handling System

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Attached please find a report from Jose Abreu, Miami-Dade Aviation Department (MDAD) Director, regarding the North Terminal Baggage Handling System (BHS). As you are aware, and as reported in today's *Miami Herald*, there has been an ongoing disagreement between the County, the Transportation Security Administration (TSA) and American Airlines (AA) as to the functionality of the BHS, and this disagreement has delayed completion of the North Terminal Development (NTD) program.

As outlined in Director Abreu's report, MDAD is now in the process of terminating contracts previously assumed from AA under Amendment 4. Such action will allow the County to mitigate the risks associated with continued delays from the BHS, as the challenge remains completion of the NTD within the existing budget.

The County is continuing this week discussions that began last Thursday with AA regarding the circumstances under which AA would agree to test the BHS with live bags. We will continue to provide the Board with updates as they become available. Please do not hesitate to contact me or Jose Abreu, MDAD Director, should you have any questions.

## Attachments

c: Robert A. Cuevas, County Attorney  
Jack Osterholt, Deputy Mayor  
Jose Abreu, MDAD Director

# Memorandum



**Date:** February 28, 2012

**To:** Carlos A. Gimenez  
County Mayor

**From:** José Abreu, P.E.  
Aviation Director *JA*

**Subject:** Status Report - Miami International Airport North Terminal Baggage Handling System

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On June 7, 2011, I sent County Manager Alina T. Hudak a memorandum detailing the status of the North Terminal Development (NTD), with particular emphasis on the in-line Baggage Handling System (BHS). This memorandum details developments related to NTD and the BHS to date. The vast majority of the NTD has opened on schedule. From the standpoint of our domestic passengers, the NTD is functionally complete; the terminal has been modernized, concessions are open, and temporary construction walls which had blocked interconnections inside the terminals have been removed. From the standpoint of our airline partners, in particular American Airlines (AA), the newly completed NTD infrastructure has allowed Miami International Airport (MIA) to achieve unprecedented growth in traffic (38+ million passengers) during 2011.

As the NTD progressed through the various aspects of the program, the building, the BHS and ramp work proceeded on parallel paths. Now, however, these paths have converged, and completion of all this work is tied together. Work inside the building and on the ramp cannot be completed until the existing baggage system is decommissioned and the existing baggage shed demolished; the existing system cannot be decommissioned until the new BHS is operational. Finalization of the program — including the ability to utilize gates D26, D27, and D28 — cannot occur until the new BHS is operational.

There is disagreement among the various NTD stakeholders as to whether the BHS is fit for use. The Transportation Security Administration (TSA) has tested the security aspects of the system and approved it for use on February 15, 2011. The County also believes the BHS is fit for use. Two recent stress tests of the BHS, conducted on October 5, 2011, and October 19, 2011, demonstrated to MDAD and its consultants that the system appears to be robust. TSA has reviewed these test results, and, on October 28, 2011, agreed that the BHS was ready for live operations.

AA, however, does not believe that the BHS will function, or otherwise cannot support their current and projected operations at MIA. The airline has asked that it be allowed in excess of 18 months to reprogram the system prior to placing the BHS into use. The County and the TSA have spent the past several months discussing potential solutions with AA to best serve the needs of the County, AA, and our passengers. As part of these discussions, TSA has had numerous meetings with AA. After reviewing the issues raised by AA with its own experts, TSA remains convinced that the BHS works.

As these discussions continued, the County and AA were directed by TSA to begin usage of the BHS by February 28, 2012. The County informed AA of this directive on February 6, 2012. In response, AA reiterated its objections to use of the BHS, and stated that any attempt to make AA utilize the BHS would affect its current bankruptcy action. Relevant correspondence is attached. We are continuing this week the productive discussion that began with AA last Thursday regarding the circumstances under which AA might agree to test the BHS with live bags.

