

Memorandum



Date: August 6, 2014

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

From: Carlos A. Gimenez
Mayor 

Subject: Airport City at Miami International Airport

I have received the attached memorandum from Emilio T. Gonzalez, Director, Miami-Dade County Aviation Department with his recommendation on the Airport City project.

At this time, I am reviewing the recommendation and have yet to make a final decision. Due to MIA's importance as the top economic engine for our community, I will be conducting a full and exhaustive review of all our options. As such, in the coming weeks I will ask for a presentation from the Aviation Department and the Department's external financial advisers regarding the possibility of self-financing portions of the project as discussed in the memorandum. Initially, I will also seek the views of Commissioner Dennis Moss in his role as the Chairman of the Transportation and Aviation Committee and report back to the Board of County Commissioners on our progress. My Administration's final decision will prioritize what's best for the future positive growth of MIA and making sure it remains one of the world's premiere airports.

Attachment

c: Robert A. Cuevas, Jr., County Attorney
Jack Osterholt, Deputy Mayor, Office of the Mayor
Emilio T. Gonzalez, Director, Miami-Dade Aviation Department
Office of the Mayor Senior Staff
Charles Anderson, Commission Auditor
Christopher Agrippa, Clerk of the Board

Memorandum

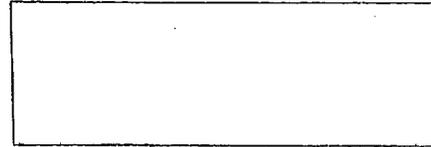


Date: July 29, 2014

To: Carlos A. Glimenez
Mayor

From: Emilio T. Gonzalez
Aviation Director

Subject: Airport City at Miami International Airport



When you appointed me Aviation Director last year, you tasked me with evaluating the County System of Airports from a business perspective. Among the largest business-related proposals that I inherited was the Airport City development, which was originally conceived in 2007. At that time, the Aviation Department had just completed construction of the South Terminal and was well into its North Terminal Development Program. With MIA bookended by these state-of-the-art terminals, and from a capital improvements perspective, it was time to focus on the entrance to the airport. However, MDAD was shouldering the financial burden of MIA's nearly completed \$6.4 billion Capital Improvement Program, an obligation that became even more daunting with the onset of the global economic downturn and the resulting dip in air traffic. These factors made it difficult for MDAD to take on more debt without jeopardizing MIA's stable bond ratings or its competitive position among U.S. gateway airports. The concept of Airport City was born amidst this challenging financial and economic environment with the intent of increasing non-aeronautical revenue and improving MIA's economic position.

Since joining MDAD in March 2013, I have reviewed all information and studies connected with the proposed Airport City development purely from a business and financial standpoint. Based upon updated air traffic forecasts, improved market conditions, the best interests of Miami-Dade County, the traveling public and our airline partners, I must recommend that the County withdraw the proposed development of Airport City. Along with establishing the context in which the project was conceived, this memorandum outlines the Airport City approval and development process, as well as the justification for my recommendation.

Five companies responded to MDAD's call for Expressions of Interest to enter into a Public Private Investor Partnership (PIIP) and develop airport land for non-aeronautical uses. On February 16, 2010, the then-County Manager gave MDAD approval to negotiate with Odebrecht, the highest-ranked company and negotiations commenced on March 4, 2010. Some of the proposed developments were amended during negotiations in May 2011. The amendments included conversion of Parcel 1A to an office/business park complex, Parcel 1B to a co-generation power plant, with Parcel 1C remaining a 400-room hotel.

As originally conceived, the Airport City project required Odebrecht to (i) demolish buildings on the sites to make room for the new development and construct new facilities to replace the demolished facilities, (ii) install considerable infrastructure elements on the sites, and (iii) complete the construction of new facilities on all sites. Because of the complexities involved with these construction components, negotiations were not completed until late in 2011. On February 13, 2012, MDAD submitted the three Development Agreements as executed by each of Odebrecht's newly-formed limited liability companies to the FAA for review and acceptance. On January 17, 2013, MDAD received the FAA's acceptance of the Agreements.

