



## **REPORT TO THE BUSINESS ADMINISTRATION COMMITTEE**

**Recommendation to Amend the Reimbursement Agreement  
with American Airlines for the Design and Construction of  
Improvements to the Baggage System in Terminal B/C at  
Ronald Reagan Washington National Airport**

**March 2019**



## Purpose

Staff requests that the Business Administration Committee approve and recommend to the Board of Directors that the Metropolitan Washington Airports Authority (Airports Authority) approve an amendment to the previously-approved reimbursement agreement with American Airlines (American) for the design and construction of improvements to the baggage system at Ronald Reagan Washington National Airport (Reagan National). The amendment would increase the reimbursement amount by \$24.5 million to a new total of \$64.7 million to accommodate additional required scope of work.



## Background

- This project was included in the Capital Construction Program that was negotiated with the airlines as part of the new Airport Use Agreement and Premises Lease in 2015.
- The existing outbound baggage system in Terminal B/C dates back to 1997 with baggage belt conveyor lines dedicated from each ticketing area feeding only into associated pier baggage make-up areas with no connectivity between piers.
- This project will reconfigure the baggage system to enable the routing of bags from any of American's ticket counters to either the current North or Center Piers or the New Concourse.



## Background (continued)

- The reimbursement amount was based on an initial rough order of magnitude cost estimate prepared for the Airports Authority after preliminary evaluation of several options for connecting the baggage systems.
- In July 2015, the Board of Directors approved execution of an agreement to reimburse American an amount not to exceed \$36.9 million for improvements to connect the existing baggage system supporting the North and Center Piers in Terminal B/C at Reagan National.



## Background (continued)

- Following the Airports Authority's reimbursement payment to American, the project costs will be recovered through the airline rates and charges for Terminal B/C.
- In April 2017, the Board of Directors approved an amendment to the airline reimbursement agreement which added additional scope for connection to the New North Concourse and construction of a temporary transfer function and increased the reimbursement amount by \$3.3 million from \$36.9 million to \$40.2 million.



## Discussion

- Since the initial rough order of magnitude cost estimate was developed in 2015, post-award project design and due diligence efforts have identified additional needs in order to construct the improvements:
  - **Baggage system enhancements – \$14.3M**  
catwalk, conveyor refurbishment, manual encoding stations
  - **Utilities/construction phasing – \$6.2M**  
temporary cooling, standby power generator, pipe re-routings, ticket counter relocations
  - **Labor/materials inflation – \$4.0M**



## Discussion (continued)

- The additional scope of work items totaling \$24.5 million were not included in the initial rough order of magnitude cost estimate which was developed based on the preliminary evaluation of the existing conditions of the terminal.
- The revised total cost estimate for this project of \$64.7 million was provided by American and was reviewed by the Office of Engineering staff and the estimate and additional scope were determined to be reflective of current market conditions.



## Recommendation

Staff requests that the Business Administration Committee approve and recommend the Board of Directors approve an amendment to the existing agreement with American to increase the scope and reimbursement level for the design and construction of improvements to the baggage system at Reagan National by \$24.5 million to a new total of \$64.7 million.



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## Proposed Resolution

Approving an Amendment to the Agreement for the Airports Authority to Reimburse American Airlines for the Design and Construction of Improvements to the Baggage System in Terminal B/C at Ronald Reagan Washington National Airport

WHEREAS, Pursuant to Resolution No. 15-19, the Airports Authority entered into an agreement (Reimbursement Agreement) with American Airlines (American), pursuant to which the Airports Authority agreed to reimburse American an amount not to exceed \$36.9 million for American's outbound baggage system project in Terminal B/C North Pier at Ronald Reagan Washington National Airport (Reagan National);

WHEREAS, Pursuant to Resolution No. 17-9, the Airports Authority amended the Reimbursement Agreement to increase American's scope of work for the design and construction of improvements to the baggage system at Reagan National and to increase the maximum reimbursement amount from \$36.9 million to \$40.2 million;

WHEREAS, Since the initial rough order of magnitude cost estimate was developed in 2015, post-award project design and due diligence efforts have identified additional needs to be included in the scope of work, including baggage handling system enhancements, relocation and installation of utilities, labor and materials, in order to construct the improvements;

WHEREAS, These additional scope of work items, totaling \$24.5 million, were not included in the initial rough order of magnitude cost estimate which was developed based on the preliminary evaluation of the existing conditions of the terminal; and

WHEREAS, The revised total cost estimate of \$64.7 million was provided by American and was reviewed by the Office of Engineering staff, and the estimate and additional scope were determined to be reflective of current market conditions; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to amend the Reimbursement Agreement to increase American's scope of work and reimbursement amount for the design and construction of improvements to the baggage system at Reagan National by \$24.5 million to a new total of \$64.7 million.

