

**Ted Reed - 02/16/11 - 07:00 AM EST**

MIAMI ([TheStreet](#)) -- It cost too much and it took too long, but the renovation of Miami International Airport is finally nearing completion.

The project began in 1995, billed as a \$975 million new terminal for hub carrier **American**([AMR](#)). The scope and the cost both swelled. American's terminal ended up costing \$3 billion, while other improvements, including a new terminal for **United**([UAL](#)) and its partners, brought the total cost to \$6.4 billion.



Today, of the country's three leading international gateway airports -- Los Angeles, Miami and New York -- Miami is the only one where new construction is not badly needed. Los Angeles spent years quarreling with its airline tenants over fees, and now is working on a \$1.5 billion international terminal. New York Kennedy has made some major improvements, including new terminals for American and **JetBlue**([JBLU](#)), and now is working on a new \$1.3 billion terminal for **Delta**. ([DAL](#))

Sections of LAX and JFK both made *The Street's* list of the country's five ugliest airports, compiled in December.



Two years ago, when the economy tanked, MIA director Jose Abreu was under pressure to halt construction. "They said it would be impossible to borrow money because it wasn't available, and the airport should postpone," Abreu said in an interview with *TheStreet*.

"But my pitch was, 'Look, over \$75 billion worth of airport terminal work is needed throughout the nation, and a lot of it has not even started, and we need to finish this thing,'" he said. "At the end, we will be ahead." At Miami's 2009 annual State of the Ports luncheon, Abreu played a Red Hot Chile Peppers song called "Can't Stop."

It now seems clear the approach was justified. In 2010, passenger traffic at MIA grew 5.0%, to reach 35.7 million, as carriers added eight new international destinations including Berlin, Brasilia (on two carriers) and Moscow. International traffic accounted for 17 million passengers, making MIA the country's second biggest international airport after New York Kennedy. This year, the Skyteam alliance is growing, with Delta adding daily service to London Heathrow while KLM begins four weekly flights to Amsterdam. Other carriers plan Amsterdam and Lisbon service.

Miami is also No. 1 among U.S. airports for moving air cargo. Cargo traffic turned down in 2009, but rose 18% in 2010 to two million tons. "In one year, we recovered everything we lost since 2008," Abreu said.

## Hitting Air Pockets



Why did airport renovation take so long? Where do we start? The other airlines objected to the project -- after all, they had to help pay for it -- and went to court to oppose it. The airline industry collapsed after the 9/11 terrorist attacks. Corruption was a factor: According to *The Miami Herald*, "the airport's former construction chief was sentenced to four years in prison in 2003 for a contracts-for-bribes scheme and his failure to declare income to the IRS."

Initially, American thought it could avoid delay by managing the project itself, instead of having the airport run it. By the time airport director Abreu arrived in 2005, American was floundering.

Asked about corruption, Abreu responded that soon after he arrived, 300 claims for payments totaling \$400 million were dropped on his desk. He assigned a company to thoroughly review the claims, even looking at pay stubs. "I found, in some cases, people were working 30 hours a day," he said. Eventually, the claims were settled for \$75 million.

Another problem, Abreu said, was that a business can more easily commit to new costs than a county agency can. "In private business, if you need to pay more, you do," he said. "In government, you must have approval."

Coming from a construction background, Abreu quickly saw American's major problem, which was trying to build on top of a functioning airport that serves about 100,000 passengers a day. Late in 2006, he said, he suggested to American that it close 16 new Concourse A gates that it had just opened to great fanfare. "They said 'you can't be serious,'" he recalled. But he had determined the cost would be \$300 million more to continue construction in an area with operational gates. They were temporarily closed the following year.

Abreu spent his first eight months on the job, from July 2005 to March 2006, cleaning up the mess he had inherited. Over the next seven months, he spent about \$45 million. Since November 2007, when Concourse A was closed, construction spending has been about \$40 million a month. Completion is scheduled for November.

At one time, "It looked like you would never get finished in Miami -- forget about the price," said aviation consultant Bob Mann. "It wasn't exactly surgical, but at least it's done, perhaps just in time."

## Next Up: LAX and SFO?

Now, Mann said, one may contrast Miami with Los Angeles, which not only is far behind on needed renovation but also potentially faces the JFK syndrome. "JFK went into decline in the 1980s, when all the mid-continent hubs took over the European flying," Mann said. "I think Los Angeles and San Francisco could someday face the same fate on the Pacific." At the moment, of course, that seems unlikely, not only because three airlines now plan Los Angeles-Shanghai routes, but also given the large local demand in both markets for Asia service.

Mann and consultant Mike Boyd both noted, however, that Qantas' December move of its Sydney flight from San Francisco to Dallas shows that nothing is more important to an airline than the connections provided by its international alliance partner. "In ten years, we will not book on American or United, but on Oneworld or Star," Boyd said. "That is where the strength is."

A downside is that, despite relatively strong bond ratings, Miami is now a high-debt airport. Moody's said its A2 rating reflects "somewhat weak legal covenants including a debt service reserve funded at half of annual debt service and use of improvement fund balances for rolling debt service coverage." The airlines' per passenger cost, about \$16 in 2009, will increase to \$44.47 in 2018, Moody's said, making it among the country's highest per passenger charges. Furthermore, the future of the airport is largely dependent on the future of a single carrier, American.

Still, as a gateway that is also a strong hub, Miami is positioned to benefit not only from the growing importance of international hubs, but also from the completion of its renovation. "I feel sometimes that we have been running a construction site where, every now and then, an airplane lands," said Abreu. "I am looking forward to running an airport."

-- *Written by Ted Reed in Miami.* >To contact the writer of this article, click here: [Ted Reed](#)

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