As you are aware, the dispute regarding the BHS has delayed the program, and these delays have depleted NTD's existing funding. Inasmuch as MIA has committed to completion of NTD within the

existing budget, and in order to deliver the best possible NTD to our customers at the earliest possible date, MDAD intends to take the following actions:

- Work on the Federal Inspection Service (FIS) has been re-designed and rescheduled so that the NTD FIS facility will partially open by this summer. This re-designed FIS will provide a significantly enhanced Customs and Immigration experience; the remaining work will be completed once the BHS is operational.
- Contracts for work that cannot be completed until the BHS is in use -- including the ramp work, the demolition of the old baggage system, and the work necessary to place gates D26, D27, and D28 into use -- will be closed. The County will re-bid and complete this work once the BHS is in operation to minimize claims for contractor delays.
- MDAD will internally complete the unfinished work, close all open contracts with all contractors and managing general contractors and execute the final remaining work by, in essence, acting as the general contractor for the work remaining when the BHS is placed into operation. This provides flexibility to the NTD, allows NTD to mitigate risks of unknown delays from the BHS, and ensures that current funds are sufficient to complete the NTD.
- The portions of the projects that would be re-bid at a later date include: PLB, Project 762B (3 passenger loading bridges), PCA/400 Hz, Project 763C (3 remaining gates D26, D27 and D28); B-C Apron Work, project 732D (Temporary Baggage Shed and Cc C Demolition; plus apron work); BHS phase 3 (mechanical and electrical only), project 703A; and the remainder of FIS Project 740A. Portions of projects 779A (C-D interior finish), 756E (ticket counter area), 746A (interior finish), and 739C (D remodel). The work that cannot be completed due to the existing legacy system will be de-scoped and re-bid under one final combined project.

As a result of these additional delays and efforts that were needed to begin live operations of the BHS, it is imperative for MDAD to maintain focused and aggressive management of this plan as we move forward. Our intent is to deliver NTD within the existing budget, and to ensure that any delay in completion provides minimal impact to our budget and, more importantly, our passengers.

Attachments

cc: Jack Osterholt, Deputy Mayor



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February 8, 2012

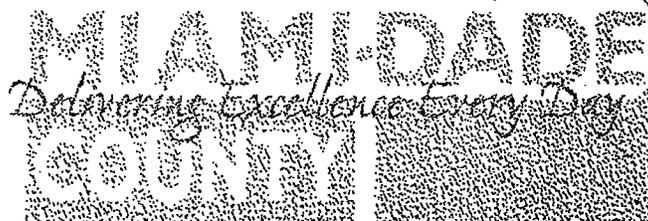
Tom Del Valle  
SVP Airport Services  
American Airlines  
Fort Worth Airport  
P.O. Box 619616 - MD 5616  
Dallas, Texas 75261

Dear Mr. Del Valle:

The County is in receipt of your letter dated February 7, 2012. As American Airlines ("American") believes that Transportation Security Administration's ("TSA") directive of January 27, 2012, and the County response thereto, provided to American via letter of February 7, 2012, impact American's rights or obligations with respect to the pending bankruptcy proceeding, the County will refrain from transitioning American from the existing baggage handling system operated by American ("the legacy system") onto the new Siemens installed in-line baggage handling system ("the BHS"). This will provide American sufficient time to seek relief in the Bankruptcy Court. Please note that this is without prejudice to the County's rights itself to seek relief from the Bankruptcy Court, in the event that a delay in the resolution of this issue prejudices the County's rights or obligations. The County has no interest in prejudicing American during its bankruptcy, as American is the single largest airline at Miami International Airport ("MIA").

Notwithstanding, I am deeply disheartened by your February 7th letter. I believe that letter does not properly reflect our mutual positions, nor does it properly reflect the status of the baggage system.

First, American's transition onto the BHS is not the result of a decision by the County, but a result of a decision from the TSA. As you know, since April 1, 2011, American and the County have been working together to determine how best to utilize the BHS, in a way that balanced American's concerns with the County's.



The County had not reached any final decision as to whether American should use the BHS immediately, or whether American should, per its wishes, be allowed to continue using the legacy system while it reprogrammed the BHS. Instead, TSA ordered both the County and American to utilize the new BHS. The County did not seek this result from the TSA; to the contrary, once the County learned that the TSA was contemplating this course of action, the County merely asked that TSA resolve the issue expeditiously, so that both American and the County were not prejudiced by any additional delay.

