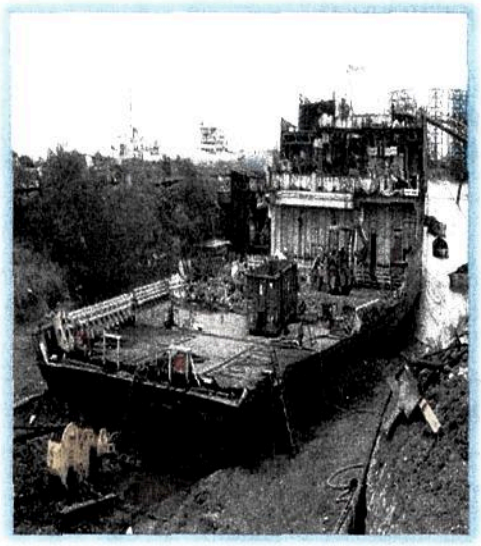
REPORT TO CONGRESS
MARITIME ADMINISTRATION
VESSEL DISPOSAL PROGRAM

March 2016



U. S. Department of Transportation

Maritime Administration

TABLE OF CONTENTS

Crosswalk for the Consolidated Report Requirements

Consolidated Report: Requested by the Committee on Armed Services, House of Representatives, in Title XXXV of House Report 113-446 on the Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year (FY) 2015, Public Law 113-291			
Table of Contents List of Acronyms Executive Summary		Page i Page iv Page 1	
Section I. Maritime Administration Ship Disposal Program Section II. Navy Ship Disposal Program Section III. U.S. Coast Guard Ship Disposal Program		Page 4 Page 25 Page 33	
Consolidated Report Requirements	**MARAD** **Section I.**	**NAVY** **Section II.**	**COAST GUARD** **Section III.**
1. Vessel Projections			
a. 5-year program projection for vessel scrapping	Five Year Disposal *Projections* Figure G. page 21	Five Year Disposal *Projections* Figure J. page 26	Five Year Disposal *Projections* Figure N. page 34
b. Estimated vessels remaining at the end of that 5-year period	Figure G. page 21	Figure J. page 26	Figure N. page 34
2. Program Comparison			
a. Description of Vessel Disposal Programs	MARAD Best Value Solicitation Process Page 9	Navy Source Selection Procedures Page 26	USCG Source Selection Procedures Page 34
3. Best Value			
a. MARAD best value criteria	Basis for Best Value Awards page 15	Invitation for Bid (IFB)/Defense Logistics Agency *Page 28*	Auction/General Services Administration (GSA) *Page 34*
b. Best value criteria ranking	Basis for Best Value Awards page 15	Not Applicable	Not Applicable
4. Appropriations/ Expenditures			
a. Annual Appropriations last 5 years	Ship Disposal Funding page 17 Annual Appropriations Figure C. page 17	Navy Ship Disposal Funding Figure K. page 32	USCG Funding None
b. Sales revenue and account disbursements last 5 years.	Sales Revenue Figure *D.* page *18* Vessel Operations Revolving Fund (VORF) Distributions Figure E. page 19	None	None

List of Acronyms

B	
Beaumont Reserve Fleet	(BRF)
C	
Clean Water Act	(CWA)
D	
Deep Sink Exercises	(SINKEX)
Defense Federal Acquisition Regulations	(DFAR)
Defense Logistics Agency	(DLA)
Department of Homeland Security	(DHS)
E	
Environmental Protection Agency	(EPA)
ESCO Marine, Inc.	(ESCO)
F	
Federal Acquisition Regulation	(FAR)
Federal Property and Administrative Services Act	(FPSA)
Firm Fixed Price	(FFP)
Fiscal Year	(FY)
G	
General Services Administration	(GSA)
General Technical Proposal	(GTP)
Government Accountability Office	(GAO)
I	
Inactive Ships Office	(SEA 21I)
Inactive Ships Maintenance Office – Bremerton, WA	(INACTSHIPMAINTO-BR)
Inactive Ships Maintenance Office – Philadelphia, PA	(INACTSHIPMAINTO-PA)
Inactive Ships Maintenance Office – Pearl Harbor, HI	(INACTSHIPMAINTO-PH)
Indefinite-Delivery/Indefinite-Quantity	(IDIQ)
Invitation for Bid	(IFB)
J	
James River Reserve Fleet	(JRRF)
M	
Memorandum of Agreement	(MOA)
Marine Metal, Inc.	(MMI)
Maritime Administration	(MARAD)

N

National Defense Authorization Act	(NDAA)
National Defense Reserve Fleet	(NDRF)
National Environment Protection Act	(NEPA)
National Heritage Grant Program	(NHGP)
National Historic Preservation Act	(NHPA)
National Invasive Species Act	(NISA)
National Maritime Heritage Act	(NMHA)
National Park Service	(NPS)

O

Occupational Safety and Health Administration	(OSHA)

P

Polychlorinated biphenyls	(PCB)

R

Request for Price Quotation	(RFPQ)
Request for Sales Offers	(RFSO)
Request for Technical Proposals	(RFTP)

S

Sales Contracting Officer	(SCO)
Ship Disposal Program	(SDP)
Suisun Bay Reserve Fleet	(SBRF)

T

Technical Compliance Plan	(TCP)
Test Program for Certain Commercial Items	(TPCCI)
Toxic Substances Control Act	(TSCA)

U

United States Merchant Marine Academy	(USMMA)
United States Navy	(NAVY)
United States Coast Guard	(USCG)

V

Vessel Operations Revolving Fund	(VORF)

REPORT TO CONGRESS

MARITIME ADMINISTRATION

VESSEL DISPOSAL PROGRAM

EXECUTIVE SUMMARY

The Maritime Administration (MARAD) produced this report in consultation with the Navy Inactive Ships Office (SEA 21I) and the United States Coast Guard (USCG) Personal Property Accountability Division (CG-844) to provide the following; 1) five (5) year projections for vessel disposals with an estimation of vessels remaining at the end of the term, 2) descriptions of the MARAD, Navy and USCG ship disposal programs, 3) an explanation of the criteria MARAD uses in determining "best-value" when evaluating ship disposal procurement proposals and the relative ranking of the importance of each of those criteria and 4) a detailed explanation of amounts appropriated and expended in carrying out the ship disposal program, and of amounts received and disbursed from the sales of vessels disposed of through that program over the previous five (5) fiscal years.

INTRODUCTION

This consolidated report is submitted in response to the direction of the Committee on Armed Services, House of Representatives, in H.R. 4435, Report 113-446, TITLE XXXV—MARITIME ADMINISTRATION, Items of Special Interest, at page 370, dated May 13, 2014. This House Report was issued in connection with the National Defense Authorization Act for Fiscal Year 2015. The specific report language directing MARAD to provide the report states: "Therefore, in coordination with the Secretary of the Navy, the committee directs the Secretary of Transportation to provide the Committee on Transportation and Infrastructure of the House of Representatives, the Committee on Commerce, Science, and Transportation of the Senate, and the Committees on Armed Services of the Senate and the House of Representatives by March 1, 2015 a report on the ship disposal program that:

(1) Provides a 5-year program projection for vessel scrapping under the ship disposal program, and an estimate of the vessels remaining at the end of that 5-year period;
(2) Compares the MARAD ship disposal program with other federal ship disposal programs;
(3) Explains the criteria MARAD uses in determining "best value" when evaluating ship disposal procurement proposals, and the relative ranking of the importance of each of those criteria;
(4) Provides a detailed explanation of amounts appropriated and expended in carrying out the ship disposal program, and of amounts received and disbursed from the sales of vessels disposed of through that program over the previous 5 fiscal years."

Section I provides an overview of the MARAD vessel disposal program including the best-value source selection process used for awarding sales and service ship dismantling and recycling contracts, amount of appropriated funds expended to carry out the ship disposal program and revenues accrued and disbursed from the sale of non-retention vessels. The report also summarizes program accomplishments and activities from FYs 2010-2015 and through December 31, 2015. The report also outlines the program vessel disposal projections and anticipated challenges for the five-year period FYs 2016-2020.

Section II includes the status of Navy-titled, non-combatant inactive vessels awaiting disposal through the MARAD disposal program including Navy vessels located at MARAD NDRF sites and the U. S. Navy Inactive Ship sites. The report provides an overview of the Navy source selection processes for awarding sales and service ship recycling contracts for inactive vessels, amount of appropriated funds expended to carry out the ship dismantling and recycling contracts and vessel disposal projections for the five-year period FYs 2016-2020.

Section III provides a brief overview of the USCG vessel disposal alternatives, an overview of the USCG source selection process and vessel disposal projections for the five-year period FYs 2016-2020.

Historic Low Number of Ships Awaiting Disposal

MARAD's Ship Disposal Program (SDP) continues to meet or exceed key performance measures related to the disposal of non-retention vessels including the removal of more non-retention vessels annually than the average number of vessels entering the disposal queue each year. [1] At the end of FY 2014, there were 23 non-retention vessels remaining in MARAD's three NDRF sites and two of the Navy's Inactive Ship sites awaiting disposal through the MARAD ship disposal program. By December 31, 2015, there were 16 non-retention vessels remaining in MARAD's three NDRF sites and the Navy's Inactive Ship Maintenance Office in Philadelphia, PA (INACTSHIPMAINTO-PA), awaiting disposal through the MARAD ship disposal program.[2] This total is a historic low compared to the 152 vessels awaiting disposal in the NDRF at the beginning of FY 2007.

Noteworthy progress for the program includes exceeding the requirements of the March 2010 California Consent Decree for the removal of non-retention vessels from the Suisan Bay Reserve Fleet (SBRF) located north of San Francisco. By the end of FY 2015, 54 of 57 SBRF vessels had been removed from the SBRF for disposal, leaving three ships listed in the Consent Decree remaining to be removed by the end of FY 2017. MARAD continues aggressively to pursue removal of the remaining vessels ahead of schedule within the limits of appropriated funds.[3]

---

[1] Ship Disposal performance measures can be found in the 2014 Ship Disposal Annual Report located at http://www.marad.dot.gov/wp-content/uploads/pdf/Annual_Office_of_Ship_Disposal_Report_2014_.pdf on page 14.

[2] In November 2015, Navy removed the ex-RACINE located in Pearl Harbor HI from the MARAD disposal queue and repurposed the vessel for use in a future Navy SINKEX exercise.

[3] The March 2010 Consent Decree can be found at http://www.waterboards.ca.gov/water_issues/programs/enforcement/docs/suisunbay_decree.pdf

These results are especially significant because MARAD is required to comply with environmental statutes that do not apply to a number of other Federal entities[4]. As a result, MARAD's environmental responsibilities with respect to ship disposal include some of the most stringent and costly environmental requirements applicable to any Federal agency. For example, MARAD currently must pay to dry-dock and clean the hulls of all non-retention SBRF vessels prior to their final tow to the nearest qualified dismantling/recycling facility. MARAD only recycles vessels at facilities in the United States (U.S.) that have been prequalified and the nearest facilities from San Francisco are located over 5,000 nautical miles away in Louisiana and Texas.

[4] The Navy and Coast Guard are exempt from certain provision of the Ballast Water Management Act and the Aquatic Invasive Species Act for national security reasons.

