

## Application Score Sheet

Proposed Project: Eastern Shipbuilding Group, Nelson Manufacturing and Haul Out Facility  
Proposed Project/Program County: Bay  
Board of County Commission Support: Yes

Total Projected Project Cost: \$70,405,000.00  
Match Provided: \$50,405,000.00  
Triumph Funds Requested: \$20,000,000.00 (28%)  
Triumph Funds Recommended by Staff: \$20,000,000.00

Score: A

Triumph Board Approval: Yes/No  
Triumph Funds Approved by Board:  
Date:

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### **Economic Impact Analysis and Score**

The Eastern Shipbuilding Group (ESG) proposal describes infrastructure improvements including platens, dredging, bulkhead installation, launchways, equipment, and warehouse facilities and improvements to be installed at ESG's Nelson Street facility in Panama City. The Triumph request of \$20 million represents 27 percent of ESG's suggested project valuation of \$74,405,000 (several alternative project valuation scenarios are presented below).

The project will enable ESG to achieve cost efficiencies in constructing the next generation Offshore Patrol Cutter for the U.S. Coast Guard (USCG). As with most types of public infrastructure assets, the U.S. Government does not build ships itself but instead contracts with private sector providers who bid via competitively awarded contracts to do the construction. ESG was the successful bidder in such a competitive procurement process begun in 2011 to build the first nine ships of what USCG envisions as a 25-ship refresh of its fleet. ESG has commenced hiring and revamping of the Nelson Facility to do this work. The USCG has stated that it will conduct a competitive rebid of ships 10 – 25 (i.e., Phase 2). The Triumph award is intended to fund infrastructure improvements that will help ensure that Northwest Florida can be the winner in the USCG competitive rebid, thus maintaining the 900 jobs that will be needed during the construction of those 15 additional ships.

ESG's post-hurricane application addendum contains a description of the sources and uses of funds for the 30-some elements of the proposed improvements. From the descriptions of activities and from conversations with ESG, it appears that the company has spent, or is currently expending, about \$13.8 million of its own money since work began in late 2016 to prepare to perform on the USCG work. Another \$16.5 million has been spent, or is programmed to be spent by local, state, and federal government entities in support of this project. Another \$18 million was spent by the company over a number of years in acquiring and improved the Nelson St. facility and in applying for Phase I (ships 1 – 9) of the USCG award. Some \$26.1 million remains to be spent on the improvements identified, of which Triumph is identified as the funder

for \$20.025 million, with the remaining \$6.075 million presumably to be paid by ESG or other sources.

The project will be transformational for Bay and adjacent counties. Credible analysis suggests that the increment to personal income to Florida residents from Phase 2 activities will be \$2.2 billion (measured in constant 2017 dollars) over the multi-year performance period. Because the project is large enough to affect the overall Bay County labor market, these wage impacts will be seen broadly across the regional economy, even among workers not directly employed by the project or its supply chain. The company has committed that its average wage for the 900 FTE workers to be employed during the project job maintenance period will be at least 115 percent of the County average (as published by EFI for 2018). The project will help elevate the function and visibility of the region in the important shipbuilding and ship repair industry sector. The cost to Triumph per direct job at these levels of employment and award would be \$22,250.

For these reasons, staff rate this program “A” in terms of economic impact to Bay County. **We note that the activities proposed to be accomplished with Triumph funds may require further deliberation by the Triumph Board and the legal team as to eligibility and how best to proceed.**

### **Project Summary (based on information provided by the applicant)**

Eastern Shipbuilding Group (Eastern) requests \$20,000,000 in Triumph funds for expansion and improvements of a shipbuilding facility. The improvements will be dedicated exclusively for 20 years or more to a public purpose, namely the construction of Government-owned vessels to support national defense.

Specifically, the project consists of dedicating Eastern’s Nelson Facility exclusively to the Offshore Patrol Cutter (OPC) program, constructing and expanding its shipbuilding infrastructure, and dredging adjacent public waterways all for the purposes of: 1) establishing a recognized and preferred Government shipbuilding industrial base in the geography of the disproportionately affected counties; and 2) significantly enhancing Eastern’s competitive edge to win the award to construct the 10th through the 25th OPC in order to meet the priorities for economic recovery, diversification, and enhancement of the disproportionately affected counties and sustain that economic growth over the next 20 years.