Second, the County does not agree that the phased transition to the BHS unduly prejudices American. In fact, the County agreed to the phased approach largely to protect American and our passengers. A phased approach gives American—whose forces here have little to no experience with the BHS—time to acclimate themselves to the system. Moreover, a phased approach would provide for the existence of the legacy system as a fall-back system in the event that the BHS system, during the transition, does not work as designed. The County would not take down the legacy system until all material issues with the BHS discovered during the transition were corrected. The County has already committed, at the County's own additional cost, to having Siemens on-site for the duration of this transition, in order to quickly address and resolve any concerns which might arise. In the event that the BHS is shown to be non-functional during the transition, the County would work with American to ensure that American could remain on the legacy system until the BHS was made functional.

Third, and perhaps most importantly, the County does not agree with your assessment of the BHS. As you know, from contract award through 2005 American was directly in control of the contract for the design and installation of the BHS with Siemens Dematic Corporation ("Siemens"); Siemens was selected by American on the basis of a design package prepared by American's consultants. When American conveyed the Siemens contract to the County in 2005, the design of the system had already been approved by American, and much of the physical construction was in place at MIA. Accordingly, the County's contractual commitment to American is merely to finish this installation pursuant to American's 2005 design, and without any guarantee that this system will work. Nevertheless, the County, with the consent of American, and with the understanding that the design inherited by the County would not be sufficient for American's evolving operational needs, directed Siemens to perform numerous enhancements to the BHS; the cost of these enhancements, which to date have been borne solely by the County, exceed \$30,000,000.

Note that among these changes were numerous enhancements to the BHS control logic supplied directly to Siemens from American's consultant, Transolutions, who re-designed the BHS fault mode logic. Note also that Siemens, at the time these changes were directed, indicated that they believed the changes would impact BHS performance. Notwithstanding, the County and Siemens spent significant time and effort ensuring that these enhancements actually functioned as desired by American.

Tom Del Valle

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Moreover, the BHS has been subjected to numerous rigorous tests. From November 2010 through January 2011, the TSA tested the system. These TSA tests, performed by Battelle, did not reveal any issues with the BHS. Indeed, TSA certified the system for operation, and has suggested that the system is well designed and robust. The County is not aware of TSA having any continuing concerns about the BHS.

The County next conducted, in February 2011, a series of Owner's Acceptance Tests. These tests consisted of putting approximately 19,000 bags through the system over defined periods of time. These tests indicated that the system was viable. American thus agreed to begin transitioning to the BHS.

It is our understanding, however, that during this transition to the BHS American directed its consultant Brock to make numerous changes to the BHS programming; perhaps upwards of 1000 discrete changes to the programming. Largely as a result of these changes, the BHS on April 1, 2011 experienced a crisis. Recognizing a need to re-assess the BHS—and not wanting to impact American or its passengers—the County then proceeded to investigate the causes of this crisis. Ultimately, the County removed the programming changes implemented by Brock, re-instated the BHS, and re-tested the BHS again on September 7, 2011, and October 19, 2011. These tests, which consisted of putting 5,000 and 7,500 test bags through the BHS indicated that a minimal number of bags would not reach their planes. In fact, only 4 bags were identified as "mis-sorted" during the October 19th test, which represents an error rate of less one tenth of one percent. This is a significantly better rate than American currently achieves via use of the legacy system. Moreover, it is inaccurate to state that the BHS has over 56+ unresolved issues. The County has, in fact, provided responses to these issues; that American does not agree with these responses does not negate their existence.

And, while the ultimate decision with respect to the BHS was made by TSA, not the County, we would have objected to TSA's decision if we felt that it impacted our customers or the traveling public. But we do not. In fact, we believe that transitioning to the BHS provides direct benefits to American, to MIA, and to the traveling public. As you know, a delay in utilization of the BHS prevents American from having access to gates D26, D27, and D28, as these gates cannot be completed until the legacy system is dismantled. Additionally, transitioning to the BHS avoids the risk of catastrophic failure of the legacy system.

