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COMMISSION

AGENDA MEMORANDUM Item No. 8d

ACTION ITEM Date of Meeting March 26, 2024

DATE: March 18, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Eileen Francisco, Director Aviation Project Management

Wendy Reiter, Director Airport Security

SUBJECT: Baggage Optimization Phase 3 Enabling Construction Work

Amount of this request: \$7,500,000

Total estimated project cost: \$955,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) authorize an early work construction contract for Baggage Optimization Phase 3 including construction of D1 and C94 transfer lines, (2) procure long lead items, and (3) increase the project authorization by \$7,500,000.

EXECUTIVE SUMMARY

Baggage Optimization is an airport-wide public safety and security program that improves customer service for both airlines and passengers. This is a long-term, three-phase program that is anticipated to be completed in 2027. The program allows the flexibility for bags to be checked in from any ticket counter and be conveyed to serve any gate. The project is being bid and constructed in three separate phases. Phase 1 has been completed, Phase 2 is under construction, and development of Phase 3 began in Q3 2022. Phase 2 is approximately 88% complete and is expected to be substantially complete in Q3 2024. Due to the lack of interconnectivity until the project is complete, near continuous operation, and a fixed footprint, this project has various constraints requiring detailed construction sequencing plans. A General Construction/Construction Manager (GC/CM) was selected for Phase 3. To leverage the benefits during the preconstruction period, procuring long lead essential conveyor material as part of enabling work will allow for construction to stay on schedule. This request is a limited initial request to support the procurement of long lead items, and authorize the construction for two key pieces of work that require early action. The project will return to Commission in Q4 to request full authorization of the program.

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JUSTIFICATION

Early Work Construction Contract:

The baggage handling system is a complicated system that requires detailed and methodical sequencing plans for minimal disruptions to airline and airport operations. Enabling construction work packages and construction of the D1 and C94 transfer lines will allow the project to perform work that will prepare the construction groundwork for minimal disruptions. The project team is working closely with the Contractor, Airline Technical Representative (ATR), and Port stakeholders to develop the sequencing plans.

Procure Long Lead Items:

Procurement of essential long lead conveyor material as part of the enabling work package is critical to the project's schedule. Currently the lead time for the conveyor material is upwards of 40 weeks. In collaboration with the Contractor, the long lead essential conveyor material has been identified for the initial steps in the sequencing plan and planned for an on-time material delivery allowing for construction to start on time.

Project Authorization Increase:

The cost of the early work construction package including the purchase of conveyor material is within our current budget and estimated at \$7,500,000. We are requesting authorization for this initial request to support the procurement of long lead items, authorize the construction for two key pieces of work that require early action, and allow for the contracting of the special inspection firm. The project will return to Commission in Q4 to request full authorization of the program.

Diversity in Contracting

Baggage Optimization Phase 3 construction contracts have a 4% Women and Minority Business Enterprises (WMBE) goal.

DETAILS

Scope of Work

Baggage Optimization Phase 3 will conclude the Baggage Optimization Program allowing for complete baggage flexibility to check in any bag into any ticket counter and be delivered to any airplane. It also accommodates passenger volume growth and meets TSA safety mandates. This phase will tie-in all the south end systems into the centralized screening, including the International Arrivals Facility (IAF), and finalize the sortation and ticket counter connections.

Schedule

Phase 1 was completed in 2020. Phase 2 is currently under construction and scheduled to be completed in Q3 2024. Phase 3 design is under way along with GC/CM preconstruction activities and construction is scheduled to complete in Q2 2027.

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Phase Design Construction

Phase 1 Q3 2015 Q1 2016 – Q2 2020

Phase 2 Q1 2020 Q3 2020 – Q3 2024

Phase 3 Q3 2022 – Q1 2024 Q4 2024 – Q2 2027

Activity

Commission design authorization 2013 Q1

Design start 2022 Q3

Commission construction authorization 2024 Q4

Construction start 2024 Q4

In-use date 2027 Q2

Cost Breakdown This Request Total Project

Design \$0 \$80,731,152

Construction \$7,500,000 \$874,268,848

Total \$0 \$955,000,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not proceed with approval of early work construction contract. Proceed with approval of only the procurement of essential conveyor material that have long lead times.

