The original documents are located in Box 29, folder "Seatrain Shipbuilding Corporation" of the John Marsh Files at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

5/5/75

MR. MARSH:

Karl Bakke's Office delivered the attached for your perusal.

connie

File

FEDERAL FINANCIAL ASSISTANCE TO SEATRAIN SHIPBUILDING CORPORATION ("SEATRAIN")

On June 25, 1966, the Brooklyn Navy Yard closed, costing an estimated 10,000 civilian and military direct and indirect jobs. The closing contributed to an area unemployment rate of 12.9% versus the then 3.8% national average unemployment rate. The shut-down was estimated to have cost 2,500 job losses in the community around the Yard and attendant reduction in business in the area. As a result, the Economic Development Administration, under Title IV, Section 401(a)(4), "Sudden Unemployment Rise," designated the Yard and almost 1,000 acres in Brooklyn in August 1966 a redevelopment area. The designation made the area eligible for EDA assistance.

Following this period, a long-term relationship of cooperation and commitment between the Federal government, the City of New York, and Seatrain Shipbuilding Corporation was formed to alleviate the adverse impact of the yard-closing on this economically depressed area. Since its inception, the effort has been an innovative and often unprecedented social and economic experiment.

The Commerce, Labor, Industry Corporation of Kings (CLICK), a broad-based private non-profit organization, was assigned by EDA and the City of New York the responsibility for the industrial development and reconversion of the Yard.

The Navy Yard was first made available for industrial development by GSA issuance of a "Right of Entry Permit" to the City of New York. The City then gave its proposed lessee-developer, CLICK, an entry permit. Firms, such as Seatrain, located in the Yard knowing that ownership of the Yard was still Federal and permanent location was dependent upon (1) sale of the Yard to the City and (2) lease of the Yard by the City to CLICK. To an extent, the risk factor was removed when GSA, in 1969, assured Seatrain Shipbuilding that if the Yard reverted to the Government, the three-year lease to Seatrain would be honored.

CLICK is lessee developer of the Yard based on a lease (finally signed December 17, 1971) from the City. The Yard has also been designated as a city urban renewal area by the New York Board of Estimate. This designation makes city expenditures, including financing of the $23,500,000 purchase of the Yard from GSA, eligible for long-term (40-year) general revenue bond financing.

CLICK's Overall Economic Development Program was approved in 1967. The primary goals of the Plan were:

1. To reduce unemployment in the area around the New York Naval Shipyard

2. To convert the shipyard to a diversified industrial complex providing efficient facilities for labor-intense types of business activity

3. To rehabilitate or reconstruct obsolete buildings and related industrial facilities in the area surrounding the Shipyard

4. To stem the exodus of business firms and jobs from the area around the Shipyard

5. To attract new business activity and jobs to the Shipyard and its environs

6. To provide facilities in and around the Shipyard which will permit firms in the area to stay there

7. To train new entrants into the labor force to perform semi-skilled jobs in the electrical products manufacturing industry

8. To train employed workers for higher skilled work in the enterprises in which they are now employed in the Shipyard area

9. To train unemployed workers for semi-skilled and skilled jobs in types of industrial work which provide better opportunities for employment than their present job interest provide

10. To stimulate sufficient economic activity in the Shipyard area to generate 10,000 jobs in the immediate future, and eventually 30,000 jobs as derivative employment directly or indirectly related to the jobs in the Shipyard area.

The first major firm to locate in the Yard was Seatrain Shipbuilding. From the beginning, Seatrain was to be the principal employer and key element for the success of the long-term conversion plan.

Seatrain is on the verge of receivership or bankruptcy unless it can obtain at least $40 million with which to complete two VLCC vessels now under construction. Without further Federal financial assistance, the requisite funds cannot be obtained from private sector financial institutions. This, in turn, jeopardizes prospects for recovery of $87.5 million already committed by the Economic Development Administration and the Maritime Administration. (See Tab A)

Hull #102 was contracted for on June 30, 1972 at a contract price of $62.9 million. Based on this contract price, the maximum authorized construction-differential subsidy (CDS) of $27.0 million was awarded and the maximum authorized Title XI guaranteed construction loan (Title XI) of $30.2 million was committed. At the present time, approximately $22.1 million of CDS and $20.0 million of Title XI have actually been invested in the vessel. It is estimated that, in addition to the balances of CDS and Title XI funds committed but not yet expended, a minimum of $14.3 million will be required to complete the construction of Hull #102. The total construction cost of the vessel, including owner's equity, is projected to be at least $91.0 million.