I. MARITIME ADMINISTRATION SHIP DISPOSAL PROGRAM

Overview

The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398, § 3502, 114 Stat. 1654A-490 (2000) (the Act), required the disposal of all vessels in MARAD's NDRF that were not assigned to the Ready Reserve Force or otherwise designated to be used for a particular purpose. Prior to 2001, the law provided that non-retention vessels should be sold "in a manner that maximizes the return on the vessels to the U.S." However, Congress directed MARAD also to take into account environmental, worker safety and vessel scheduling issues to make a "best-value" determination consistent with the Federal Acquisition Regulation (FAR)[5] regarding non-retention vessel disposal decisions. Congress also authorized MARAD to pay for vessel disposal services.

Since the establishment of the Program in 2001, MARAD has aggressively pursued all feasible disposal alternatives including domestic recycling, the sale of ships for re-use, artificial reefing, deep-sinking and the potential for donation. However, the presence of polychlorinated biphenyls (PCBs), the high cost of vessel acquisition, preparation and environmental clean-up limits these disposal alternatives as viable disposal options. The disposal alternatives are demand based and vessel specific requiring the requestor to obtain funding, permits and environmental clearances prior to submitting proposals or applications to MARAD for disposal of the vessel. Domestic recycling has proven to be the most expedient and cost-effective disposal alternative for MARAD's non-retention vessels. The other permitted disposal alternatives are evaluated for disposal opportunities as industry demand warrants. In the 15-year period since 2001, MARAD awarded dismantling contracts for 214 non-retention vessels, removed 218 ships from the three MARAD NDRF and the two Navy Inactive Ship sites and completed disposal actions on 214 ships. During this period, 132 ships were downgraded from retention to non-retention status and added to the disposal queue. It is anticipated that an additional two to four retention ships will be downgraded and added to the disposal queue annually for the foreseeable future.

Through the use of full and open competition, MARAD primarily uses sales and service contracts to achieve environmentally acceptable removal and disposal of its non-retention vessels. Recognizing the origin of the greatest environmental risks, MARAD continues to adhere to the policy of prioritizing removal for disposal of those non-retention vessels that are in the worst material condition. The annual goal is to remove non-retention vessels at an overall rate that is greater than the number added to the disposal queue each year.

Domestic Scrap Steel Prices

Scrap steel prices continued their sharp downward trend in FY 2015. In January 2015, scrap steel prices were approximately $320 per ton and by October 2015 had dropped to a low of approximately $135 per ton; a 58 percent decrease. Scrap steel prices had dropped to levels not seen in the previous 10 to 15 years. By December 31, 2015, scrap steel prices were hovering around $142 per ton with little upward movement expected. The scrap steel market has been in a downward spiral since its $400 per ton peak in January 2014 with the most dramatic decline occurring in 2015. Recovery in scrap steel prices is not expected in the near term as continued

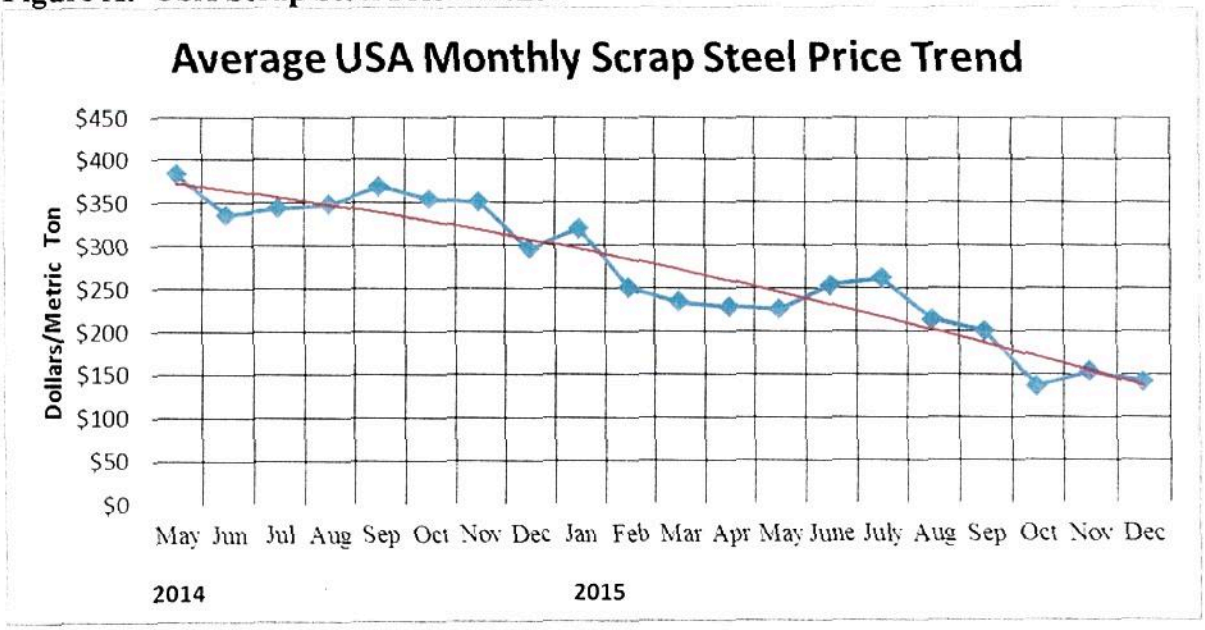
[5] Federal Acquisition Regulation (FAR) Part 13 Simplified Acquisition Procedures

downward pressure from the slowing of the Chinese economy, weak domestic economy, lower commodity prices, strong dollar and uncertainty regarding interest rates exert pessimistic outlooks for near term price recovery. Short term price fluctuations are expected and will be subject to short term supply and demand in the scrap metal markets. Significant scrap steel price recovery is not forecast until late 2016 and possibly into 2017 with scrap steel prices remaining in a narrow range of approximately $150 to $250 per ton.

The current low price of scrap steel makes it uneconomical for ship recyclers to recycle MARAD/Navy non-retention vessels without award of a service contract to subsidize costs. Figure A below shows the trend in U.S. scrap steel prices during FY 2015.

Currently, revenues from the sale of the vessel scrap ferrous and non-ferrous metals are insufficient to cover the fixed costs of purchase, towing, insurance and labor much less the unknown hazardous material remediation costs. Predicting the price of scrap steel five to six months after contract award, when the vessels are undergoing dismantlement, in a declining scrap steel market, along with disposal of unknown quantities of ship board hazardous materials is too great a risk for the smaller recyclers to accept. These factors limit competition for the purchase of vessels, with the recycling industry looking to MARAD and the Navy to subsidize the disposal of non-retention vessels through the procurement of ship recycling services.

Figure A: USA Scrap Steel Price Trends



Source Data: Data for the chart is compiled from the following, www.scrapmonster.com, www.recycle.net, www.steelonthenet.com and recycling.about.com.

The sharp decline in the price of scrap steel in FY 2015 has reversed the MARAD ship sales program to the point where ship sales are no longer feasible. MARAD is now required to procure ship recycling services using appropriated funds. MARAD planned to remove three SBRF vessels for disposal in FY 2015 leaving two vessels for disposal in FY 2016. However,

the severe drop in scrap steel prices increased ship recycling costs to the point that MARAD removed only two SBRF vessels in FY 2015 leaving three vessels remaining to be removed.

Domestic Ship Recycling Industry

At the start of FY 2015, there were six qualified MARAD ship recycling facilities all located on the Gulf Coast in Louisiana and Texas. Two additional facilities were qualified in May, one in Brownsville, TX and one in Sulphur, LA bringing the total to eight qualified ship recycling facilities all located in the Gulf Coast.

The sharp drop in scrap steel prices has severely impacted the domestic ship recycling industry. In March 2015, ESCO Marine, Inc. (ESCO), the largest MARAD qualified ship recycling facility, filed for bankruptcy protection in the U.S. District Court for the Southern District of Texas, Brownsville Division. ESCO's closing removed ship recycling capacity which is no longer available to MARAD for disposal of its non-retention ships. At the time of its closing ESCO was dismantling the Navy aircraft carrier ex-SARATOGA and two former MARAD vessels SHENANDOAH and YELLOWSTONE. Court supervised re-organization proceedings are ongoing with the goal of ESCO restarting recycling operations on the Navy's aircraft carrier and the two former MARAD vessels currently at the facility. At this time, it is unknown when or if ESCO will resume operations.

Domestic ship recycling capacity is currently adequate to meet MARAD's requirements given the decreasing number of non-retention ships available for disposal and the impact of falling scrap steel prices on ship sales and limited appropriations to procure ship recycling services. However, there is concern that the current available industrial capacity and competition for MARAD's vessels will decrease as production continues on the dismantling/recycling of the three Navy aircraft carriers at the three largest qualified recycling facilities and the pending award of two additional carrier recycling contracts by the Navy -- one each in FY 2016 and FY 2017. The pending award of two additional aircraft carrier recycling contracts by the Navy -- one each in FY 2016 and FY 2017 will continue to limit capacity and competition for the next few years. This diminished available capacity first became evident in 2014 when the three largest MARAD qualified recycling facilities that were awarded Navy aircraft carriers chose not to participate in MARAD ship recycling announcements.[6] If ESCO is unsuccessful in resuming operations, the loss of the facility's capacity, the largest capacity for recycling of MARAD/Navy vessels, will further erode the current overall industry capacity for recycling of MARAD/Navy vessels.

In FY 2015, low scrap steel prices further reduced available capacity as ship recyclers, unable to cover fixed costs through vessel sales, choose not to participate in MARAD ship recycling sales announcements. Volatile scrap steel prices coupled with future price uncertainty increase risk for profits from ship recycling operations. Under capitalized companies are less competitive and increasingly rely on Government service contracts to sustain operations.

[6] MARAD and Navy have qualified a number of the same facilities to perform ship recycling. The three facilities qualified by Navy to dismantle aircraft carriers are also the largest recyclers qualified by MARAD. They represent the largest recyclers in the industry and account for the majority of MARAD ship recycling contract awards.

Other MARAD qualified ship recycling facilities have reduced the scope of their operations due to the falling scrap steel markets. MARAD terminated two ship recycling service contracts in July 2015 after the recycler cancelled the contracts due to projected losses from operations directly attributable to the collapse of scrap steel prices after submittal of their offers. As the price of scrap steel continued its steep decline smaller facilities found it harder to obtain financing to continue operations and to acquire new scrapping projects. Seeking fresh capital Marine Metal, Inc. (MMI) was sold to new owners in November 2015 and Bay Bridge Texas, LLC underwent organizational restructuring to reduce expenses. In September 2015, MMI lost its MARAD technical acceptance qualification status due to concerns regarding financial viability. By the end of FY 2015, MARAD had only six qualified operational ship recycling facilities.