Direct employees hired by Eastern to perform the OPC contract will include welders, ship-fitters, pipefitters, first-line supervisors of production, operating workers, electricians, mechanical engineers, painters, carpenters, mechanical drafters, construction and related workers, helpers (production workers, freight, stock, and material movers, hand laborers), engineering technicians, machinists, construction workers, maintenance and repair workers, and electronics engineers. Direct employees will learn transferable, sustainable workforce skills, and gain certifications in their respective trades which are valuable across multiple industries.

All of these jobs are expected to earn above minimum wage with the vast majority being compensated at hourly rates of \$11.50 to \$22.50 or more. Annual gross compensation for such jobs will range between \$22,000.00 and \$60,000.00 or more plus benefits.

In addition, Eastern provides an attractive fringe benefits package to its employees. Eastern pays 100% of medical, dental, and group life insurance for its full time employees and pays 65-75% of an employee's dependent coverage. Eastern offers participation in a 401(k) retirement plan that includes formula matching contributions by the employer. Eastern also provides paid vacation and paid holidays, including paid time off for the employee's birthday.

In addition to the above construction jobs, Eastern will also directly employ approximately 70 full time personnel in Eastern's OPC Project Management Office and the United States Coast Guard will itself station approximately 90 full time Coast Guardsmen at the Coast Guard's Project Resident Office located at the shipyard. Together these add approximately 160 full time non-construction personnel directly supporting the OPC program.

The Federal Government does not build its own national security and defense vessels and does not own or operate industrial facilities for that purpose. Rather it turns to private contractors and relies on the nation's privately-owned shipbuilding industrial base. Contractors who wish to be part of that industrial base to supply the Government's needs are required to prohibit public access to the facilities where the Government's work is being conducted. As a result, Eastern's project does not lend itself to a joint application by public and private parties.

In 2016, after a very expensive and intense five year down select competitive process, the US Coast Guard awarded its largest ever vessel procurement contract to Eastern. The contract is to construct a series of 9 OPC vessels over 10 years but the USCG's official procurement plan is to construct at least 25 OPC vessels over 20 years.

After the contract for the initial 9 vessels is fulfilled, the USCG can re-open the OPC program to allow other shipyards to compete with Eastern to construct the remaining 16 vessels. In order to ward off the competition, win the award for the next 16 vessels, and ensure that OPC jobs stay in the region's economy for 20 years, it is vitally important that Eastern establish its shipyard as part of the Government's shipbuilding defense industrial base.

Federal law requires the Department of Defense to annually evaluate and issue a report to Congress on the status and capabilities of the nation's defense industrial base which is essentially a partnership of private industries and contractors, Government entities, non-profit research entities and public and private universities. "The mission of the manufacturing and industrial base policy is to monitor, preserve, and enhance the national security industrial base of the United States."

In its annual report to Congress for Fiscal Year 2017 (Released in March 2018) the Department of Defense noted that there are relatively few shipyards in the U.S. shipbuilding defense industrial base. The report stated that the "shipbuilding defense industrial base consists primarily of seven shipyards owned by four companies and their suppliers." None of those shipyards are in Florida and all of them compete for Government contracts, including the OPC contract. The Report indicated that while the shipbuilding sector remained stable during fiscal year 2017, the number of domestic shipyards has declined over the last two decades, "one of the challenges for the Department of Defense is to maintain a healthy industrial base capable of supporting the fleet growth." This is accomplished in part by Government decisions to single or sole source ship construction projects to those limited number of shipyards comprising the defense industrial base

in order to ensure that their financial health and long term capabilities remain intact as a matter of national security.

From a shipbuilder's perspective, the only way to become a part of the Government's preferred defense industrial base is to dedicate shipyard facilities exclusively to the Government's shipbuilding needs and invest capital into shipyard infrastructure that is uniquely tailored to the Government's shipbuilding needs. In essence, the shipyard commits its facilities and capital exclusively to the Government's ship construction needs in order to maintain the construction capability needed for national security. In exchange, the Government commits to make Government ship procurement decisions in a manner that preserves the stability and resiliency of the shipbuilding defense industrial base, also for the purpose of meeting national security needs. As a result of this exchange, a public-private partnership is formed.

The applicant notes that this partnership is central to their Triumph application. While it is not contractually required to do so, and while Eastern could preserve its capital and complete the OPC contract with less cost, Eastern is dedicating its Nelson Facility exclusively to USCG's OPC program and is making state-of-the-art shipyard improvements to increase production efficiencies for meeting the unique requirements of the OPC and other potential Government shipbuilding programs. By doing so, Eastern can establish its shipyard as the single best location to construct the OPC's and significantly enhance its competitive position to win the award for the next 16 OPC vessels.