Hull #103 was contracted for on June 29, 1973 at a contract price of $70.6 million. Based on this contract price, the maximum authorized CDS of $28.8 million was awarded and the maximum authorized Title XI of $34.5 million was committed. Currently, approximately $9.4 million of CDS and $3.5 million of Title XI have actually been expended. It is estimated that a minimum of $25.7 million of new funds will be required to complete the construction of Hull #103 resulting in a total construction cost, including owner's equity, of at least $103.3 million.

The Department of Commerce has carefully reviewed the statutory authorities that might be utilized to make the necessary funds available to Seatrain. The only feasible authority is §202(a) of the Public Works and Economic Development Act of 1965, under which the Economic Development Administration can guarantee up to 90% of loans by private sector financial institutions if specific project criteria can be met. (See Tab B.) In this particular case, because of the risks involved, EDA believes it necessary to establish a reserve fund in the full amounts of its guarantee (i.e., $36+ million). This would, in turn, require legislation to authorize and appropriate the reserve, since program funds are not available for this purpose.

The alternative, of course, is for the Government to do nothing. However, it is clear that Seatrain is unable to raise additional funds from the private sector, absent an EDA guarantee. Given the degree of Federal involvement in Seatrain's conversion of the shipyard to private vessel construction to provide employment and training for the economically disadvantaged labor force in the immediate vicinity of the yard, the government has a significant and substantial "partnership" interest that goes well beyond that of ordinary Federal financial assistance; hence, a unique reason exists for providing further aid to Seatrain (provided that statutory criteria can be satisfied).

TAB A

TAB A

Without further Federal assistance to Seatrain, the estimated net financial loss to the Government would be $100 million or more:

EDA		
Fixed Asset Loan	$ 5,850,000	
Potential Recovery	3,000,000	
		$2,850,000
Chase Working Capital Loan 90% Balance	$ 4,700,000	
Potential Recovery	2,000,000	
Guarantee: 90% of --	2 ,700,000	2,430,000
Continental W/C Loan	$40,000,000	
Plus Interest	2,000,000	
	42,000,000	
Potential Recovery	- 0 -	
Guarantee: 90% of --	$42,000,000	37,800,000
Potential EDA Loss		$43,030,000
MARAD		
Title XI Guaranty	$23,500,000	
CDS Subsidy	31,500,000	
Total	$55,000,000	
Potential Recovery:		
Scrap Value	7,000,000	
Other Collateral	3,500,000	
	$10,500,000	
Total MARAD Loss		$44,500,000
Department of Labor Training		$1,135,000
Unemployment Compensation Payments 2,500 people at $75 per week for one year*		$9,750,000
TOTAL LOSS		$98,415,000

In addition to the above, an undetermined amount of Federal income tax and Social Security withholdings would be lost, thus raising the probable net "cost" of inaction to $100 million or more.

---

* A rough estimate that includes the Federal share. Seatrain workers are eligible for unemployment benefits of not less than $60 nor more than $95 per week for up to 65 weeks. If all 2,500 received benefits averaging $75 per week for the full 65 weeks, the cost would exceed $12 million, of which the State Unemployment Compensation Fund would bear one-half the cost, and the Federal Government the other half.

TAB B

Tab B

EDA Guarantee of Private Sector Loan

The Economic Development Administration has authority, under §202(a) of the Public Works and Economic Development Act of 1965 (the Act), to guarantee up to 90 percent of the outstanding unpaid balance of working capital loans for any industrial or commercial activity that are made by a private lender (e.g., a bank) to a private borrower (e.g., Seatrain).