Cost Implications: \$4.3M for the initial purchase of long lead items.

Pros:

(1) Procurement of essential conveyor material with long lead times allows the Port to get into the manufacturing queue in hopes of on time delivery for construction to start.

Cons:

(1) Early work construction contract not being approved could cause more construction shutdowns to be more impactful to Airline and Airport operations.

This is not the recommended alternative.

Alternative 2 – Do not proceed with approval of purchasing of essential conveyor material with long lead times.

Cost Implications: \$4,500,000.

Pros:

(1) No further project budget would need to be approved at this time. Design would continue until construction is ready to begin and full construction authorization is needed.

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Cons:

(1) A delay of 40 weeks or more waiting for essential conveyor material to arrive will delay our construction schedule and have budget impacts.

This is not the recommended alternative.

Alternative 3 – Approve the request to proceed with the authorization of enabling construction work and early work packages for Baggage Optimization Phase 3 including construction of D1 and

C94 transfer lines, procure long lead items, and increase the project authorization by \$7,500,000.
Cost Implications: \$7,500,000.

Pros:

(1) Authorizing the Contractor to perform enabling work allows for work to be performed in a less impactful manner for airport and airline operations.

(2) Authorization for the Contractor to purchase long lead items aids in ensuring the essential conveyor material is ordered and under production for on time delivery to start construction.

Cons:

(1) If the project and General Contractor do not negotiate and come to terms with a Maximum Allowable Construction Cost. The Port would have to warehouse and store the pre-purchased material for an extended duration. The monthly charge for the warehouse space is estimated at \$30,000 per month.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Budget /

Current

Estimated Notes

Authorization

Project Cost

Phase 1 \$101,375,000 \$101,375,000 • Complete

• Anticipated Savings of \$20M (Reflected in Ph 3

Phase 2 \$395,675,000 \$415,675,000 Budget).

• Substantial Completion Q3 2024.

• Commission Range presented April 2022 is

Phase 3 \$432,450,000 \$47,215,000 \$400M - \$500M.

• MII anticipated Q3 2024.

Executive

Management \$10,000,000 \$10,000,000

Reserve

CCE Transfer \$15,500,000 \$15,500,000 • Commission approval April 2022.

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TOTAL \$955,000,000 \$589,765,000

Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$317,000,000 \$150,000 \$317,150,000

Previous changes – net \$637,134,000 \$716,000 \$637,850,000

Current change \$0 \$0 \$0

Revised estimate \$954,134,000 \$866,000 \$955,000,000

AUTHORIZATION

Previous authorizations \$589,299,000 \$466,000 \$589,765,000

Current request for authorization \$7,500,000 \$0 \$7,500,000

Total authorizations, including this request \$596,799,000 \$466,000 \$597,265,000

Remaining amount to be authorized \$357,335,000 \$400,000 \$357,735,000

Annual Budget Status and Source of Funds

This project, C800612, was included in the 2024-2028 capital budget and plan of finance with a budget of \$954,134,000. This project has prior Majority In Interest (MII) airlines approval for Phase 1 and 2. The Phase 3 MII ballot is anticipated in Q3 2024. The funding sources would be revenue bonds.

Financial Analysis and Summary

Project cost for analysis \$955,000,000

Business Unit (BU) Baggage System

Effect on business performance NOI after depreciation will increase due to inclusion of (NOI after depreciation) capital (and operating) costs in airline rate base

IRR/NPV (if relevant) N/A

CPE Impact \$0.34 in 2020, \$0.96 in 2024 and \$2.73 in 2028

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- January 24, 2023 - Request Commission authorization for the Executive Director to: 1) execute an OTA with TSA for a 24-month time extension for the period of performance on the Baggage Optimization Program, 2) execute future Change Orders on the Baggage Optimization Project Phase 2 and Phase 3 construction contracts (C800612) up to the executed Commission authorization amount that exceed \$300,000 and/or

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exceed 60 calendar days' time extensions, and 3) include a Project Labor Agreement (PLA) for Phase 3.