The legacy system is well past its service life; parts are no longer commercially available. There is a non-trivial chance that this system will not be viable into the future. And, if that legacy system fails, American's operations will be massively impacted.

Additionally, a delay in utilization of the BHS beyond July 2011 would cause the County to incur, at a minimum upwards of tens of millions of dollars in costs related to delays and inefficiency in MIA construction contracts—including the contracts related to completion of the Federal Inspection Services area, the ramp, and ticket counters—for which work cannot be completed until the legacy system is dismantled. Some portion of these costs will be passed onto airlines, such as American, using the airport via landing fees and other charges.

Tom Del Valle  
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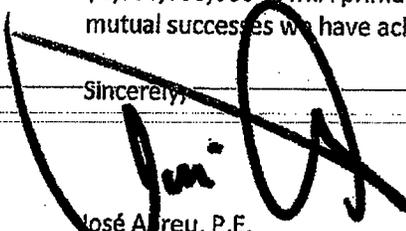
Moreover, spending this money on construction delays of necessity means that the County loses the ability to use this money for other improvements at MIA, and would hinder the County's ability to make MIA a cost-competitive airport. Note also that the County has already incurred over \$25,000,000 in contractor delay costs from April 1 through the date of this letter that are directly attributable to the delay in the dismantling of the legacy system.

Lastly, the traveling public—our mutual customers—have seen construction on North Terminal drag on for years. They have been forced to navigate temporary corridors, and to endure excessive travel distances. They have been forced to wait in an antiquated Federal Inspection Services ("FIS") area. Transitioning to the BHS would allow the County to complete North Terminal, to complete a modern FIS capable of accommodating American's international traffic, and to provide our customers the traveling experience they deserve.

In sum, we have been, and remain, willing to work with American to ensure that American continues its extraordinary success at MIA. We have no desire to prejudice American's position in the Bankruptcy Court, or vis a vis its creditors. We take the experience of traveling passengers at MIA very seriously, and would never intentionally take any action which would lead to an unreasonable number of lost bags. But based on our understanding of the BHS design and performance, utilization of the BHS by American will not do any of these things. We therefore do not believe that TSA has acted in a way that prejudices either the County or American.

We will be happy to discuss this matter at your convenience. Please also be assured that the County tremendously values American as a business partner and a corporate citizen. American has been an important leader in the business community driving charitable contributions and helping spur business growth. Our partnership at Miami International Airport has seen the airport achieve record passenger levels. Our commitment to American in Miami is of such strength that the County has invested over \$2,500,000,000 at MIA primarily for the benefit of American. The County has no desire to tarnish the mutual successes we have achieved.

Sincerely,



José A. Jereu, P.E.  
Director

# American Airlines

T. R. Del Valle  
Senior Vice President  
Airport Services

February 7, 2012

VIA FEDEX and E-MAIL

Mr. Jose Abreu  
Director, Miami-Dade Aviation Department  
Miami International Airport  
P.O. Box 025504  
Miami, FL 33102-5504

Re: Miami International Airport (MIA) North Terminal Baggage Handling System

Dear Mr. Abreu,

I am in receipt of the Transportation Security Administration's ("TSA") January 27, 2012, letter to you where TSA proposes that the new North Terminal baggage handling system (the "new BHS") be brought online no later than February 28, 2012. The letter notes American Airlines, Inc.'s ("American") concerns with switching its operations to the new BHS, but TSA appears to be relying on the Miami-Dade Aviation Department's ("MDAD") representations that the BHS is ready for live operations. I am also in receipt of the letter you sent Marilyn DeVoe on February 6, 2012, confirming MDAD's support of TSA's plan.

As you know, American believes there are still over 50+ software and controls problems with the new BHS that have not been adequately resolved by MDAD or Siemens. Further, in recent testing the new BHS performed worse on the 7,500 bag test conducted on October 19, 2011, than during the 5,000 bag test conducted on September 7, 2011. And in both instances, the new BHS failed to perform at a level that would have effectively supported American's live operation. It does not matter whether the baggage screening component of the new BHS is ready for live operations (as suggested by TSA); if the baggage sortation component of the system does not work we cannot connect our passengers with their baggage and our MIA operation will be significantly damaged. We have told both MDAD and TSA on several occasions that the new BHS will not support our robust hub operation at MIA until the numerous problems with the new BHS are fixed, and we have explained that the needed changes cannot effectively be made while we are operating on the new BHS without subjecting our operation to significant risk.