Section 202(b) of the Act enumerates several restrictions and limitations, only two of which are relevant here; viz.:

- The project for which financial assistance is sought must be reasonably calculated to provide more than a temporary alleviation of unemployment or underemployment within the redevelopment area wherein it is or will be located; and

- No evidence of indebtedness shall be purchased and no loans shall be made or guaranteed unless it is determined that there is reasonable assurance of repayment.

These criteria can be satisfied. The Seatrain yard is in the Bedford-Stuyvesant Redevelopment Area, and the Maritime Administration is prepared to render opinions that (a) outlook for continued viability of the Seatrain yard after completion of the two vessels in question is favorable and (b) the prospect for sale or long-term charter of the two vessels in question upon completion is favorable, thereby providing reasonable assurance that Seatrain will be able to meet its repayment obligations under the guaranteed loan.

While providing an EDA guarantee for repayment of $36 million (the statutory limit on the required $40 million loan) would not involve an outlay of Federal funds at this time, prudent management dictates establishment of a contingency reserve. Given the circumstances of this particular case, EDA believes it desirable to have a reserve in the full amount of the guarantee. Since EDA does not have sufficient uncommitted funds available to fund this reserve, supplementary statutory authorization.

One of the most significant advantages of an EDA loan guarantee over those that would involve MARAD alone is that the decision whether the vessels will be used in foreign or domestic trade can be deferred until completion. Under MARAD options, this decision would have to be made now and justified by a specific economic soundness finding with respect to either the foreign or the domestic trade. Given the uncertainties surrounding conditions in both of these markets, it is prudent to retain the greatest flexibility possible on the employment of the tankers upon delivery. For example, if the foreign trade conditions improve or some specific program is implemented to give relief to U.S.-flag tankers in the foreign trade, the value of the vessels in this trade may be adequate to repay the EDA guaranteed loan. On the other hand, if either of these conditions does not materialize, there is the added option at that time of repaying the CDS, selling the vessels for use in the domestic trade, and repaying the EDA guaranteed loan from the proceeds of sale.

Under this option, EDA and MARAD would take the following steps:

EDA

1. Based upon MARAD's estimate that it will cost a minimum of $40 million to complete the two tankers under construction, over and above the CDS and Title XI funds otherwise payable, EDA would extend a guarantee for 90 percent of this amount to a loan to be provided by a private bank. This guarantee would be secured, at least in part, by a first preferred ship mortgage on the second tanker, Hull 103, to be subordinated to by MARAD.

2. EDA would support Seatrain in negotiations with Chase Manhattan Bank and Continental Illinois Bank to recast the terms of the existing indebtedness to permit the company to retire its obligations in an orderly manner. While such agreements will probably be in the best interest of the banks, the success of this option is dependent upon their cooperation.

3. Contingent upon certain actions and information by MARAD

   (described below), EDA will make the required repayment finding, indicating that there is a sufficient likelihood of repayment.

MARAD

1. Would pay Seatrain an additional amount of $24.3 million in construction-differential subsidy funds as construction proceeds.

2. Would pay Seatrain an additional amount of $41. 3 million in Title XI funds as construction proceeds.

3. Would provide EDA with its estimate that a minimum of $40 million in additional funds will be needed to complete the two ships. If any cost growth should occur, the $13. 8 million letter of credit issued by Chase would be drawn upon for this purpose.

4. Would provide EDA with information substantiating that there is a reasonable assurance that the two tankers can be sold or chartered upon completion at amounts sufficient to cover total government exposure.

5. Would provide EDA with a reasonable assurance that the shipyard can continue as a viable entity after completion of the two tankers.

6. Would agree to EDA having a first preferred ship mortgage on the second tanker, Hull 103, in an amount which, at least in part, will offset the additional EDA guarantee.

After these further investments, the total USG investment would be:

MARAD	-- Old	$55. 0 million
	-- New	65. 6
EDA	-- Old	43. 03
	-- New	36. 0
	TOTAL	$199. 63 million

It is estimated that if there were not a satisfactory market for sale or charter of the ships at the time they are completed, <u>i. e.</u>, the worst possible case, a distress sale would generate $60 million for the two ships, causing a USG net loss of approximately $139. 63 million. (Current exposure is approximately $100 million, as shown in Tab A).

