

Application Score Sheet

Proposed Project: City of Panama City, Panama City Government Shipbuilding Industrial Complex (#185)

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: \$20,025,000.00 (29%)

Triumph Funds Recommended by Staff: \$20,025,00.00

Score: A

ROI: \$28.40 in personal income gain for every dollar of Triumph Gulf Coast cost

Triumph Board Approval: Yes/No

Date:

Economic Analysis

The City of Panama City is in the process of obtaining an easement for the construction and location of improvements intended to support manufacture of Offshore Patrol Cutters (OPC) for the U.S. Coast Guard at 2200 Nelson Street, Panama City. The improvements constructed will be leased to Eastern Shipbuilding Group (ESG) for a term not less than twenty (20) years at a fair market rental rate. ESG will operate the leased improvements exclusively for the public purpose of constructing U.S. Coast Guard vessels for the life of the Lease. The project is intended to establish a recognized and preferred Government shipbuilding industrial base and significantly enhance a regional competitive edge to win the award to construct the 10th through 25th OPC, which will be competitively bid within the next several years. The activities to be undertaken under the infrastructure improvement plan include construction (\$21 mm), reconstruction (\$8.15mm), dredging (\$27mm), equipment purchase (\$5.6mm), design, engineering and proposal development (\$5.5mm), and land acquisition (\$1.075mm). The request for \$20,025,000 of Triumph Gulf Coast funding represents 29.2 percent of the total projected cost.

The application notes that in 2016, after a 5-year bid process, the Coast Guard awarded ESG a contract to construct a series of nine OPC vessels over ten years. This successful bid was the first part of a larger Coast Guard effort to build at least 25 OPC vessels over 20 years. The Triumph award would help the City of Panama City fund improvements to the Nelson Street facility intended to allow ESG to win the contract for vessels 10 to 25. Because ESG already has the contract in hand for the first 9 OPCs, the inducement argument in favor of an incentive award applies to the follow-on 16 ships to be built following the first ten years. Because part of Federal government willingness to make a continuation award to ESG a decade hence will be the speed and efficiency with which it builds the first 9 ships, there is an argument to be made that funding

the requested improvements today would increase ESG's competitiveness in the subsequent bid. Spending Triumph dollars today would need to be keyed to maintenance of current and ongoing improvements throughout the initial contract period (9 ships in 10 years), and several years into what would be the subsequent award period. Thirteen or so years is a long job maintenance period by economic development contract standards and would represent a substantial commitment to higher incomes in the region.

The applicant notes that annual gross compensation for the 900 jobs will range between \$22,000 and \$60,000 per job before fringe benefits. The City's private sector partner, ESG, will provide the job performance guarantee. Conversations with ESG indicate that the jobs will pay wages above the County average wages. Once the spool-up period for these jobs has occurred, ESG envisions a commitment to create and maintain some 900 net new direct jobs in the OPC program. Up to 90 Coast Guard inspection and other staff will have the Nelson Street yard as their primary base of activity during this period.

ESG is already a substantial employer in Bay County. The company intends to submit documentation of approximately 500 existing employees prior to hiring OPC-related workers. These jobs will be maintained at locations other than the Nelson Street yard during the OPC project period, so that ESG will have some 1,400 workers in the Triumph region, mostly in Bay County, throughout the job maintenance period.

The cost per direct job to Triumph Gulf Coast of \$22,250 is competitive with other infrastructure programs approved for potential funding by the Board. It is expected that the increment to personal income in the region over both phases of the project will be as much as \$2.9 billion, or \$145 in additional personal income per dollar requested. Winning the initial bid is already transformational to our region, and the additional work for OPCs 10 – 25 would be as well. Given the good economic impact of these direct jobs in ship manufacturing, but recognizing the need for clarification of the potential legal or political issues associated with choosing to fund this project, staff score this program as a "A."

Return on Investment

Staff suggest that the Triumph Board adopt an ROI metric that is based on increased personal incomes in the region that are expected to result from Triumph funding expended in support of a given project. Specifically, staff propose that our measure of ROI be constructed as the ratio of gains in personal income to Triumph cost. The numerator would be the appropriately discounted value of the increment to inflation-adjusted personal income due to the project (including direct, indirect, and induced increases in personal income) measured over a 20-year period, while the denominator would be the appropriately discounted value of Triumph costs for the project over the period of expenditure.

For this project, the gain in projected discounted personal income over the 2028 – 2037 period (i.e., excluding OPCs 1-9) is \$558,109,757, and the projected discounted cost to Triumph is \$19,639,423, for a ratio of 28.4 dollars in personal income gain for every dollar of Triumph Gulf Coast cost.