Foreign Recycling

Statutory and regulatory restrictions have eliminated foreign recycling of non-retention vessels as a viable program alternative. In accordance with the Duncan Hunter National Defense Authorization Act for FY 2009, P.L. 110-47, §3502, Stat. 4356 (October 14, 2008), with limited exceptions, no vessel owned by the U.S. Government will be approved for export to a foreign country for purposes of dismantling, recycling or scrapping. The limited exception exists for a specific vessel when the Maritime Administrator certifies to the Committees on Armed Services of the House of Representatives and the Committee on Commerce, Science and Transportation of the Senate that there is (1) a compelling need for dismantling, recycling or scrapping (2) there is no available capacity in the U.S. to conduct the dismantling, recycling or scrapping; (3) any dismantling, recycling or scrapping in a foreign country will be conducted in full compliance with environmental, safety, labor and health requirements for ship dismantling that are equivalent to the laws of the U.S. and (4) the export of the vessel under this section will only be for dismantling, recycling or scrapping of the vessel.

In addition, the Toxic Substances Control Act (TSCA) and its implementing regulations prohibit the export of PCBs above the regulated limit. This effectively precludes foreign dismantling of most current non-retention vessels. The vast majority of these vessels, due to their age of construction, likely contain PCBs above the regulated limit. Such vessels must either be cleaned of such PCBs in the U.S. or permission must be obtained to export such vessels with PCBs. Obtaining permission to export such vessels would require a lengthy formal Environmental Protection Agency (EPA) administrative rulemaking process to create an exemption to allow the export.

Environmental Stewardship

MARAD remains committed to disposing of non-retention vessels in a manner that minimizes any adverse effect on the environment. In addition to developing a National Environment Protection Act (NEPA) Programmatic Environmental Assessment (EA) for ship disposal, MARAD initiated a series of best management practices related to maintenance, transport and disposal of non-retention vessels. As part of that effort, the Agency initiated underwater hull cleaning prior to towing those vessels to recycling facilities in other bio-geographical areas to reduce the risk of transporting aquatic invasive species.

Pursuant to an agreement with the State of California, MARAD began cleaning marine growth and loose exterior paint from the vessels through dry-docking prior to towing SBRF vessels to recycling facilities in different bio-geographical areas. The process was designed to mitigate the transfer of potential invasive marine species and the discharge of exfoliating paint during transit. In 2009, MARAD contracted with, at that time, the only available San Francisco area facility for dry-docking services to remove marine growth from the hull and exfoliated paint from topside surfaces. In addition, MARAD worked with Louisiana, Texas and Virginia, to address each of those states environmental concerns related to the transport of aquatic invasive species.

Ship Disposal Alternatives

The sale of ships for re-use, artificial reefing, deep-sinking and donation are all disposal alternatives that are available for utilization by MARAD. However, over time dismantling/recycling remains the most expedient and cost-effective method. Figure B shows the number of vessels awarded for disposal since 2001 by each method. The 204 ships awarded in recycling contracts represents 95 percent of the total 214 vessels disposed of by MARAD since 2001. The other 10 vessels were disposed of through the other four disposal methods, partly due to significantly less demand by coastal States for artificial reefing projects, applications from non-profit organizations for specific vessel donations, curtailment of the Navy's deep-sinking program, and limitations on vessel usage for sales for re-use. The high cost of vessel acquisition, PCB and hazardous material remediation, and environmental preparations render these disposal alternatives costly when compared to domestic recycling.

The Agency currently has four qualified ship recycling facilities in Brownsville, TX, one each in New Orleans, Amelia and Sulphur, LA.[7] The Navy's Program, which includes Navy service contracts for inactive vessels and inactive vessel sales for recycling through the Defense Logistics Agency (DLA) utilizes some of the same facilities. The three recycling contractors currently used by the Navy for dismantling/recycling of its conventional aircraft carriers are also qualified contractors under MARAD's Program and are currently considered the three domestic facilities with the greatest current industrial capacity. As noted previously, the award by the Navy of two-year recycling contracts in FYs 2014 and 2015 for four aircraft carriers and the increase of contract awards for smaller inactive vessels by DLA in FY 2015 has the potential to cause industrial capacity shortages and less competition for contract awards.

[7] ESCO Marine, Inc. a qualified ship recycler in Brownsville, TX, ceased operations in February 2015. On March 6, 2015, ESCO filed for Chapter 11 bankruptcy protection. As of December 2015, it is unknown when or if ESCO will resume operations.

Figure B: Vessel Awards by Fiscal Year

Vessel Awards by Disposal Option by Fiscal Year																	
Type of Disposal	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Totals
Recycling (Fee for Service)	5	2	15	11	16	13	14	4	8	11	10	0	0	3	2	0	114
Recycling (Sales)	0	0	0	2	1	5	4	16	5	0	8	16	19	8	5	1	90
Artificial Reefing	1						2			1							4
SINKEX					2												2
Donation								1									1
Sale for Reuse							3										3
Totals	6	2	15	13	19	18	23	21	13	12	18	16	19	11	7	1	214

Awards for FY 2016 are through 12/31/2015

Simplified Acquisition for Vessel Recycling

In January 2005, MARAD utilized the Test Program for Certain Commercial Items (TPCCI) authorized by the FAR Subpart 13.5 to implement the use of Standing Quotations as the primary method for soliciting vessel recycling services. The TPCCI was made permanent with the passage of the FY 2015 National Defense Authorization Act. The use of Standing Quotations is a simplified acquisition procedure for the competitive procurement of commercial vessel dismantling and recycling services. The Standing Quotation process allows interested vendors to submit proposals on a continuous basis. Proposals are evaluated and those offerors whose proposals are determined to be technically acceptable form a pool of standing quotations that are qualified to respond to ship specific announcements for sales and fixed price service offers.

Since it is not possible to predict which vessels may have a positive recycling value (ability for MARAD to sell to contractors (Offerors)), the Standing Quotation process includes a solicitation that allows for both sales offers and fixed price service offers. Those ships not receiving sales offers are considered for fixed price service contracts. Sales and service contracts are awarded in accordance with FAR Part 13 Simplified Acquisition Procedures for the offers that represent the best value to the Federal Government. MARAD's ship disposal authority under the National Maritime Heritage Act (NMHA) directs MARAD to make awards on the basis of best value, consistent with the FAR, to qualified facilities considering price/cost, timeliness to perform, worker safety and the environment. A year-long Government Accountability Office (GAO) review of MARAD's SDP source selection procedures and contract award processes, completed in February 2014, found the Program was in compliance with the FAR.[8]

MARAD Ship Disposal Best-Value Solicitation Process

MARAD's ship disposal solicitation, posted on the Federal Business Opportunity web site www.fbo.gov, describes the two-step process for companies to become qualified ship recycling facilities eligible to compete for the recycling of MARAD's non-retention vessels. In step one; companies submit a General Technical Proposal (GTP) inclusive of the technical compliance plan (TCP) and all supporting documents. The solicitation describes the evaluation criteria of

[8] The Report, GAO Report 14-223 is located at: http://www.gao.gov/assets/670/660899.pdf

the GTPs, the establishment of a pool of qualified ship disposal facilities, the process for solicitation, among the qualified facilities, of sales offers and revised price quotations and the criteria for award of ship disposal sale contracts or ship disposal service contracts. MARAD has established a pool of qualified ship disposal facilities, among which it competes and awards contracts for disposal of non-retention vessels in the NDRF and excess vessels of other Federal Agencies. The pool is comprised of ship disposal facilities who's GTPs have been evaluated as technically acceptable. In step two, qualified facilities in the pool are eligible to compete for (a) sales contracts under which the Agency will sell the vessels for disposal; or (b) service contracts under which the Agency will consider acquiring ship disposal services if no sales offers are received. MARAD will periodically solicit ship-specific pricing and schedules from the pool of qualified ship disposal facilities and award disposal contracts in accordance with the evaluation criteria described in the solicitation. The Request for GTPs remains open until closed by an amendment to the Ship Disposal Solicitation.

Submittal of a General Technical Proposal – Step One
Companies interested in having one or more of their facilities become part of the pool of qualified ship disposal facilities are required to submit GTPs for each facility proposed to become part of the pool. GTPs must identify the locations of all operations where the work required by this Ship Disposal Solicitation will be performed. Preparation and dismantlement locations are parts of the single facility covered by the submitted GTP and will be evaluated per the stated evaluation criteria. The GTP must satisfactorily address all of the elements to performing ship recycling at the proposed facility as required in the solicitation inclusive of the following six elements:

1) Management, resources and facilities;
2) Production throughput/capacity;
3) Environmental considerations;
4) Worker safety and health considerations;
5) Hazardous material abatement considerations; and
6) Requisite and relevant experience.

If MARAD determines a proposed facility or dismantling methodology presents an increased risk to vessel stability, watertight integrity or hazardous material discharge, MARAD may require additional assessments, plans and/or procedures, from independent, third-party naval architects or professional engineers to be submitted with the GTP. Based on these submissions, a facility's qualification may be conditioned on the submission of certain ship specific deliverables with a sales offer or price quotation.

The GTP must include a TCP that consists of the following four elements: an Operational Plan, a Business Plan, a Worker Safety and Health Plan, and an Environmental Compliance Plan. The TCP is the primary basis for the evaluation of: (1) The degree to which the Offeror's claims of performance capability are supported; (2) The ability of the Offeror to perform in accordance with the contract requirements; and (3) The intent to dismantle the vessels domestically, in accordance with all applicable local, state, and Federal environmental, safety and health processes, procedures, laws, regulations and guidance. The TCP must provide sufficient detail to demonstrate a thorough understanding of regulations, production processes, and project

management associated with the dismantling of a ship and demonstrates the ship disposal facility uses a valid and practical solution to the technical problems inherent in ship dismantling. The TCP must be sufficiently detailed, specific and complete to enable MARAD personnel to make a thorough evaluation of the TCP and a sound determination that the Offeror will have a reasonable likelihood of meeting the requirements and objectives of the Government. When accepted, the TCP is incorporated as part of the Contract, as an addendum to the statement of work.

1) The Operational Plan must:
   a. Demonstrate the proposed methodologies for performing the dismantling of vessels at the recycling facility.
   b. Describe the entire process of ship recycling including tow preparations, towing emergency response, vessel mooring, heavy and severe weather contingencies, vessel stability during dismantlement, flooding/sinking prevention, survey and sampling methods, hazardous material characterization, hazardous material handling and remediation, hazardous material disposal, worker health and safety procedures, vessel gas freeing procedures, subcontractor management procedures, and dismantlement and recycling of scrap material and equipment.
   c. Provide a performance schedule which identifies all contractor and subcontractor activities required for the dismantlement/recycling of the vessel presented in manageable tasks which are logically sequenced and maximize efficient dismantlement of the vessel.
   d. Confirm site-specific permits are in effect or obtained prior to the start of ship dismantling, including any lease or authorization from a land owner, port or other entity granting authorization to use the facility for ship disposal purposes.