While the TSA's letter proposes a "phased approach" to switching American onto the new BHS, such an approach would actually be worse for American, TSA, and MDAD. Operating two systems at the same time would increase everyone's staffing requirements and labor costs. Further, a phased approach would significantly extend the period of time it would take to fix the new BHS since the daily window available to work on it would be dramatically reduced. In addition, forcing American to operate on the new system before the numerous issues with it are fully resolved would prevent American from significantly expanding its MIA schedule as currently planned in its recently announced restructuring business plan. This would not only be detrimental to American's future success, but also to the growth and economic success of Miami Dade County.

As you know, American has proposed an alternative approach to resolve the problems with the new BHS and avoid incurring unnecessary expenses and the potentially catastrophic impact the problems with the

Mr. Jose Abreu  
February 7, 2012  
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new BHS could have on American's operations. Based upon the extensive work and testing done of the new BHS last year, as well as the advice of MDAD's former BHS consultants and our own BHS consultants, we concluded that the only way to ensure the new BHS will support our robust hub operation is to replace the system software and controls before moving onto the system. And as you are also well aware, once we reached that conclusion we retained Brock - at our expense - to start this replacement work, which has now been underway for several months. We believe allowing American and Brock access to the new BHS to continue the replacement work without interruption is the best alternative for all parties concerned, but in particular for American's operation and the many passengers who fly to, from and through MIA.

We have already put the TSA on notice that American considers any actions by TSA to limit American's right and ability to use the current baggage handling system and force it onto the new BHS a violation of the automatic stay in its bankruptcy proceedings. From your February 6, 2012, letter, it is clear MDAD supports and is in alignment with TSA's proposal to force American onto the new BHS. Needless to say, we are disappointed MDAD would take a position that its largest tenant and hub carrier believes would be detrimental to its operation, as well as harmful to American and MIA's joint customers. But in light of your letter and recent actions, we are similarly putting MDAD on notice that American considers any actions by MDAD that would limit its right and ability to use the current baggage handling system and force it onto the new BHS a violation of the automatic stay in its bankruptcy proceedings. In the event MDAD and TSA continue with their plans to force American onto the new BHS, as a debtor in bankruptcy, American will be compelled to bring this matter to the attention of the Bankruptcy Court and request that it enforce the automatic stay and protect the interests of the debtor's estate and its creditors.

The impacts of a bag system failure, which will likely occur as a result of TSA and MDAD's plans would cause American irreparable harm and would be felt throughout our entire network. MDAD would be exposing us to losses of potentially millions of dollars while simultaneously putting our joint customers through the inconvenience and disruption of their bags being lost and mishandled. We would hope MDAD would not want to jeopardize American's MIA hub operation, which is a key contributor to the continued growth of Miami's economy, especially in light of the previous failure of the BHS when we unsuccessfully attempted to move onto the system on April 1, 2011. Considering the potentially devastating impacts a failure of the new BHS could have not only on our customers and our operation, but also on MIA's reputation for years to come, we would urge MDAD to change course and work with us to address the system deficiencies before American moves onto the new BHS.

We continue to desire to reach an amicable resolution to this matter with MDAD and the TSA, and I will make myself available to discuss this matter at your earliest convenience.

Sincerely yours,



Tom Del Valle  
SVP Airport Services  
American Airlines



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February 6, 2012

Ms. Marilyn DeVoe  
Vice President Miami Airport Services  
American Airlines  
P.O. Box 997990 (MD1000)  
Miami International Airport  
Miami, Florida 33299

Re: North Terminal Baggage Handling System Live Operations Phases 1 & 2

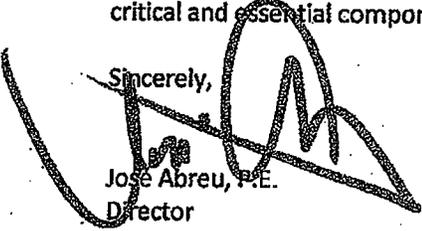
Dear Ms. DeVoe:

The Transportation Security Administration (TSA) has directed the Miami-Dade Aviation Department (MDAD) to start a phased transition into the new in-line North Terminal Baggage Handling System (BHS) no later than February 28, 2012. TSA has reassured their total support and readiness to ensure a successful transition.