- July 26, 2022 – Request Commission authorization for the Executive Director to: (1) execute an agreement with the Transportation Security Administrative (TSA) to provide clear access to screening equipment for Phase 2, (2) authorize \$34,215,000 for Phase 3 to complete pre-construction services, (3) utilize, advertise, and execute a General Contractor/Construction Manager (GC/CM) for Phase 3, (4) advertise and execute a project specific Construction Management (CM) and Airline Technical Representative (ATR) contract for Phase 3, (5) amend Service Agreement (SA) P-00317641 to add \$18,340,000 for a total contract value of \$49,500,000 to complete design services and provide construction support for Phase 3, and (6) utilize Port crews for Phase 3 activities, for Baggage Optimization Project at Seattle-Tacoma International Airport. The total amount of this request is \$34,215,000.
- April 19, 2022 – Baggage Optimization Program Update – Quarter 2, 2022.
- January 28, 2020 – Commission Authorization to: (1) execute a construction contract with the low responsive and responsible bidder for the Baggage Optimization Phase 2 Project at Seattle-Tacoma International Airport, notwithstanding the low bid exceeding the estimate at time of bid by more than 10 percent, and (2) authorize an additional \$190,737,800 for Phase 2 construction and Phase 3 design for a total program authorization of \$540,050,000.
- April 23, 2019 – Commission Authorization to: (1) advertise, award, and execute a construction contract for the Baggage Optimization Phase 2 project at Seattle-Tacoma International Airport; (2) employ a project labor agreement (PLA); and (3) utilize Port crews and small works contracts to perform construction work.
- February 26, 2019 – Baggage Optimization Quarter 4 Project Briefing.
- October 23, 2018 – Baggage Optimization Quarter 3 Project Briefing.
- June 12, 2018 – Baggage Optimization Quarter 2 Project Briefing.
- January 9, 2018 – Baggage Optimization Quarter 4 Project Briefing.
- September 26, 2017 – Baggage Optimization Quarter 3 Project Briefing.
- June 27, 2017 – Commission authorization to (1) authorize additional design and project management funds to expand the capacity to 60 million annual passengers (MAP); (2) use Port crews and small works contracts to perform additional construction work; and (3) amend Service Agreement P-00317641 to add \$10,160,000.
- October 25, 2016 – Baggage Optimization Quarter 4 Project Briefing.
- July 12, 2016 – Commission authorization to advertise and execute a contract for Construction Phase 1.
- June 28, 2016 – Baggage Program Briefing.
- May 17, 2016 – Checked Baggage Optimization Project Briefing.
- March 8, 2016 – Commission authorization for the Chief Executive Officer to amend the Baggage Optimization Design Services contract.
- June 23, 2015 – Checked Baggage Optimization Project Briefing.

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- September 10, 2013 – The Commission authorized the execution of an Other Transaction Agreement (OTA) with TSA for reimbursable costs for design and construction, to authorize \$15 million to continue from 30% to 100% design and

execute a consultant service agreement for program management support services.

- August 20, 2013 – Response to questions from Commissioners asked during the August 6, 2013 Commission Meeting.
- August 6, 2013 – The Commission was briefed on the near-term and long-term challenges related to handling checked baggage at the Airport.
- January 22, 2013 – The Commission authorized \$5 million for staff to begin design through 30%, and to enter into an agreement to allow reimbursement from the federal government to the Port for eligible elements of the 30% design effort.
- January 8, 2013 – Baggage Systems Briefing.
- August 14, 2012 – Baggage system recapitalization/optimization was noted in the 2013 business plan and capital briefing as a significant capital project not included in 2013-17 capital program.
- August 7, 2012 – Baggage system recapitalization/optimization was referenced as one of the drivers for the need to develop an Airport Sustainability Master Plan.
- June 26, 2012 – The Airport's baggage systems were discussed during a briefing on terminal development challenges.
- May 10, 2012 – TSA's interest in a national recapitalization/optimization plan for all baggage-screening operations was referenced in a design authorization request for the C60-C61 Baggage Handling System Modifications Project.

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