2) The Business Plan must:
   a. Provide information regarding the organizational structure and management policies of the company.
   b. Demonstrate a thorough understanding of regulations, production processes, project management, requirements for vessel dismantling in accordance with applicable laws and regulations.
   c. Demonstrate a complete understanding of the scope of potential problems and risks in ship dismantling.
   d. Demonstrate the Offeror's ability to manage costs, personnel, subcontractors, and the facility.
   e. Describe the facility's management and organization including names and resumes of all corporate and key personnel. Key Personnel must have the appropriate level of skill and experience sufficient to accomplish the scope of work. Minimum Key personnel include:
      i. Project Manager - full-time on-site person responsible for the performance of all work required under this Contract.
      ii. Environmental, Safety and Health Manager - responsible for all environmental, safety and occupational health matters relating to the ship dismantling contract.
      iii. Contracting Official - responsible for all contract administration activities related to the management and oversight of the MARAD ship dismantling contracts.

f. Demonstrate experience in business arrangements involving the ship recycling and reporting requirements and describes relevant past performance in the performance of comparable ship recycling projects.

3) Worker Safety and Health Plan must:
   a. Identify and demonstrate the ship disposal facility's ability to understand and comply with all applicable local, state, and Federal worker safety and occupational health processes, procedures, laws, regulations and guidance.
   b. Provide a concise description of the disposal facility's plan and procedures for protecting worker health and safety and demonstrate how the safety and health program supports the level of effort required for ship dismantling.
   c. Describe procedures for job hazard assessments to determine the proper approach to maximize worker safety.
   d. Identify procedures for ensuring the availability, maintenance, and use of personal protective equipment and clothing needed for all ship disposal operations.
   e. Identify procedures for ensuring that any worker at the facility has been provided with appropriate training prior to performing any ship disposal operation.

4) Environmental Compliance Plan must:
   a. Identify and demonstrate the ship disposal facility's ability to understand and comply with all applicable local, state, and Federal environmental processes, procedures, laws, regulations and guidance.
   b. Identify all authorizations, permits, certificates, approvals, registrations, notifications, plans and licenses required by applicable local, state and Federal environmental agencies and issued to the disposal facility to carry out the work, including those required for the management of hazardous materials.
   c. Describe how the processes and procedures interface with ship dismantling activities and the sequencing of these processes in the overall dismantling performance schedule.
   d. Implement controls to protect the environment, which include handling and disposing of the hazardous materials including spill prevention control and counter measures plan and a storm water pollution prevention plan.
   e. Include a statement of determination whether the facility, any parent companies, subsidiaries, or affiliates or proposed subcontractors within the past five years, has received from any local, state or Federal regulatory authority or foreign government, any of the following:
      i. Notices of violations;
      ii. Fines or proposed fines;
      iii. Convictions;
      iv. Citations; or
      v. The subject of any current or previous judicial or administrative proceeding related to the violation or alleged violation of any applicable law related to environmental compliance.

General Technical Proposal Evaluation Criteria

MARAD assesses the GTP for the comprehensiveness of the material relative to the TCP guidelines and the six elements listed above. The following criteria are utilized to evaluate the

technical acceptability of the GTP's submitted based on the Offerors response to the six elements listed under the section - Submittal of a General Technical Proposal – Step One on page 10.

1) Feasibility and likelihood of success of engineering/technical/management approach for the disposal of non-retention vessels and the risks associated with the proposed approach.
2) Productivity of the proposed approach(s) including schedule assessments.
3) Type and sufficiency of proposed methods, processes and procedures for environmental abatement of hazardous materials, worker safety and health considerations proposed and compliance with applicable laws.
4) Depth, relevance and currency of requisite experience with the complete disposal of non-retention vessels.

The iterative evaluation process includes early notification by MARAD of any major threshold deficiencies in the proposal that inhibit the feasibility of the successful implementation of the GTP. MARAD may request and review additional necessary information in order to fully evaluate the GTP to ensure the Offeror has sufficient knowledge, resources and capabilities to successfully dispose of non-retention MARAD, Navy or other Federal Agency vessels while protecting the environment and worker health and safety. Once the GTP is materially complete, reviewed and determined to be feasible MARAD may elect to conduct an on-site visit to evaluate facility infrastructure, meet key personnel and verify proposal information. The culmination of the iterative evaluation process will be the notification by MARAD that the GTP has been assigned one of the following ratings:

1) Technically Acceptable – A technically acceptable proposal demonstrates the Offeror has adequately addressed the six elements and can successfully remediate and dismantle non-retention vessels in a timely manner that is environmentally sound and satisfactorily takes into account worker health and safety.
2) Technically Unacceptable but Susceptible to Being Made Acceptable – A proposal that is deficient in some aspects of one or more of the six elements necessary to be technically acceptable; however, the deficiencies are considered to be correctable within a reasonable timeframe.
3) Technically Unacceptable – A proposal that fails to demonstrate the Offeror has adequately addressed one of more of the six elements necessary to be technically acceptable and is able to successfully remediate and dismantle non-retention vessels and the deficiencies are significant and not considered to be correctable, within a short timeframe. A technically unacceptable proposal will not be afforded the opportunity for corrections and the offer will have to resubmit a new proposal to merit further consideration.

Facilities with GTPs rated Technically Acceptable become part of the pool of qualified ship disposal facilities and are eligible to compete for specific vessels offered for recycling via ship sales and or prices revision announcements. Once a facility's GTP is found Technically Acceptable, the Offeror is required to operate its qualified facility and perform ship disposal contracts in accordance with its approved GTP and the awarded contract. Updates to the GTP are submitted to the Acquisitions Contracting Officer whenever there is a substantive change in the qualified facility, remediation/dismantling methodology, resources (including financial, equipment, direct labor and subcontractors), ownership, key personnel or other circumstances

that affect the ship remediation/dismantling production, capacity, efficiency, worker safety, environmental protection or responsibility.

Submittal of Sales Offer or Price Revision - Step Two
MARAD periodically identifies specific vessel(s) for disposal via an electronic Announcement issued only to qualified ship recycling facilities. The announcement contains both a Request for Sales Offers (RFSO) and a Request for Price Quotations (RRPQ) as identified under the solicitation. The requests are independent of each other and only when no sales offers are received will MARAD officially request RRPQs. The Announcement will identify the non-retention vessels currently located in the NDRF; SBRF, Beaumont Reserve Fleet (BRF), James River Reserve Fleet (JRRF), or the Navy's INACTSHIPMAINTO in Philadelphia, PA, Pearl Harbor, HI and Bremerton, WA, and/or other locations to be recycled. The Announcement identifies the fleet at which the vessel is located and the price offered shall include all of the work required for preparation of the vessel in that fleet for transit to the recycling facility. When applicable, MARAD will take into consideration and minimize the geographic distance that a vessel must be towed. The non-retention vessels are offered on an "AS-IS, WHERE-IS" basis, with no warranty, express or implied, at their current fleet mooring site, or delivery location. MARAD makes no guarantees or warranties, express or implied, regarding the condition of any non-retention vessel and does not guarantee, by expression or implication, or the size, tonnage, or other descriptions of the non-retention vessel.

Evaluation and Award of Sales or Price Quotation Offers
For each sale or price offer received MARAD conducts a threshold evaluation in accordance with FAR and best value consisting of the following:

1) Offerors are required to maintain continued technical acceptance by MARAD of their GTP. Updates to the GTP are required to be submitted with sales of price offers. Updates to the GTP will be evaluated to determine whether the proposal remains technically acceptable.
2) Sales and price offers that take exception to, unilaterally change, or are contrary to the terms and conditions in the Ship Disposal Solicitation, any vessel specific announcement, or Ship Sales or Service Contracts clauses will not be considered for award.

Three evaluation factors are considered when making the best value selection decision. The factors are not listed in any particular order of priority or importance, as permitted by the simplified acquisition procedures of the FAR. The evaluation factors for award are as follows:

1) Performance Schedule and the Vendor's available capacity (non-price factor).
2) Price Factor - The price offered (sales or service) for each vessel's dismantling services.
3) Past Performance (non-price factor).

Performance Schedule and the vendors available capacity pertains to the Offerors existing MARAD, Navy and Commercial work load and its ability to accept the vessel for recycling at its facility, the ability to mobilize resources, including infrastructure, labor and financial to accomplish the work, the ability to remove the vessel from the fleet within the required duration and the ability to actively work the vessel upon its arrival at the recycling facility within the parameters of a reasonable contractor produced performance schedule. Price factor pertains to

the Offerors submitted price for each vessel which includes the sales price or fee-for-service recycling costs. MARAD evaluates the following areas of an Offeror's performance under prior MARAD contracts consistent with FAR 42.1501 Contractor Performance Information:

1) Adherence to contract schedules, including the resources and ability to actively and productively working vessels awarded;
2) Record of conforming to contract requirements;
3) Standards of good workmanship;
4) History of reasonable and cooperative behavior;
5) Commitment to customer satisfaction;
6) Record of integrity and business ethics;
7) Business-relations with the customer;

A positive record in each of the past performance elements listed above is advantageous to the Government.

Basis for Best-Value Award

Awards are made on a best-value basis, utilizing non-price and price factors consistent with 54 U.S.C. § 308704(c)(1)(B), former 16 U.S.C. 5405(c)(1)(B) and section 3502(b) of the National Defense Authorization Act, 2001, as amended and FAR Part 13 Simplified Acquisition Procedures. Awards are made to the Offeror with a technically acceptable proposal whose offer, in conformance with the Ship Disposal Solicitation is evaluated to be most advantageous to MARAD, price and non-price factors considered. Awards will be made on a "best-value" basis consistent with the FAR. "Best-Value" means the expected outcome of an acquisition that, in the Government's estimation, provides the greatest overall benefit in response to the requirement.[9]

Award on the basis of "best-value" allows the trade-off of price and non-price factors to achieve the greatest overall benefit to the Government for each individual vessel or groups of vessels. A trade-off is appropriate when it may be in the best interest of the Government to consider an award to other than the highest-priced sales offer (or lowest-priced quotation for ship disposal services) because of differences in schedule, capacity and/or past performance. When determining "best-value", MARAD considers price and the non-price factors of performance schedule, facility capacity and past performance. As permitted under the simplified acquisition procedures, the relative order of importance of the evaluation factors is not stated in the solicitation. The importance of the evaluation factors for each of the vessel awards is not specified because the trade-offs necessary for selecting the multiple awards are often made on a case-by-case basis given the specific offers received for the particular recycling announcement. No dollars-for-days formula or fixed ratio is used to determine when a tradeoff is appropriate. This approach results in a reasonable and timelier selection process.

In determining the best value for award of a sales offer the initial evaluation begins with a ranking of all offerors sales offers on individual ships by highest to lowest price, then by shortest to longest for each vessels performance schedule. MARAD then determines a competitive range, which is a subset of all the offers that represents the most highly rated offers. Once the

[9] In accordance with FAR Part 13 Simplified Acquisition Procedures.

competitive range is determined, multi-ship recycling schedules are requested from offeror's with competitive offers on more than one ship to gain insight into what the schedule would be if the facility wins more than one ship in the announcement. For example, if an offeror made offers on two ships that were determined to be in the competitive range, MARAD would ask the offeror to provide a revised schedule showing how many days it would take the offeror's facility to recycle both ships. MARAD then reviews capacity at each facility in the competitive range. Capacity refers to the facility's ability to take possession of and actively work on the ship(s) at its facility, which reflects current and future ship recycling work from all MARAD, Navy and commercial sources at the recycling facility. Finally, MARAD considers past performance, which includes factors such as; timeliness on past contracts, a change in management or financial status, the contractor's history of reasonable and cooperative behavior, record of integrity, and business relationships and the amount of time since the facility last recycled a MARAD ship.