FEDERAL FINANCIAL ASSISTANCE
TO SEATRAIN SHIPBUILDING CORPORATION ("SEATRAIN")

On June 25, 1966, the Brooklyn Navy Yard closed, costing an estimated 10,000 civilian and military direct and indirect jobs. The closing contributed to an area unemployment rate of 12.9% versus the then 3.8% national average unemployment rate. The shut-down was estimated to have cost 2,500 job losses in the community around the Yard and attendant reduction in business in the area. As a result, the Economic Development Administration, under Title IV, Section 401(a)(4), "Sudden Unemployment Rise," designated the Yard and almost 1,000 acres in Brooklyn in August 1966 a redevelopment area. The designation made the area eligible for EDA assistance.

Following this period, a long-term relationship of cooperation and commitment between the Federal government, the City of New York, and Seatrain Shipbuilding Corporation was formed to alleviate the adverse impact of the yard-closing on this economically depressed area. Since its inception, the effort has been an innovative and often unprecedented social and economic experiment.

The Commerce, Labor, Industry Corporation of Kings (CLICK), a broad-based private non-profit organization, was assigned by EDA and the City of New York the responsibility for the industrial development and reconversion of the Yard.

The Navy Yard was first made available for industrial development by GSA issuance of a "Right of Entry Permit" to the City of New York. The City then gave its proposed lessee-developer, CLICK, an entry permit. Firms, such as Seatrain, located in the Yard knowing that ownership of the Yard was still Federal and permanent location was dependent upon (1) sale of the Yard to the City and (2) lease of the Yard by the City to CLICK. To an extent, the risk factor was removed when GSA, in 1969, assured Seatrain Shipbuilding that if the Yard reverted to the Government, the three-year lease to Seatrain would be honored.

CLICK is lessee developer of the Yard based on a lease (finally signed December 17, 1971) from the City. The Yard has also been designated as a city urban renewal area by the New York Board of Estimate. This designation makes city expenditures, including financing of the $23,500,000 purchase of the Yard from GSA, eligible for long-term (40-year) general revenue bond financing.

CLICK's Overall Economic Development Program was approved in 1967. The primary goals of the Plan were:

1. To reduce unemployment in the area around the New York Naval Shipyard

2. To convert the shipyard to a diversified industrial complex providing efficient facilities for labor-intense types of business activity

3. To rehabilitate or reconstruct obsolete buildings and related industrial facilities in the area surrounding the Shipyard

4. To stem the exodus of business firms and jobs from the area around the Shipyard

5. To attract new business activity and jobs to the Shipyard and its environs

6. To provide facilities in and around the Shipyard which will permit firms in the area to stay there

7. To train new entrants into the labor force to perform semi-skilled jobs in the electrical products manufacturing industry

8. To train employed workers for higher skilled work in the enterprises in which they are now employed in the Shipyard area

9. To train unemployed workers for semi-skilled and skilled jobs in types of industrial work which provide better opportunities for employment than their present job interest provide

10. To stimulate sufficient economic activity in the Shipyard area to generate 10,000 jobs in the immediate future, and eventually 30,000 jobs as derivative employment directly or indirectly related to the jobs in the Shipyard area.

The first major firm to locate in the Yard was Seatrain Shipbuilding. From the beginning, Seatrain was to be the principal employer and key element for the success of the long-term conversion plan.

Seatrain is on the verge of receivership or bankruptcy unless it can obtain at least $40 million with which to complete two VLCC vessels now under construction. Without further Federal financial assistance, the requisite funds cannot be obtained from private sector financial institutions. This, in turn, jeopardizes prospects for recovery of $87.5 million already committed by the Economic Development Administration and the Maritime Administration. (See Tab A)

Hull #102 was contracted for on June 30, 1972 at a contract price of $62.9 million. Based on this contract price, the maximum authorized construction-differential subsidy (CDS) of $27.0 million was awarded and the maximum authorized Title XI guaranteed construction loan (Title XI) of $30.2 million was committed. At the present time, approximately $22.1 million of CDS and $20.0 million of Title XI have actually been invested in the vessel. It is estimated that, in addition to the balances of CDS and Title XI funds committed but not yet expended, a minimum of $14.3 million will be required to complete the construction of Hull #102. The total construction cost of the vessel, including owner's equity, is projected to be at least $91.0 million.

