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COMMISSION

AGENDA MEMORANDUM Item No. 8b

ACTION ITEM Date of Meeting January 24, 2023

DATE: January 17, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Eileen Francisco, Interim Chief Development Officer

Wendy Reiter, Aviation Director of Security

Janice Zahn, Director of Engineering

SUBJECT: Baggage Optimization Program Transportation Security Administration (TSA) Other Transaction Agreement (OTA) Time Extension and Change Order

Amount of this request: \$0

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

ACTION REQUESTED

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

EXECUTIVE SUMMARY

The Port of Seattle and TSA entered an OTA in 2013 to reconfigure the baggage system to meet both the TSA's and Airport's needs. The TSA benefits by making its portion of the baggage system more efficient, reducing maintenance costs, and improving working conditions (safety and comfort) for federal employees. In the long-term, the Airport benefits by creating a vision of how the overall baggage system could flexibly grow to meet the long-range capacity of the Airport. The Baggage Optimization Program is being delivered in three phases. Phase 1 has completed construction, Phase 2 is under construction, and Phase 3 pre-design has started. The overall program is anticipated to be complete in 2027. Phase 2 is approximately 45% complete with an expected completion date of August 2024. Due to the lack of interconnectivity until the project is complete, near continuous operation, and a fixed footprint, this project is complex and has various constructions requiring detailed construction sequencing plans. As part of this request, Phase 3 would benefit from entering into a project labor agreement.

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JUSTIFICATION

OTA Time Extension:

The current OTA commits \$94,043,296 toward the program and is currently scheduled to end in March 2023. This OTA would not increase TSA contributions. However, it would extend the duration by 24 months to March 30, 2025, when the funds are anticipated to have been spent. Approximately \$3.3M would be returned and de-obligated from the Port of Seattle Baggage Optimization Program if this OTA is not extended.

Change Orders:

Phase 2 is currently under construction and Phase 3 procurement for a General Contractor and Construction Management contract (GC/CM) is being developed. Commission action is required under the General Delegation of Authority if the value of the change order is over \$300,000 or the additional time is over 60 calendar days. The Baggage Program is requesting authorization for the Executive Director to execute any future change orders, so long as the change orders are within the approved budget. Phase 2 is a \$293M project and Phase 3 is expected to be similar in magnitude. Projects of this size and complexity would typically anticipate several change orders that exceed \$300k or 60 calendar days of time extension. Therefore, it is more expedient to grant the Executive Director authorization to execute these change orders.

Project Labor Agreement (PLA):

A project labor agreement will be used for these projects based on the importance of labor continuity and the need to minimize any risk of impact to operations during construction.

Diversity in Contracting

Phase 2 is projected to meet our 2% Women and Minority Owned Business Enterprise (WMBE) goal. The project team will work with Diversity and Contracting team to conduct outreach and setting an aspirational WMBE goal for Phase 3.

DETAILS

Scope of Work

Phase 2 is currently under construction and scheduled to be complete Q3 2024. This work will expand the centralized baggage screening area in the airport's Central Terminal. This phase will also replace conveyor systems to the north portion of the bagwell, construct the final baggage sortation matrix, and add more capacity to the South Satellite baggage system. Concession storage and the conveyance maintenance shop will be relocated to their final locations.

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Phase 3 concludes 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 to centralized screening, including the International Arrivals Facility (IAF), and finalize the sortation and ticket counter connections.

Schedule

Phase 1 was completed in Q2 2020. Phase 2 is currently under construction and scheduled to be completed in Q3 2024. Phase 3 design has started in Q3 2022 and is scheduled to be constructed Q2 2027.

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 Quarter 1

Design start – Phase 3 2022 Quarter 3

Commission Construction 2024 Quarter 4

Authorization

Construction Start 2024 Quarter 4

Substantial Completion 2027 Quarter 2

Cost Breakdown

This Request Total Project

Design \$0 \$80,731,152

Construction \$0 \$874,268,848

Total \$0 \$955,000,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not proceed with the request to execute an OTA with TSA for a 24-month time extension for the period of performance on the Baggage Optimization Program and future Amendments and Change Orders on the Baggage Optimization Program up to the executed

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Commission authorization amount for additional design, project and construction management services that exceed \$300,000.00, and/or exceed 60 calendar daytime extensions.

Cost Implications: \$3.3M

Pros:

(1) None.

Cons:

(1) Allocated TSA funds may not be fully utilized and returned to TSA; the Port would have to fund the money that was returned to TSA to complete the project.

(2) If the change order execution request by the Executive Director is not granted, the project will have to repeatedly go back to Commission although the project budget has

already been approved.

This is not the recommended alternative.

Alternative 2 – Approve the request to proceed with the execution of the OTA time extension with TSA, allow the Executive Director to execute change orders within the approved budget, and allow for PLA to be used on Phase 3.

Cost Implications: \$0

Pros:

- (1) All allocated funds from TSA will be used on Baggage Optimization.
- (2) Change order execution within the approved budget by the Executive Director allows for the project team to move forward without continuously returning to Commission for approval.
- (3) PLA will help to minimize risk to operations during Phase 3 construction.

Cons:

- (1) None.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Phase 1 was completed at \$101,275,000. Phase 2 has a budget of \$415,675,000 with a substantial completion date of Q3 2024. However, now that we are anticipating about a \$20M savings, barring any major issues, that amount can be rolled into Phase 3. The team has been projecting a range of \$400-\$500M for Phase 3, with a likely cost of \$432,450,000.

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Current Estimate At

Budget Budget Delta Notes

Authorization Completion

Phase 1 \$101,375,000 \$101,375,000 \$101,375,000 \$ -

- Savings of \$20M as of June 2022

Phase 2 \$415,675,000 \$415,675,000 \$395,675,000 \$(20,000,000) • Substantial Completion Q3

2024

- Commission Range

presented April

2022 is \$400M -

\$500M

- MII anticipated Q3

Phase 3 \$313,000,000 \$13,000,000 \$432,450,000 \$119,430,000 2024

- Additional budget

request assumes a

\$20M unspent

from Ph2 will be

transferred

Executive

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

Reserve

- Commission

Transfer \$15,500,000 \$15,500,000 \$15,500,000 \$ - approval April

2022

TOTAL \$855,550,000 \$555,550,000 \$955,000,000 \$99,430,000

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 \$0 \$0 \$0
Total authorizations, including this request \$589,299,000 \$466,000 \$589,765,000
Remaining amount to be authorized \$364,835,000 \$400,000 \$365,235,000

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Annual Budget Status and Source of Funds

This project, C800612, was included in the 2023-2027 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 2024. The funding sources would be airport development fund and 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 \$0.26 in 2020, \$1.03 in 2024 and \$2.75 in 2028

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- 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 preconstruction 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

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- 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
- 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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