As an example, a recycling facility may offer the highest sales prices for three ships but, based on their existing/scheduled workload and available resources, the facility is only capable of accepting and actively working two vessels. A second facility offers a lower sales price for the third ship, and has the capacity to start immediately and can complete the work in a reasonable period of time. In this example, the available capacity and reasonable schedule of the second facility may outweigh the higher sale price because of the value of earlier removal of the vessel from the fleet, active dismantlement upon arrival at the recycling facility and earlier vessel disposal.

This simplified example of the iterative process used to select the "best-value" offer(s) illustrates how the relative importance of the factors may be adjusted during the selection process and, as such, cannot be stated with certainty before or at the time of the request for offers/prices. Different trade-offs between price and non-price factors may be warranted depending upon the number of awards being considered for an Offeror.

MARAD publicly posts the awarded contracts, disclosing the price and the performance schedule of the successful Offeror. MARAD also provides each Offeror the opportunity for a debriefing after the contract awards are publically posted. If accepted each offeror receives, prior to the de-briefing, a report that compares the offeror's —price and schedule—to the successful awardee's and explains the capacity and best value selection. Offerors usually do not request debriefings because the reason for the award selection is self-evident from the awarded and publicly posted contract price and/or performance schedule and the pre-debriefing report.

Since November 2008, MARAD's recycling solicitations have awarded contracts on a best-value basis for both sales contracts and service contracts. MARAD awarded a total of 96 vessels for recycling from November 2008 through December 2015 from NDRF and Navy fleet sites. Of the 96 awards, 62 were sales and 34 were service contracts and 81 percent (78 of 96), were made to the highest sales offer or the lowest price quotation for a service contract. Therefore, while the relative importance of the evaluation factors is not stated in the solicitation, price is clearly a significant factor though not the sole factor for selection. Achievement of 81 percent of the best-value awards

that result in the maximum return or least cost is assessed to be in the best interest to the U.S. Government and adheres to the statute.[10]

Ship Disposal Funding

There are several factors that affect whether the recycling of non-retention vessels is accomplished through vessel sales with revenue to the Government or in MARAD paying for recycling services with appropriated funds. The primary factors include the vessel's size/condition, the type and quantity of hazardous materials, the quantity and type of recyclable materials, the market price of scrap metals, the amount of competition for each vessel offered in a recycling solicitation, the duration/cost of the tow from the fleet to the recycling facility and the cost to remove marine growth prior to towing to different bio-geographical areas. The highest-costs are typically associated with SBRF vessels due to the current environmental requirement to dry-dock each vessel to remove marine growth prior to removal and start of the 5,000-mile tow to a Gulf Coast recycling facility. Included in the Offeror's sales/price proposals are tug mobilization, towing costs, fuel and Panama Canal transit fees. Until FY 2014, the SDP and the *N.S. Savannah* program received separate appropriations within the overall enacted ship disposal budget. In FYs 2015-2016, a single ship disposal program budget was enacted which necessitated the apportionment of funding between the Ship Disposal and *N.S. Savannah* programs as described in the notes in the table below. Figure C shows the enacted appropriations to the SDP for FYs 2011-2014 and the apportionments to the SDP for FYs 2015-2016.

Figure C: Ship Disposal Appropriations FYs 2011 - 2016

Annual Ship Disposal Approprations by Fiscal Year						
Fiscal Year	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Appropriation	$12 M	$2.5M	$2.4 M	$2.0M	$2.0M /1	$3.0M /2

/1 Represents the Ship Disposal Program apportionment of the $4.0M Ship Disposal appropriation in the Consolidated and Further Continuing Appropriations Act, 2015. The $2.0M balance was apportioned to the NS Savannah for ongoing protective storage activities required under the Nuclear Regulatory Commission license.
/2 Represents the Ship Disposal Program apportionment of the $5.0M Ship Disposal appropriation in the Consolidated Appropriations Act, 2016. The $2.0M balance was apportioned to the NS Savannah for ongoing protective storage activities required under the Nuclear Regulatory Commission license.

Appropriations for ship disposal had been at $12M annually from FY 2007 through FY 2011. Despite consistently exceeding the annual ship award and removal goals, annual carryover funds accumulated because of favorable industry and market conditions from FY 2006 through FY 2008, allowing the sale of vessels. Additionally, the suspension of costly SBRF vessel removals from FY 2007 through FY 2009 as a result of on-going litigation in California contributed to annual funding carryover. The economic downturn in 2008 resulted in the decline in vessel sales culminating in no vessels being sold in FY 2010, which resulted in the spend down of some funding carryover, which totaled approximately $26M at the start of FY 2010. However, the economy and scrap steel markets began to recover in FY 2011 resulting in an increase in vessel sales for the Program and reduced the need for appropriations at the $12M level.

[10] The percent achievement is based on 78 of 96 ship recycling contract awards representing the best value where price was the determining criteria for award (81 percent). The remaining 19 percent involved tradeoffs between price and non-price factors including, schedule and capacity and past performance which outweighed price. Trade-off between price and non-price factors is permitted by the best-value award process in FAR.

In FY 2012 with a carryover of $20M, appropriations were decreased to $2.5M, which coincided with strong scrap steel market conditions and strong competition for contracts by domestic recyclers resulting in an increasing number of vessel sales from FY 2011 through FY 2013. While the scrap steel markets remained strong in early FY 2014, available ship recycling capacity decreased due to the award of four Navy aircraft carrier recycling contracts, which resulted in weaker competition for MARAD non-retention vessels. With a carryover level of $6.6M at the start of FY 2014, appropriations were decreased to $2.0M. Appropriations for FY 2015 were $4.0M of which $2.0M was apportioned to the NS *Savannah* for continuation of protective storage activities required under the Nuclear Regulatory Commission license. Apportionment of the Appropriations to SDP for FY 2015 was $2.0M with a carryover of $3.6M. In FY 2015, MARAD utilized the majority of its ship disposal funding to procure ship recycling and dry-dock services to facilitate the removal of two SBRF vessels. Scrap steel prices declined throughout all of FY 2015 causing one recycler to rescind an offer to purchase a non-retention vessel and was a contributing factor in the cessation of operations at another MARAD/Navy qualified recycling facility. Funds retained due to the termination of two SBRF ship recycling service contracts, one SBRF dry-dock contract and the re-procurement of one of the two SBRF ship recycling service contracts resulted in a carryover level of $902K into FY 2016.

On March 6, 2015, ESCO filed for bankruptcy protection in the U.S. District Court for the Southern District of Texas, Brownsville Division. In October 2014, MARAD sold and conveyed title to two non-retention vessels the SHENANDOAH and YELLOWSTONE, which are secured but unfinished at the ESCO facility. The Navy aircraft carrier ex-SARATOGA had been undergoing dismantlement since arrival at ESCO in September 2014. Both Navy and MARAD are monitoring vessel security at ESCO and are actively participating with the Department of Justice in monitoring the court proceedings and ESCO's reorganization and planned resumption of operations.

Sales Revenues

Accrued revenue from the sale of non-retention vessels over the past six years (FYs 2010-2015) has been approximately $67 million from the sale for dismantling/recycling of 56 ships as shown in Figure D.

Figure D: MARAD Non-Retention Vessel Sales Revenue by Fiscal Year

Vessel Sales Revenue by Fiscal Year							
Fiscal Year	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Annual Sales Revenue ($):	$0	$7.6M	$18.9M	$24.6M	$9.8M	$6.1M	$52K
Vessel Sales Contracts:	0	8	16	19	8	5	1
Vessel Service Contracts:	12	10	0	0	3	2	0
Total Recycling Contracts:	**12**	**18**	**16**	**19**	**11**	**7**	**1**

* Vessel sale revenues are calculated using the vessel contract award date as the date of receipt of sale revenues in each fiscal year. Figures in FY 2016 reflect awards through December 31, 2015.

Revenues from the sale of non-retention vessels do not supplement Ship Disposal Program appropriations. The NMHA mandates the allocation of non-retention vessel sales proceeds into the Vessel Operations Revolving Fund (VORF). The statute requires distribution of the vessels sales proceeds from the VORF with 50 percent for NDRF acquisition, repair and maintenance;

25 percent for certain expenses of the U.S. Merchant Marine Academy (USMMA) and the six State Maritime Academies (SMAs); and 25 percent for maritime heritage property preservation and presentation, which includes a minimum of 12.5 percent transferred to the National Park Service's (NPS) National Maritime Heritage Grant Program (NMHGP) through a 2013 Memorandum of Agreement between MARAD and the Department of Interior.

The distribution of the 25 percent funding to USMMA and the SMAs since 2009 is shown in Figure E below. In FY 2015, $10.7M was distributed to the NDRF for acquisition, repair and maintenance activities; $1.6M to the USMMA; $3M was distributed to the NPS for the next cycle of NPS-administered NMHGP grants and $231,619 was expended for MARAD maritime heritage property preservation.

Proceeds from MARAD vessels sold in FYs 2015 and 2016 are expected to be negatively affected by the diminished level of domestic recycling competition resulting from U.S. Navy recycling contracts for up to five aircraft carriers and DLA contracts for the recycling of 15-20 inactive combatant vessels. A significant impact on available capacity for recycling will occur, should ESCO Marine not resume operations. In May 2015, MARAD completed the qualification process for an existing operational recycling facility that will add competition and additional recycling capacity for MARAD vessels in Brownsville, TX. However, this facility has less capacity than ESCO Marine.