In September, 2018, the Government exercised its option to build the first OPC which will be delivered in 2021 and also exercised its option to acquire Long Lead Time Material for the second OPC. It is expected that the Government will exercise its option to build the second OPC in September 2019 as well as the option for Long Lead Time Material for the third OPC. Subsequent options for subsequent OPC's are expected to be exercised at least as often as annually thereafter. Because the construction of each OPC vessel is structured as an option held by the Government, it is necessary that Eastern continue to induce the Government to exercise each option.

Since the submission of its original application, Eastern and its public partners have continued to invest their share of the project budget and make contributions of committed capital toward completion of the project. As can be seen from the revised schedule and budget above, portions of the project have been completed and funded by sources other than Triumph funds. Triumph funds will be the last funds expended.

Further as a result of the US Government's imposition of tariffs on steel and aluminum Eastern's costs for these materials and component parts made from these materials have increased substantially, in some cases as much as twice the cost before the tariffs were imposed. As a result, the costs for completing portion of the project have increased. Eastern is not increasing the amount of its funding request.

A number of public entities recognize the public benefit of this project and have established public-private partnerships with Eastern to support the project, invest funds in the project, and otherwise partner with Eastern to complete the project.

In 2017 Eastern informed officials of the State of Florida about the extensive financial

support that other states were providing to competitive shipyards located in those states in order to help those shipyards compete against Eastern to win Government shipbuilding projects, including the United States Coast Guard Offshore Patrol Cutter project. Under the leadership of Richard Corcoran, Speaker of the Florida House of Representatives, and Joe Negron, President of the Florida Senate, the 2017 Florida legislature appropriated, and on June 2, 2017 Governor Scott approved the expenditure of \$9.5 Million of public funds for construction of shipbuilding infrastructure on private property and related dredging in Bay County and \$6.0 Million toward a floating dry dock, related shipyard infrastructure on private property, and related dredging in Gulf County, both in direct support of the Offshore Patrol Cutter program. In both cases, the funds are being spent to enhance shipbuilding infrastructure on privately-owned industrial land.

In addition to support from the State Legislature, the Florida Department of Transportation and the County Commissions of each of Bay and Gulf Counties have entered into partnering agreements with Eastern in support of Eastern's OPC program. The above appropriated funds are being administered through a grant from the Florida Department of Transportation to the County Commissions of Bay and Gulf Counties. The Florida Department of Transportation and each County Commission entered into a Joint Participation Agreement. The Bay County Commission entered into a Sub-Recipient Agreement with Eastern and the Gulf County Commission entered into an Economic Development Agreement with Eastern to assist Eastern in executing these projects and administering the grants.

In 2016 Eastern applied for and was granted funding in the amount of \$529,868 by the United States Maritime Administration ("MARAD") which was used to help offset the cost of acquiring precision steel and aluminum cutting machinery to be used in constructing the OPC's. Eastern is in the process of applying for additional grants from MARAD to support the OPC program.

In connection with the dredging portions of the project, Bay County has agreed to absorb \$450,000 of expense for disposal of dredged material. Eastern and Bay County are continuing discussions and Bay County may agree to absorb more cost depending on final dredge spoil test results, commercial value, and approval by the Bay County Commission.

Further, the City of Panama City has agreed to contribute a portion of its riparian rights adjacent to City-owned land on Watson Bayou for a perpetual Conservation Easement in Watson Bayou in order to offset some of the environmental impact.

## Funding and Budget (as provided by the applicant)

5. Please provide a Project/Program Budget. Include all applicable costs and other funding sources available to support the proposal.

### A. Project/Program Costs:

Construction:	\$17,550,000.00
Reconstruction:	\$9,700,000.00
Dredging:	\$18,450,000.00
Design, Engineering and Proposal Development:	\$5,500,000.00
Land Acquisition:	\$13,575,000.00
Land Improvement:	
Equipment:	\$5,630,000.00
Salaries:	
Other (specify):	

**Total Project Costs: \$70,405,000.00**

### B. Other Project Funding Sources:

Example Funding Sources (Note: Not an exhaustive list of possible Funding Sources.)

City/County	\$450,000.00
State Legislature	\$15,500,000.00
US Maritime Administration	\$530,000.00
Private Sources	\$33,925,000.00

**Total Other Funding \$ \$50,405,000.00**

**Total Amount Requested: \$20,000,000.00**

*Note: The total amount requested must equal the difference between the costs in 3A. and the other project funding sources in 3.B.*

## Letters of Support

Bay County Board of County Commissioners  
City of Panama City