Hull #103 was contracted for on June 29, 1973 at a contract price of $70.6 million. Based on this contract price, the maximum authorized CDS of $28.8 million was awarded and the maximum authorized Title XI of $34.5 million was committed. Currently, approximately $9.4 million of CDS and $3.5 million of Title XI have actually been expended. It is estimated that a minimum of $25.7 million of new funds will be required to complete the construction of Hull #103 resulting in a total construction cost, including owner's equity, of at least $103.3 million.

The Department of Commerce has carefully reviewed the statutory authorities that might be utilized to make the necessary funds available to Seatrain. The only feasible authority is §202(a) of the Public Works and Economic Development Act of 1965, under which the Economic Development Administration can guarantee up to 90% of loans by private sector financial institutions if specific project criteria can be met. (See Tab B.) In this particular case, because of the risks involved, EDA believes it necessary to establish a reserve fund in the full amounts of its guarantee (i.e., $36+ million). This would, in turn, require legislation to authorize and appropriate the reserve, since program funds are not available for this purpose.

The alternative, of course, is for the Government to do nothing. However, it is clear that Seatrain is unable to raise additional funds from the private sector, absent an EDA guarantee. Given the degree of Federal involvement in Seatrain's conversion of the shipyard to private vessel construction to provide employment and training for the economically disadvantaged labor force in the immediate vicinity of the yard, the government has a significant and substantial "partnership" interest that goes well beyond that of ordinary Federal financial assistance; hence, a unique reason exists for providing further aid to Seatrain (provided that statutory criteria can be satisfied).

TAB A

Without further Federal assistance to Seatrain, the estimated net financial loss to the Government would be $100 million or more:

EDA

Fixed Asset Loan	$ 5,850,000	
Potential Recovery	3,000,000	
		$2,850,000
Chase Working Capital Loan 90% Balance	$ 4,700,000	
Potential Recovery	2,000,000	
Guarantee: 90% of --	2,700,000	2,430,000
Continental W/C Loan	$40,000,000	
Plus Interest	2,000,000	
	42,000,000	
Potential Recovery	- 0 -	
Guarantee: 90% of --	$42,000,000	37,800,000
Potential EDA Loss		$43,030,000

MARAD

Title XI Guaranty	$23,500,000	
CDS Subsidy	31,500,000	
Total	$55,000,000	
Potential Recovery:		
Scrap Value	7,000,000	
Other Collateral	3,500,000	
	$10,500,000	
Total MARAD Loss		$44,500,000
Department of Labor Training		$1,135,000
Unemployment Compensation Payments 2,500 people at $75 per week for one year*		$9,750,000
TOTAL LOSS		$98,415,000

In addition to the above, an undetermined amount of Federal income tax and Social Security withholdings would be lost, thus raising the probable net "cost" of inaction to $100 million or more.

* A rough estimate that includes the Federal share. Seatrain workers are eligible for unemployment benefits of not less than $60 nor more than $95 per week for up to 65 weeks. If all 2,500 received benefits averaging $75 per week for the full 65 weeks, the cost would exceed $12 million, of which the State Unemployment Compensation Fund would bear one-half the cost, and the Federal Government the other half.

TAB B

Tab B

EDA Guarantee of Private Sector Loan

The Economic Development Administration has authority, under §202(a) of the Public Works and Economic Development Act of 1965 (the Act), to guarantee up to 90 percent of the outstanding unpaid balance of working capital loans for any industrial or commercial activity that are made by a private lender (e.g., a bank) to a private borrower (e.g., Seatrain).