Figure E: VORF Distributions to the Maritime Academies

VORF Distributions to the USMMA and State Maritime Academies by Fiscal Year								
ACADEMY	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**SUMMARY**
USMMA	$444,561	$188,143	$147,959	$962,000	$0	$0	$1,600,000	$3,342,663
Maine	$300,000	$0	$60,537	$940,056	$0	$1,000,000	$0	$2,300,593
Mass	$300,000	$0	$20,180	$940,056	$0	$1,000,000	$0	$2,260,236
Great Lakes	$50,000	$0	$20,180	$940,056	$0	$1,000,000	$0	$2,010,236
Texas	$0	$0	$20,180	$940,056	$0	$1,000,000	$0	$1,960,236
California	$450,000	$0	$131,165	$940,056	$0	$1,000,000	$0	$2,521,221
SUNY	$300,000	$0	$131,165	$940,056	$0	$1,000,000	$0	$2,371,221
Annual Total	**$1,844,561**	**$188,143**	**$531,366**	**$6,602,333**	**$0**	**$6,000,000**	**$1,600,000**	**$16,766,403**

Distributions are through FY 2015

Fiscal Year 2015 Disposal Activities

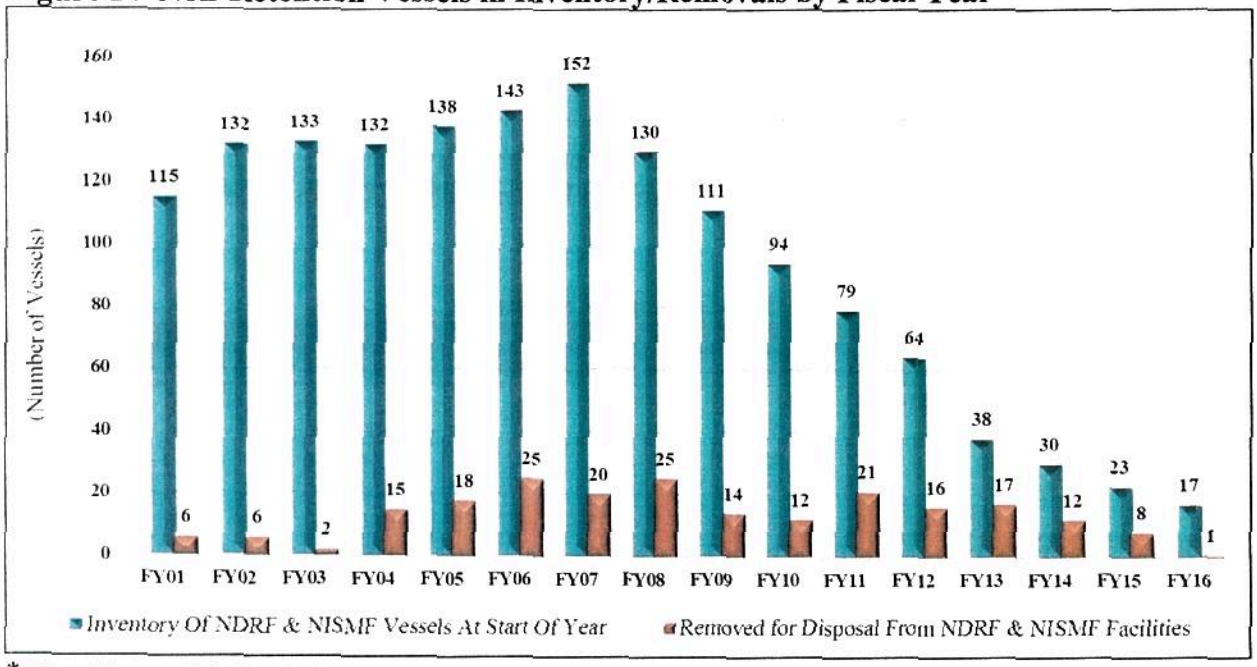
At the start of FY 2015, MARAD had 23 non-retention vessels pending award of a disposal contract. In FY 2015, MARAD removed eight vessels for disposal and downgraded two vessels to non-retention leaving 17 vessels in the fleet sites available for disposal at the beginning of FY 2016. All contracts awarded in FY 2015 were for dismantling/recycling. There are no pending actions or contracts for non-retention vessel disposals through the alternative disposal methods of deep-sinking, donation, artificial reefing or sale for re-use. MARAD removed two additional vessels from the SBRF for a total of 54 out of 57 required by the Consent Decree, which leaves three vessels remaining to be removed. To date in FY 2016, MARAD has sold and removed one vessel for disposal from the NDRF and the Navy removed one vessel from the MARAD disposal queue for use in a future SINKEX exercise. As of December 31, 2015 there are 13 non-retention NDRF vessels pending award of a disposal contract.

Five-Year Disposal Program Projections

With the number of non-retention vessels in the inventory and awaiting disposal at an historic low, it is anticipated that the number of vessels removed for disposal annually over the next five years will average less than 6 ships per year. As shown in Figure F, MARAD's annual rate of vessel downgrades outpaced the rate of removals through FY 2007. Since 2007, the backlog of non-retention vessels that accumulated in the 1990s has been steadily eliminated to the point that no more than 20 total vessels are likely to be placed into non-retention status for the foreseeable future.

Figure F, is a graph of the number of non-retention vessels in the disposal inventory at the start of each fiscal year and the number of non-retention vessels removed for each fiscal year from FY 2001 through the first quarter of FY 2016.

Figure F: Non-Retention Vessels in Inventory/Removals by Fiscal Year



* Vessel Removals in FY 2016 are through December 31st.

In addition to the total vessels removed from the NDRF for disposal each fiscal year, another way to view progress since FY 2010 is the number of SBRF vessels removed to recycling facilities, covered under the terms of the court ordered Consent Decree that resulted from the settlement of the California lawsuit with plaintiffs. See Figure H.

Figure G provides a five year projection of non-retention vessel disposals by fiscal year.

Figure G: Future MARAD Vessel Disposal Projections

Vessel Disposal Projections by Fiscal Year					
Fiscal Year	**2016 /1**	**2017**	**2018**	**2019**	**2020**
Start of Fiscal Year	17	13	10	9	8
Removed from Fleet	6	6	4	4	4
Removed from Disposal Queue	1	0	0	0	0
Added to Disposal Queue	3	3	3	3	3
End of Fiscal Year	13	10	9	8	7

/1 Includes three ships located at the Navy Inactive Ship Maintenance Site in Philadelphia, PA

The Ex-RACINE was removed from the disposal queue by the Navy for use in a future SINKEX exercise

MARAD anticipates the removal of six vessels and the downgrading of three vessels in FY 2016. MARAD projects only 13 non-retention vessels will remain for disposal at the start of FY 2017.

Vessel downgrade projections beyond FY 2016 are estimated due to the numerous variables that affect the availability of additional ships for disposal, such as, the timetable for downgrading vessels to non-retention status, holding vessels for the logistic support of existing Ready Reserve Force vessels and completion of the National Historic Preservation Act (NHPA) Section 106 historic assessment process.

As a result of the decreasing number of non-retention vessels available for disposal and the absence of any high disposal priority ships in poor material condition, MARAD's annual target for vessel removals is also decreasing. The target number of disposals for FY 2016 is six ships followed by an additional six ships targeted for FY 2017. The 12 ships targeted for disposal in FYs 2016 and FY 2017 will include the remaining three SBRF vessels, which will complete the requirement for the agency to remove all 57 SBRF ships identified for removal prior to the removal dates set forth in the 2010 California court ordered settlement and Consent Decree.

The volatile drop in scrap steel prices seen throughout 2015 portends increased pressure on domestic recyclers to offer lower prices or potentially no sales offers for MARAD vessels. The longer the market price for scrap steel remains depressed the higher the likelihood that MARAD will have to purchase recycling services, especially for the recycling of vessels from the SBRF. Based on industry projections of future uncertainty in the price of scrap steel, it is anticipated that overall disposal costs may exceed FY 2015 levels through FY 2016 and possibly FY 2017. Moreover, the level of domestic recycling competition and available capacity for MARAD vessels will continue to be tested as a result of the U.S. Navy award of recycling contracts for four aircraft carriers in FYs 2014 and 2015. Each of these contracts has a two-year period of performance. There also is the potential loss of ESCO capacity as previously noted. It is anticipated that the Navy will also award two additional aircraft carriers in FYs 2016 and 2017, further potentially taxing available domestic ship recycling capacity thus affecting the number of vessels removed for disposal moving forward. Note that a single aircraft carrier is equivalent to the tonnage of approximately eight to 10 average size MARAD non-retention vessels. Additionally, initial projections for FY 2015 that DLA would solicit sales offers for the award of recycling contracts for 15 decommissioned Navy combatant vessels, followed by the sale for

recycling of an additional four Navy ships in FY 2016, have proven unrealistic given the steep drop in the price of scrap steel.

Ship Disposal Program Performance Measures

The Program's annual performance measures of vessels awarded, vessels removed and vessels disposed of are the most direct measure of progress in disposing of non-retention vessels and meeting MARAD's environmental stewardship targets. Given the focus on expedited removal for disposal of SBRF vessels, and the added requirement of dry-docking SBRF non-retention ships, performance measures and goals previously developed have been modified to reflect the terms of the California lawsuit Consent Decree related to the removal and dry-docking of SBRF vessels.[11] The Consent Decree requires MARAD to remove a specific number of vessels from the SBRF each year beginning in FY 2010 culminating with the removal of all 57 non-retention vessels by the end of FY 2017.

MARAD's ability to meet future performance targets is based on factors including, but not limited to, the following:

1) Timing and amount of annual appropriations (partial, continuing resolutions),
2) Feasibility of disposal options available to the Program,
3) Dry-dock availability (for SBRF ships only),
4) Legal challenges to Program initiatives,
5) Availability of commercial towing assets and associated fuel costs,
6) The availability of competitive recycling facilities with available capacity and adequate production throughput,
7) The costs of aquatic nuisance species sampling, assessment and threat mitigation for the removal of marine growth on the hulls,
8) The costs of environmental remediation of hazardous material streams such as asbestos, PCBs and loose exterior paint present on the non-retention vessels,
9) The market price of recyclable steel, and
10) The nature and number of vessels recycled in the U.S. , both government and non-government.

Trends in any one or a combination of those variables are beyond MARAD's control and can significantly affect meeting performance targets. Positive trends in the majority of the variables boost vessel sales, increase sales revenue which increases funds available for the NMHGP. Negative trends in the variables reduce or eliminate vessel sales, decrease sales revenue and require appropriated funds to dispose of non-retention vessels.

The targets for each year are established during the annual budget request process. The most direct measure of the Program's performance is the annual target for vessel removals. As shown in Figure G, since FY 2001, MARAD has exceeded the ship removal target by an average of 4.0 vessels per year over the 15 year period. In FYs 2014-2015, the decrease in available domestic recycling capacity, decrease in competition for MARAD recycling contracts and the length of

[11] The performance measures were superseded by the signing of the California Consent Decree in April of 2010. The consent decree can be found at http://www.waterboards.ca.gov/water_issues/programs/enforcement/docs/suisunbay_decree.pdf

recycling acquisition cycles resulted in 12 and eight actual ship removals respectively, five short of the cumulative targeted goal of 20 vessels for the two year period.

Figure H: Vessel Removal Targets Compared to Actual Vessel Removals

Vessel Removal Projections Compared to Actual Vessel Removals

Non-retention vessels removed annually from MARAD NDRF and Navy NISMF sites.

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Actuals (Thru FY2015)	
Target:	3	3	4	4	15	13	13	16	14	10	10	12	15	15	10	6	15[illegible]	
Actual:	6	6	2	15	18	25	20	25	14	12	21	16	17	12	8	TBD	21[illegible]	(Δ +60)

Cumulative number of non-retention SBRF vessels removed from the fleet per the Consent Decree. Each year's target and actual totals are cumulative totals since 2010.

FY	2010	2011	2012	2013	2014	2015	2016	2017
Target:	10	20	28	32	38	44	50	57
Actual:	11	26	36	44	52	54	TBD	TBD

Actual totals through December 31, 2015.

The difference (Δ) between the targeted goal and actual results for vessel removals over the last 15 years shows that all annual targets have been met or exceeded except for three years. The cumulative differential (Δ) between targets and actual over the same period is significant and indicative of the Program's overall progress and effectiveness in overcoming significant environmental and legal challenges.

Environmental Regulation and Related Legal Challenges

The challenges related to the National Invasive Species Act (NISA) and the Clean Water Act (CWA) compliance requires appropriate financial resources to mitigate invasive species impact to the environment.