*For Consideration by the Business Administration Committee  
March 20, 2019*

**REPORT TO THE  
BUSINESS ADMINISTRATION COMMITTEE**

**RECOMMENDATION TO AMEND THE REIMBURSEMENT AGREEMENT  
WITH AMERICAN AIRLINES FOR THE DESIGN AND CONSTRUCTION OF  
IMPROVEMENTS TO THE BAGGAGE SYSTEM IN TERMINAL B/C  
AT  
RONALD REAGAN WASHINGTON NATIONAL AIRPORT**

**MARCH 2019**

**PURPOSE**

Staff requests that the Business Administration Committee approve and recommend to the Board of Directors that the Metropolitan Washington Airports Authority (Airports Authority) approve an amendment to the previously-approved Board reimbursement agreement with American Airlines (American) for the design and construction of improvements to the baggage system at Ronald Reagan Washington National Airport (Reagan National). The recommended amendment increases the maximum project reimbursement amount by \$24.5 million to a new total of \$64.7 million to accommodate additional required scope of work.

**BACKGROUND**

This project was included in the Capital Construction Program that was negotiated with the airlines as part of the new Airport Use Agreement and Premises Lease in 2015. The existing outbound baggage system in Terminal B/C dates back to 1997 with baggage belt conveyor lines dedicated from each ticketing area feeding only into associated pier baggage make-up areas with no connectivity between piers. Airlines at that time operated only from one pier; however American's use of Reagan National as a hub has expanded its operations to multiple piers. This project will reconfigure the baggage system to enable the routing of bags from any of American's ticket counters to either the current North or Center Piers or the New Concourse.

A consultant for the Airports Authority's Office of Engineering explored several options for connecting the baggage systems and provided an initial rough order of magnitude cost estimate for each alternative. The alternative selected by the Airports Authority and American was estimated to cost \$36.9 million based on the consultant's preliminary evaluation of the existing conditions of the terminal. In July 2015, the Board of Directors approved an agreement to reimburse American an amount not to exceed \$36.9 million to connect the existing baggage system supporting the North and Center Piers in Terminal B/C for improved transport of baggage to aircraft.

This approach of reimbursement to an airline for improvements to airport facilities is consistent with Section 1.4.1(2) of the Contracting Manual, which allows an airline tenant to deliver improvements as an alternative to the Airports Authority contracting directly for the improvements only when the Airports Authority has determined that the airline tenant will have a substantial interest in the improvements as a part of its leasehold or the improvements will be

integral to its operations. Following the Airports Authority's reimbursement payment to American, the project costs will be recovered through the airline rates and charges for Terminal B/C.

In April 2017, the Board of Directors approved an amendment to the airline reimbursement agreement to transfer a portion of the bag belt scope of work from the Airports Authority's New North Concourse construction scope of work to American to accommodate the best connection and prevent disruption to American's current baggage operations. This shift in project scope of work was approximately \$2.5 million. In addition, the alternative for accommodating American's commuter flight baggage transfer functions was re-evaluated and a decision was made to construct a temporary transfer function in the current North Pier bag room which will reduce the volume of bag tug vehicles needing to drive on the airfield impacting airfield safety. This change in scope of work was approximately \$0.8 million. The approved increase in the reimbursement amount of \$3.3 million brought the revised total to \$40.2 million.

## **DISCUSSION**

Since the initial rough order of magnitude cost estimate was developed in 2015, post-award project design and due diligence efforts have identified additional needs in order to construct the improvements. The project architect, baggage system design consultant and general contractor, who were each competitively bid and selected by American with concurrence by the Airports Authority, conducted detailed field surveys to gain a better understanding of the existing conditions.

These surveys revealed the need for several baggage handling system enhancements including installation of comprehensive maintenance catwalks, refurbishment of existing baggage conveyor belts and reconfiguration of input conveyors since American's current Concourse Level ticket counter will no longer be usable with the Secure National Hall. Additionally, manual encoding stations were added for resolving bags which are not read by the automated routing system. These baggage system enhancements total approximately \$14.3 million of additional cost.

In order to maintain utility service for existing terminal occupants, a more phased construction approach is required in the course of relocating multiple utilities and telecommunication lines including the provision of temporary cooling and standby power generators. Additional pipe re-routings required for the baggage handling system right-of-way were also identified. Ticket counter location swaps are also required for American, Alaska Airlines and JetBlue Airways in order to align the check-in positions with the baggage belt lines leading to the makeup room carousels. These changes amount to approximately \$6.2 million in additional costs.

Finally, the revised amount includes a price escalation on labor and materials of approximately \$4 million due to the time which elapsed between receipt of the initial construction bid and the actual planned construction start date.

All of the additional scope of work items totaling \$24.5 million were not included in the initial rough order of magnitude cost estimate which was developed based on a preliminary evaluation

of the existing conditions of the terminal. The revised total cost estimate for this project of \$64.7 million provided by American was reviewed by the Office of Engineering staff and the estimate and additional scope were determined to be reflective of current market conditions.

The reimbursement agreement amendment will stipulate that the additional funding above the current cap of \$40.2 million is subject to approval of separate funding authorization in the Airports Authority's 2020 budget. All other terms of the reimbursement agreement with American will be consistent with the terms presented at the July 2015 meeting including the requirements for competitive bidding and achieving 25 percent LDBE participation.

### **RECOMMENDATION**

Staff requests that the Business Administration Committee approve and recommend the Board of Directors approve an amendment to the existing agreement with American to increase the scope and reimbursement level for the design and construction of improvements to the baggage system at Reagan National by \$24.5 million to a new total of \$64.7 million.

Prepared by:

Airport Administration Department  
Ronald Reagan Washington National Airport  
March 2019