Upon being appointed Aviation Director, I directed our outside consultant, Ricondo & Associates, Inc., to update MIA's six-year-old air traffic forecasts to determine whether the Airport City project was still in the best interest of the County. As you are aware, MIA has experienced unprecedented growth since 2009, with our latest annual passenger figures topping 40 million and annual cargo totals reaching 2.11 million tons. That growth is expected to continue: by 2025, passenger totals at MIA are projected to reach 48 million and total annual aircraft operations are expected to increase from the current 396,816 to 442,000. That anticipated growth will require additional hardstands – or off-gate aircraft parking spaces – to accommodate the growing number of aircraft expected at the airport. Currently, MIA has only 17 such off-gate hardstand slots. Because it is adjacent to the airfield, utilizing Parcel 1A of the proposed development for hardstands would add enough new area to the airfield to park 20 additional aircraft, giving MIA the space it needs to expand its core mission of supporting air travel. Accordingly, MDAD determined that the non-aviation development of Parcel 1A contemplated under the Airport City plan would conflict with the newly-determined aviation need of that property for hardstands. Both parties subsequently agreed to withdraw Parcel 1A from the Airport City project.

After Parcel 1A was repurposed for hardstand development, the Aviation Department asked Odebrecht to increase the density of buildings on Parcel 1B by moving the structures originally planned for 1A to 1B. The Department hoped the additional development on 1B would provide a higher financial return to both parties. The increased density, however, did not yield significantly greater financial returns under the existing contract terms. It also became apparent that several critical airport support functions (maintenance facility, ground service providers, and the taxi lot, among others) would require relocation when the hardstands were ultimately built on the former 1A parcel. Given the scarcity of vacant land in close proximity to the Terminal, MDAD ultimately determined that the best use of 1B is for one of these critical support functions, a necessary aviation function, or a greater revenue-producing activity (additional valet parking, for example) that will provide more income to the Aviation Department.

Notwithstanding the recommended changes to Parcels 1A and 1B, Parcel 1C can still house a 400-room hotel which will directly connect to the North Terminal through the Dolphin Parking Garage and will offer amenities and restaurants consistent with three or four-star hotels. With the removal of Parcels 1A and 1B from the proposed development, MDAD confined its financial evaluation solely to Parcel 1C as a standalone project.

At this juncture, with improved market conditions and at your direction, MDAD directed its independent financial analyst First Southwest – in concert with hotel financing experts PKF Consulting USA – to determine the benefits of self-financing the hotel versus utilizing the PPIP model envisioned in the Airport City proposal. While there are risks inherent with self-financing, the results of this independent financial analysis clearly favor MDAD self-financing the MIA hotel project on Parcel 1C. Furthermore, the renovations that are currently being performed on the existing MIA hotel are anticipated to extend its useful life by 15 years, alleviating the pressure to move forward with an agreement for a new hotel and providing to MDAD the flexibility to determine when and how to construct and operate a new facility.

Projected returns on the self-financing model versus the PPIP model show that the County actually loses money on the hotel with the PPIP option during the life of the agreement after subtracting the MDAD contribution of parking revenues. The developer's own model shows revenues from MDAD parking during the lease to be \$331.1 million, which are \$32.57 million more than total expected payments to MDAD from the development. The PKF study, which includes the parking revenues, shows that at five years, the return to MDAD is \$18.5 million (self-financing) versus \$5.2 million (PPIP). At 30 years, the difference is even greater: \$228.2 million versus \$93.0 million, respectively. At 50 years, the projected returns to MDAD grow exponentially to \$1.0 billion (self-financing) versus \$298.5 million under the PPIP model.

Additionally, the Trust Agreement governing MDAD's outstanding bonds requires the Aviation Director to certify that the 350 MIA garage parking spaces proposed for allocation to the hotel are excess spaces, which they currently are not. MDAD would therefore not be able to provide that certification.

Finally, the PPIP option includes a 55-year non-compete clause that prohibits MDAD from building a new hotel on its own property for the duration of the contract even if market demand warrants such construction. To mitigate some of the risks associated with self-financing, MDAD will retain the services of a highly qualified private firm to oversee the project and ensure that it remains on time and within budget. It is worth noting that other leading U.S. gateway airports have self-financed airport hotels, including San Francisco, Denver and Dallas/Ft. Worth.

In summary, I have been and will remain a good steward of the County's, partner airlines' and airport's financial resources. For the reasons outlined above and considering the best interests of Miami-Dade County, I recommend that the County withdraw the proposed development of Airport City.