MARAD is complying with the NISA obligations in administering ship disposal activities and in doing so, has agreed to clean the underwater hulls of vessels to remove soft aquatic growth prior to towing non-retention vessels from the biogeographic areas in which they are located. NDRF vessels are cleaned waterborne in Texas and Virginia prior to transit for recycling in Texas and Louisiana. Vessels must depart the fleet locations within 14 days after completion of the hull cleaning to prevent new growth on the underwater hull. Waterborne marine growth mitigation costs have ranged from $75-150 thousand per ship and have reduced sales revenues when the recyclers procure the service. MARAD directly procures the service when awarding ship recycling service contracts. MARAD uses two commercial diving companies qualified to perform waterborne hull cleaning while the Navy utilizes their own contractor. Availability of the diving companies has impacted the rate of vessel removal from the fleets.

For ships in the SBRF, MARAD further agreed with California as codified in the Consent Decree to perform cleaning in dry-dock because concerns related to possible paint discharges. California now allows waterborne hull cleaning of SBRF non-retention vessels in San Francisco

Bay waters with an approved discharge capture method. However, because of unique concerns regarding specific aquatic species in Texas and Louisiana, MARAD currently continues to clean SBRF vessels destined for those two States in dry-dock. Due to these concerns, the cleaned SBRF vessels must also be removed from San Francisco Bay waters within 14 days of undocking. The requirement to dry-dock SBRF ships in California to clean underwater hulls of marine growth before departure has averaged approximately $500 thousand per ship. The rate of SBRF vessel departures has been impacted by the available shipyards to dry-dock the ships, which are restricted to the San Francisco Bay area because the vessels must be cleaned of aquatic growth prior to departure from San Francisco. The availability of drydocks has been limited to one or two companies over the years and for the shipyards, MARAD vessels are low priority after commercial and U.S. military vessels. Further, mobilizing towing assets to remove the vessels after dry-docking within the prescribed timeframe is subject to their availability.

Conclusions

An aggressive program of maximizing the use of disposal funding and pursuing all feasible disposal options has resulted in the removal of 218 non-retention vessels since 2001. Those removals from the fleet sites have reversed a trend in the growth of the number of non-retention ships in MARAD's custody. As of December 31, 2015, there are only 13 non-retention ships remaining in MARAD's three fleet sites, which is a historic low. Coupled with three vessels, available for MARAD disposal, remaining in the Navy's Inactive Ship sites, the total number pending disposal is 16 vessels.

Moreover, the award and removal of all of the Program's high priority ships has significantly mitigated the threat of residual oil and exfoliating paint discharge into the environment.

The Consent Decree required 57 listed vessels be removed by September 30, 2017. As of the end of FY 2015, 54 of the 57 vessels covered by the Consent Decree have been removed from the SBRF for disposal -- two years ahead of the court ordered schedule. It is anticipated that all non-retention vessels listed in the Consent Decree located at the SBRF will be removed for disposal in accordance with the requirements specified by the court. MARAD has also met or exceeded all of the Consent Decree requirements related to the remediation of loose shipboard paint, vessel dry-dockings and vessel removals. The fleet and vessels have been open for inspection by the State and environmental plaintiff on an annual basis.

MARAD will continue to investigate all alternatives identified in this report, and others that MARAD identifies in the future, to expedite the disposal of non-retention vessels at qualified facilities and at the best-value to the Government, while giving consideration to worker safety and the environment, as required by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 Pub. L. 106-398, § 3502; 114 Stat. 1654A-490.

II. REPORT ON THE U.S. NAVY VESSEL DISPOSAL PROGRAM

Overview

The U.S. Navy's portion of this report is submitted pursuant to the National Defense Authorization Act for Fiscal Year 2015, as referenced by the Committee on Armed Services, House of Representatives, in H.R. 4435, report 113-446, TITLE XXXV—MARITIME ADMINISTRATION, Items of Special Interest, at page 370, dated May 13, 2014. This report, by the Secretary of Transportation, requires coordination with the Secretary of the Navy, on progress made in implementing plans to dispose of inactive ships.

The Navy Inactive Ships Office (SEA 21) manages U.S. Navy ships and craft that have reached the end of their expected service life and vessels designated as viable for potential future use, which are placed into storage until a later decision is made as to disposal. SEA 21 is responsible for the planning, programming, budgeting, and execution of the Navy's inactivation and disposal of conventionally powered surface ships and craft.

Navy-Titled Inactive Vessels in the National Defense Reserve Fleet

Figure I below lists the Navy-titled vessels in the Maritime Administration (MARAD) National Defense Reserve Fleet (NDRF) facilities.

Figure I: U. S. Navy-Titled Inactive Vessels in the NDRF

Navy Vessels in the NDRF			
Ship	**Location**	**Method of Disposal**	**Projected Cost of Disposal**
Nassau (LHA-4)	MARAD-Beaumont, TX	Dismantlement	$0

Navy/Maritime Administration Cooperation

Pursuant to 40 U.S.C. 548, MARAD is responsible for the disposal of surplus vessels of 1,500 gross tons or more which the Agency determines to be merchant vessels or capable of conversion to merchant use. In accordance with the current Navy and MARAD Memorandum of Agreement (MOA) ex-Navy merchant-type vessels over 1500 gross tons that have been stricken from the Naval Vessel Register are made available for disposal utilizing the sales contracting authority of MARAD. There are currently three vessels at the Navy's Inactive Ship site in Philadelphia, PA awaiting disposal under the terms of the MOA.

Navy Vessel Disposal Alternatives

SEA 21 utilizes vessel donation, artificial reefing, Fleet Training Exercise (live-fire), foreign military sales, dismantlement and recycling (through either sales or procurement contracts) to dispose of its conventionally powered surface inactive vessels. Nuclear powered vessels are not included in the listed disposal options as they are dismantled/recycled under a separate process.

Navy Five-Year Vessel Disposal Projections
At the start of FY 2016, Navy had a total of 56 inactive ships in inventory of which 30 vessels were in a hold disposition, (13 vessels in Foreign Military Sales, 10 vessels in Retention, five vessels in SINKEX and two in Donation), all awaiting finalization of disposal acknowledgment. Twenty-five vessels are available for dismantlement. Figure J provides a five-year projection of Navy vessel disposals by fiscal year.

Figure J: Navy Five Year Vessel Disposal Projections FYs 2016- 2020

Vessel Disposal Projections by Fiscal Year					
Fiscal Year	**2016**	**2017**	**2018**	**2019**	**2020**
Start of Fiscal Year	56	41	39	33	32
Removed from Fleet	16	6	8	3	3
Added for Disposal	1	4	2	2	4
End of Fiscal Year	41	39	33	32	33

Source: Navy Inactive Ships Inventory Report

The table above reflects the Navy's five-year vessel disposal projections as of the start of FY 2016. The disposal projections assume current FY 2016 plans are executed; otherwise there will be minor adjustments to the budget year, the program year or the out years as necessary to accommodate changes in the program caused by internal or external factors.

Navy Source Selection Procedures
SEA 21 utilizes two primary methods for the disposal by dismantling and recycling of its inactive vessels that have been stricken from the Naval Vessel Register. The first method involves the award of sales contracts for dismantlement and recycling of Navy inactive ships (cruisers, destroyers, frigates and patrol gunboats), which are solicited through the Defense Logistics Agency (DLA) Disposition Services. DLA awards sales contracts through a two-step Invitation for Bid process (IFB), discussed in detail below. DLA sales contracts are awarded to the highest priced technically acceptable proposal with acceptable recent and relevant past performance.

The second method involves the award by Naval Sea Systems Command (NAVSEA) of a procurement contract for the dismantlement and recycling of Navy inactive ships. Such procurements are conducted in accordance with the FAR and the Defense Federal Acquisition Regulations (DFAR). Additionally, such procurements are conducted in accordance with 10 USC 7305a, which authorizes a contractor to retain the proceeds from the sale of scrap and reusable equipment on a dismantling contract. As stated in the RFP, Offerors are required to propose a price for dismantling and recycling which factors in the anticipated proceeds from the sale of scrap and reusable equipment/material from the ship being dismantled. The recent Navy procurement for contracts for the dismantling and recycling of the CV59/63 class of aircraft carriers resulted in the award of three Indefinite Delivery Indefinite Quantity (IDIQ) contracts based on a best-value determination in accordance with the Request for Proposals (RFP).

DLA Sale of Navy Inactive Vessels for Recycling
Ship sales are conducted using a Two-Step Solicitation process. In Step One, DLA issues a Request for Technical Proposals (RFTP) and evaluates those proposals against stated criteria to

determine technical acceptability. In Step Two, DLA issues an IFB only to those firms submitting technically acceptable proposals under Step One.

Submittal of Technical Proposal - Step One

In Step One, Offerors submit a complete technical proposal without bid prices or bid deposit in accordance with the Requirements and Criteria for Technical Proposals. The Technical Proposal must include an Executive Summary, Business Plan, Operational Plan, Worker Safety and Health Plan, and an Environmental Compliance Plan. Offerors are required to submit a complete technical proposal that responds to the requirements of the RFTP.

The below criteria are taken from a recent RFTP issued by DLA, and provide an example of the kinds of criteria that has been, though may not always be, utilized in evaluating the acceptability of Technical Proposals.

The technical requirements for Step One are:

1) Executive Summary: The executive summary highlights the firm's approach, and summarizes the key capabilities and general features of the firm's resources, experience and understanding of the business and the operational efforts required by the solicitation.

2) Operational Plan:
   a. Demonstrates the proposed methodologies for performing the dismantling of vessels at the recycling facility.
   b. Describes the entire process of ship recycling including tow preparations, towing emergency response, vessel mooring, heavy and severe weather contingencies, vessel stability during dismantlement, flooding/sinking prevention, survey and sampling methods, hazardous material characterization, hazardous material handling and remediation, hazardous material disposal, worker health and safety procedures, vessel gas freeing procedures, subcontractor management procedures, and dismantlement and recycling of scrap material and equipment.
   c. Provides a performance schedule which identifies all contractor and subcontractor activities required for the dismantlement/recycling of the vessel presented in manageable tasks which are logically sequenced and maximize efficient dismantlement of the vessel.
   d. Confirms site-specific permits are in effect or obtained prior to the start of ship dismantling, including any lease or authorization from a land owner, port, or other entity granting authorization to use the facility for ship disposal purposes.

3) Business Plan:
   a. Provides information regarding the organizational structure and management policies of the company.
   b. Demonstrates a thorough understanding of regulations, production processes, project management, requirements for vessel dismantling in accordance with applicable laws and regulations.
   c. Demonstrates a complete understanding of the true scope of potential problems and risks in ship dismantling.
   d. Demonstrates the buyer's ability to manage costs, personnel, subcontractors, and the facility.

e. Describes the facility's management and organization including names and resumes of all corporate and key personnel. Key Personnel must have the appropriate level of skill and experience sufficient to accomplish the scope of work.
f. Demonstrates experience in business arrangements involving the ship recycling and reporting requirements and describes relevant past performance in the performance of comparable ship recycling projects.