Project Summary (based on information provided by the applicant)

The City of Panama City (the City) requests \$20,025,000 in Triumph funds to increase employment opportunities through a public/private partnership by expanding and improving an industrial complex shipbuilding facility on Watson Bayou. The public/partnership proposed will be with Eastern Shipbuilding Group, Inc. ("ESG") who has conducted business within the industrial complex since 1976.

The industrial complex has existed on Watson Bayou for over 80 years. The City has maintained Watson Bayou depths for industrial, commercial and residential use as well as invested in transportation infrastructure that serves the industrial complex. A congressionally designated navigational channel extends from the mouth of Watson Bayou at St. Andrews Bay to U.S. 98. Along the channel, various industrial and commercial uses gain access to the Intracoastal Waterway and the Gulf of Mexico.

Recently, the Port of Panama City expanded its eastern terminal with the purchase of WestRock's bulkhead and the construction of new warehousing facilities. In addition to Watson Bayou's navigational channel, the Intracoastal Waterway, rail services, and US 98 provide multimodal transportation in support of the industrial complex.

Under the proposed public private partnership, the City will be responsible for shipbuilding infrastructure construction and ESG will lease those improvements for a minimum of 20-years at appraised fair market value. The improvements will be dedicated exclusively for a minimum of 20 years for a public purpose, namely for constructing government vessels in order to: establish, achieve, and maintain federal government standards for construction of military vessels on a competitive basis with other government shipyards; and thereby establish the City's industrial complex as part of the Government's defense industrial base.

In 2016, after a very expensive and intense five year down select competitive process, the United States Coast Guard (USCG) awarded its largest ever vessel procurement contract to ESG. The contract is to construct a series of 9 Offshore Patrol Cutter (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 ESG 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 City of Panama City and support the regional economy for 20 years, the applicant believes it is vitally important that Panama City establish ESG's shipyard within Panama City's industrial complex as part of the Government's shipbuilding defense industrial base.

ESG will contribute existing shipbuilding facilities at its Nelson Facility for use in development of the Government shipbuilding industrial facility and the City, with Triumph funding would add improvements, enhancements, and additional infrastructure to such facility.

It is estimated that at the peak of production, ESG will employ approximately 900 employees within the industrial complex solely to fulfill the OPC contract. The City desires to retain those jobs within the Panama City industrial complex to enhance the economic health of the City over a long term, which suffered first by the BP Oil Spill and most recently by Hurricane Michael.

Direct employees hired by ESG 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.

ESG will directly employ approximately 70 full time personnel in the 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.

All of the 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 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 ESG could preserve its capital and complete the OPC contract with less cost, the company 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, ESG can establish its shipyard as the single best location to construct the OPCs 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 ESG continue to induce the Government to exercise each option.

Since the submission of its original application, ESG 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, 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. The applicants are not increasing the amount of their funding request.

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

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 for the public purpose of improving shipbuilding infrastructure in the region to create economic development and jobs.

The Florida Department of Transportation and the County Commissions of each of Bay and Gulf Counties have entered into partnering agreements with ESG in support of ESG'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 ESG and the Gulf County Commission entered into an Economic Development Agreement with ESG to assist ESG in executing these projects and administering the grants.

In 2016 ESG 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. ESG 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. 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.

Bay District Schools has obtained approximately \$1,500,000.00 in legislative appropriations for welding programs. The Haney program enrollment is in August, October and January of each year for a 1,050 hour instructional completion. Basic welding courses will be offered to Rutherford High School students upon completion of a dedicated training facility on Rutherford's campus. Students will also be trained onsite at ESG's Nelson Street shipyard.

ESG will grant to Panama City a temporary non-exclusive easement for the purpose of providing ingress and egress for construction crews, equipment and building supplies upon, over, under and across the area owned and/or leased by ESG at the Nelson Street shipyard.

The Construction Easement shall be used for the sole purpose of construction staging, ingress and egress to the Public Infrastructure Easement. The Public Infrastructure Easement shall be used for the sole purpose of constructing, owning, and operating the aforesaid public infrastructure improvements with a term of 20 years starting in 2019.

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: \$20,025,000.00

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

The amount and identity of other sources of funds for the proposed project or program: The City has maintained Watson Bayou depths for industrial, commercial and residential use as well as invested in transportation infrastructure that services the industrial complex.

ESG has invested, according to 2017 appraised values of the Bay County Property Appraiser's office, over \$11.7M in real estate and tens of millions of dollars in equipment. The company has expended more than \$10M in unreimbursed costs over the past 5 years in a national competition for the OPC contract award. In 2016 ESG 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 state of the art 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. The Florida Legislature appropriated in 2017 \$9.5M for shipbuilding infrastructure and dredging.

In 2017 the Bay County Commission granted equipment tax exemptions totaling \$834,404. USCG will be investing approximately \$2.38B in the initial construction phase and approximately \$8.12B in the final phase.