The BHS team has begun all the necessary measures to ensure that all preventive maintenance activities are completed prior to the TSA's February 28<sup>th</sup> deadline. Your cooperation in having your staff prepared for this milestone will be most appreciated and beneficial. The BHS team will coordinate with American Airlines and TSA to review the phasing, staffing levels, and other logistics prior to live operations, and will be available to support American Airlines' operations of the system during the transition. Additionally, MDAD will not begin any demolition activities to the existing legacy baggage system or otherwise remove such system from service until American has transitioned to the new BHS.

We truly appreciate your efforts, support and cooperation in ensuring a successful transition into this critical and essential component of the North Terminal Development Program.

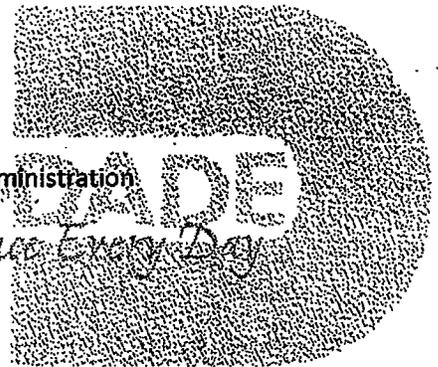
Sincerely,

  
Jose Abreu, P.E.  
Director

C: Carlos A. Gimenez, Miami-Dade County Mayor  
Robin Kane, Assistant Administrator - Transportation Security Administration  
Peter Dolara, Senior Vice President - American Airlines

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**SECURITY**



U.S. Department of Homeland Security  
Arlington, VA 20598-6016



Transportation  
Security  
Administration

JAN 27 2012

Mr. José Abreu  
Director  
Miami-Dade Aviation Department  
Miami International Airport  
PO Box 025504  
Miami, FL 33102-5504

Dear Mr. Abreu:

The Transportation Security Administration (TSA) entered into agreement with Miami-Dade County through the Miami-Dade Aviation Department (MDAD) to provide \$54.4 million in funding in support of the construction of a Checked Baggage Inspection System (CBIS) at the North Terminal at Miami International Airport (MIA). This agreement states under Article III, "Scope," that the objective is to "enhance baggage screening capabilities and throughput." Implicit in this objective is that upon successful completion of integrated site acceptance testing, the in-line CBIS system would become operational. TSA successfully completed integrated site acceptance testing and certified the CBIS to begin screening bags on February 15, 2011. My understanding is that your own testing conducted in October 2011 also found the baggage handling system operationally acceptable. Although the new CBIS has been tested and certified, it is not being used to screen bags.

TSA understands that American Airlines is concerned about the potential negative effects that could result from a sudden switchover from the current lobby screening system to the new baggage handling system (BHS). In light of American Airlines' concerns, TSA will work with MDAD and American Airlines on a phased approach to implementing the operations of the BHS. This is a common practice, and helps ensure the BHS does not become overloaded. Pursuant to the proposed phase-in approach, utilization of the stand-alone EDS will continue during the initial operation of the BHS (a minimum of 60 days), during which time a metered quantity of bags will be systematically delivered to the BHS. Using this approach, any anomalies can be addressed immediately without having a significant impact on screening operations. Furthermore, TSA is prepared to provide immediate support for the BHS should it be needed, and can easily transition to stand-alone only screening. TSA proposes that the BHS be brought online no later than February 28, 2012, at which time phased screening will commence.

Sincerely,

A handwritten signature in black ink, appearing to read "Robin Kane", with a long horizontal flourish extending to the right.

Robin Kane  
Assistant Administrator  
Office of Security Capabilities