Section 202(b) of the Act enumerates several restrictions and limitations, only two of which are relevant here; viz.:

- The project for which financial assistance is sought must be reasonably calculated to provide more than a temporary alleviation of unemployment or underemployment within the redevelopment area wherein it is or will be located; and

- No evidence of indebtedness shall be purchased and no loans shall be made or guaranteed unless it is determined that there is reasonable assurance of repayment.

These criteria can be satisfied. The Seatrain yard is in the Bedford-Stuyvesant Redevelopment Area, and the Maritime Administration is prepared to render opinions that (a) outlook for continued viability of the Seatrain yard after completion of the two vessels in question is favorable and (b) the prospect for sale or long-term charter of the two vessels in question upon completion is favorable, thereby providing reasonable assurance that Seatrain will be able to meet its repayment obligations under the guaranteed loan.

While providing an EDA guarantee for repayment of $36 million (the statutory limit on the required $40 million loan) would not involve an outlay of Federal funds at this time, prudent management dictates establishment of a contingency reserve. Given the circumstances of this particular case, EDA believes it desirable to have a reserve in the full amount of the guarantee. Since EDA does not have sufficient uncommitted funds available to fund this reserve, supplementary statutory authorization.

One of the most significant advantages of an EDA loan guarantee over those that would involve MARAD alone is that the decision whether the vessels will be used in foreign or domestic trade can be deferred until completion. Under MARAD options, this decision would have to be made now and justified by a specific economic soundness finding with respect to either the foreign or the domestic trade. Given the uncertainties surrounding conditions in both of these markets, it is prudent to retain the greatest flexibility possible on the employment of the tankers upon delivery. For example, if the foreign trade conditions improve or some specific program is implemented to give relief to U.S.-flag tankers in the foreign trade, the value of the vessels in this trade may be adequate to repay the EDA guaranteed loan. On the other hand, if either of these conditions does not materialize, there is the added option at that time of repaying the CDS, selling the vessels for use in the domestic trade, and repaying the EDA guaranteed loan from the proceeds of sale.

Under this option, EDA and MARAD would take the following steps:

EDA

1. Based upon MARAD's estimate that it will cost a minimum of $40 million to complete the two tankers under construction, over and above the CDS and Title XI funds otherwise payable, EDA would extend a guarantee for 90 percent of this amount to a loan to be provided by a private bank. This guarantee would be secured, at least in part, by a first preferred ship mortgage on the second tanker, Hull 103, to be subordinated to by MARAD.

2. EDA would support Seatrain in negotiations with Chase Manhattan Bank and Continental Illinois Bank to recast the terms of the existing indebtedness to permit the company to retire its obligations in an orderly manner. While such agreements will probably be in the best interest of the banks, the success of this option is dependent upon their cooperation.

3. Contingent upon certain actions and information by MARAD

   (described below), EDA will make the required repayment finding, indicating that there is a sufficient likelihood of repayment.

MARAD

1. Would pay Seatrain an additional amount of $24.3 million in construction-differential subsidy funds as construction proceeds.

2. Would pay Seatrain an additional amount of $41.3 million in Title XI funds as construction proceeds.

3. Would provide EDA with its estimate that a minimum of $40 million in additional funds will be needed to complete the two ships. If any cost growth should occur, the $13.8 million letter of credit issued by Chase would be drawn upon for this purpose.

4. Would provide EDA with information substantiating that there is a reasonable assurance that the two tankers can be sold or chartered upon completion at amounts sufficient to cover total government exposure.

5. Would provide EDA with a reasonable assurance that the shipyard can continue as a viable entity after completion of the two tankers.

6. Would agree to EDA having a first preferred ship mortgage on the second tanker, Hull 103, in an amount which, at least in part, will offset the additional EDA guarantee.

After these further investments, the total USG investment would be:

MARAD	-- Old	$55.0 million
	-- New	65.6
EDA	-- Old	43.03
	-- New	36.0
	TOTAL	$199.63 million

It is estimated that if there were not a satisfactory market for sale or charter of the ships at the time they are completed, i.e., the worst possible case, a distress sale would generate $60 million for the two ships, causing a USG net loss of approximately $139.63 million. (Current exposure is approximately $100 million, as shown in Tab A).