4) Worker Safety and Health Plan:
   a. Demonstrates the ability to meet the safety procedures required by OSHA standards relative to ship dismantlement.
   b. Identifies and demonstrates the facility's ability to understand and comply with all applicable local, state, and federal worker safety and occupational health processes, procedures, laws, regulations, and guidance.
   c. Provides a concise description of the recycling facility's policies and procedures for protecting worker health and safety and demonstrates the safety and health program supports the level of effort required for ship dismantling.

5) Environmental Compliance Plan:
   a. Demonstrates the facility's understanding of the environmental risks associated with ship recycling and provides a mitigation plan which minimizes risks to the environment during the vessel recycling process.
   b. Implements the environmental requirements imposed by applicable laws and regulations.
   c. Describes procedures that manage and dispose of all materials generated in the dismantling of the ship, components and equipment in an environmentally sound manner.

DLA Technical Proposal Evaluation Criteria

The evaluation of the Operational, Business, Worker Safety and Health and Environmental Compliance Plans considers the following for completeness, clarity and the degree of compliance with the RFTP, and the likelihood that the approach will meet the Government's objectives. All plans are considered to be of equal importance. A technical proposal will not be evaluated as technically acceptable unless it is determined technically acceptable for each plan individually. Technical proposals containing significant deficiencies, defined as that part of a firm's proposal that would not meet the Government's objectives, will not be considered technically acceptable for that specific plan and thus the entire technical proposal. Acceptability of each technical proposal will be based upon:

1) Compliance with the requirements of the technical proposal including, at a minimum, information satisfying the elements in each paragraph or subparagraph of the operational and business plans.
2) The technical proposal clearly demonstrates that the firm understands the scope and nature of the IFB requirements, as well as applicable laws and regulations.

DLA Issuance of IFB for Sealed Bidding - Step Two

In Step Two, DLA issues an IFB to initiate the sealed bidding process. The only bids the Sales Contracting Officer (SCO) will consider for award of a contract are those received from bidders that have submitted an acceptable technical proposal during Step One of the RFTP phase of the solicitation. Proposed contractual requirements are contained in the final IFB issued under Step

Two. A recent DLA six ship IFB included the following terms and conditions for submittal of a sales offer from qualified bidder:

1) Bids must be submitted as one price for all vessels. The winning bid will be determined by the bidder offering the highest bid price.
2) Each sealed bid must include a bid deposit of 10 percent (10%) of bid price at the time of bid submission.
3) The successful bidder is required to provide a financial guarantee bond in the amount of $3,000,000.00 within 15 days of notification by the Sales Contracting Officer (SCO).

DLA IFB Bid Evaluation and Contract Award

Award criteria are based on the highest price, technically acceptable proposal and acceptable recent and relevant past performance and include the following bid evaluation and award process.

1) Section 1 – Bidding Process – The bidding process will commence on the bid opening day and time specified by the Government. The SCO will open each sealed bid at the specified bid opening day and time.
2) Section 2 – Mandatory Inspection – All bidders are required to inspect the vessels in order to be considered for award. Bidders who do not inspect the ship during the inspection period, as verified by log entry, will be considered non-responsive and not eligible for award.
3) Section 3 – Bid Evaluation – Award will be made to the responsive, responsible bidder that offers the highest bid price for all vessels. The Government reserves the right to not award a contract if such contract is deemed not to be in the Government's best interest.
4) Section 4 – Contract Award – The SCO will determine if each bid is responsive and responsible prior to award of the contract. The contract will be awarded to the highest responsive, responsible bidder.
5) Section 5 – Pre-Award Survey – The Pre-Award survey is one of the factors used by the Government to ensure the Buyer's ability to satisfactorily perform the work in accordance with their technical proposal submitted in step-one of the solicitation. After bid opening/closing and prior to award, the Government may conduct a Pre-Award survey of one or more bidders who may become eligible for award after final evaluation. The Pre-Award survey may be conducted at the Bidder's facility(ies) or other location(s) as deemed necessary by the Government and may include a review of Bidder's facilities and equipment, financial capability or disclosure of a Buyer's financial condition, quality assurance, safety, and transportation. Bidders must cooperate in the Pre-Award process by assisting in arrangements and/or by providing requested information in a timely manner. Bidders are advised that accomplishment of a Pre-Award survey or furnishing documents to the Government in support of the Pre-Award survey is part of the evaluation of the responsibility process and is not to be construed as an indication that a bidder will receive award of a contract.
6) Section 6 – Post-Award Conference – The Government reserves the right to conduct a post-award conference as early as two weeks after award. The purpose of the conference is to ensure the Buyer fully understands the terms and conditions of the contract.

Once DLA completes the pre-award survey, finds the winning bidder responsible, verifies receipt of the performance bonds and finalizes contract award; project management is turned over to

SEA 21 who is responsible for contract compliance monitoring. The DLA Two-Step sales award process is repeated for each vessel recycling solicitation issued by DLA.

Purchase of Recycling Services for Dismantlement of Navy Inactive Vessels
The Navy complies with the FAR and the DFAR, when procuring for the dismantlement and recycling of Navy inactive vessels. In procurements conducted in recent years, including the procurement for dismantling and recycling of the CV59/63 class aircraft carriers, the Navy has issued solicitations for the award of up to three IDIQ acquisition type contracts. In the procurement for dismantlement and recycling of the CV59/63 class aircraft carriers, for example, a firm fixed price IDIQ contract was awarded, in accordance with the criteria contained in the RFP, to each of the three responsible highest ranked best-value Offerors. Each awardee was awarded a minimum of one ship, with the opportunity to compete for follow-on delivery orders solicited for carriers over the five year contract period. The Navy has awarded an additional follow-on carrier award to one of the three qualified Offerors for a total of four awards under the IDIQ contract

The below criteria are taken from a recent RFP issued by NAVSEA for ship dismantling and recycling, and provide an example of the kinds of criteria that has been, though may not always be, utilized in evaluating Technical Proposals.

When submitting a technical proposal in response to an RFP for ship dismantling and recycling, Offerors may be required to provide responses to specified technical criteria which include:

1) Program and Engineering Management that shall demonstrate an understanding of, approach to and capability for controlling and integrating the diverse technical and production efforts required by the statement of work, and demonstrates a comprehensive, integrated, and engineered plan capable of executing the vessel dismantling process in accordance with all Federal, state and local laws. Further, this section should demonstrate that the Offeror has the adequate facilities and labor force to accomplish the requirements of this solicitation in an efficient and safe manner and in a manner protective of the environment. The key elements of this narrative are:
    a. The Operational Plan:
        i. Ensures compliance with the special security requirements in the Statement of Work and includes measures to address any procedures and techniques to be used.
        ii. Include tow plans that describe how the vessel will be prepared for tow, and how the vessel will be towed to ensure safe transport to the dismantling location in conformance with the U.S. Navy Tow Manual.
        iii. Provides a description of the technical approach planned which shows the capability to accomplish secure mooring (including severe weather such as hurricanes), the sequential process for vessel dismantling, the integration of hazardous material/waste removal with vessel dismantling, and sale of scrap and reusable equipment/material, as required by the statement of work.
        iv. Includes measures to prevent flooding or sinking, including procedures for maintaining list, trim and stability while dismantling, the integration of environmental remediation processes with ship dismantling operations, recycling operations, towing of the vessel, and security throughout the performance period.

v. Demonstrates the Offeror's ability to meet the time frames of their schedule and the Offeror's understanding of the scope of work and degree of difficulty required.
vi. Identifies the location or locations where dismantling will occur and provides information sufficient to demonstrate facility infrastructure and equipment are adequate to accomplish the requirements of the solicitation.

b. Management Capability and Approach:
   i. Provides a description of the management approach and organization which sufficiently demonstrates how the Offeror's management approach and the corporate/project organization supports the level of effort, ensuring environmental, safety and health compliance, and dismantling procedures required for the proposed contract.
   ii. Addresses the risks involved in successfully completing the solicited contract and describes the methods implemented for mitigating all such risks.

c. The Security Management Plan (if applicable):
   i. Describes the processes, procedures, roles and responsibilities for ensuring physical security in accordance with the requirements of solicitation and the requirements of the National Industrial Security Program Operating Manual (NISPOM), DoD 5220.22-M.

d. The Environmental and Safety and Health Management Plans:
   i. Describes the management approach and procedures for ensuring compliance with all applicable Federal, State and local environmental laws and regulations.
   ii. Describes the management approach to ensure worker safety and health in performing the work required related to ship dismantling and hazardous material/waste removal and disposal, and for ensuring compliance with all applicable Federal, State, and local occupational safety and health laws and regulations.

Award Evaluations for Navy Inactive Vessels

Dismantlement of Navy inactive vessels is a highly specialized industrial undertaking with only a few domestic companies comprising the core industry. Navy obtains best value for awards by using any one or a combination of source selection approaches. In different types of acquisitions, the relative importance of cost or price may vary. Navy may use a tradeoff process as appropriate when it may be in the best interest of the Government to consider award to other than the lowest priced Offeror or other than the highest technically rated Offeror. In doing so, all evaluation factors and significant sub factors that will affect contract award and their relative importance are clearly stated in the solicitation and the solicitation states whether all evaluation factors other than cost or price, when combined, are significantly more important than, approximately equal to, or significantly less important than cost or price. This process permits tradeoffs among cost or price and non-cost factors and allows Navy to accept other than the lowest priced proposal.

The lowest price technically acceptable source selection process is appropriate when best value is expected to result from selection of the technically acceptable proposal with the lowest evaluated price. When using the lowest price technically acceptable process; the evaluation factors and significant sub factors that establish the requirements of acceptability are included in

the solicitation. The solicitation specifies the award will be made on the basis of the lowest evaluated price of proposals meeting or exceeding the acceptability standards for non-cost factors. Past performance, when used as an evaluation factor, is evaluated in accordance with FAR 15.305.

Navy Ship Disposal Funding

Total Obligational Authority amounts for Navy Ship Dismantling preparation and disposal over the last five years are presented in Figure K. The large increase in FY 2013 was for the preparations required for the disposal of the aircraft carriers located in Providence, RI, Bremerton, WA and Philadelphia, PA. In some contracts funds paid to dismantling contractors could be offset by estimated sale of scrap and reusable items as authorized under 10 USC 7305a. Navy does not receive any direct revenue from the DLA sales contracts. Revenue from sales contracts is deposited to the Defense Working Capital Fund (DWCF) and is used to offset the Military Service Level Bill for disposal costs. Sales of non-active vessels are conducted by MARAD with the sales proceeds credited directly into the VORF account.

Figure K: Navy Ship Disposal Appropriations for FYs 2011 - 2016

Disposal Appropriations by Fiscal Year					
FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
$10.4M	$10.2M	$33.3M	$10.6M	$4.2M	$10.4M

III. REPORT ON THE UNITED STATES COAST GUARD VESSEL DISPOSAL PROGRAM

Overview

The United States Coast Guard (USCG) portion of this report is submitted pursuant to the National Defense Authorization Act for Fiscal Year 2015, as referenced by the Committee on Armed Services, House of Representatives, in H.R. 4435, report 113-446, TITLE XXXV—MARITIME ADMINISTRATION, Items of Special Interest, at page 370, dated May 13, 2014. This report, by the Secretary of Transportation, requires inclusion of other Federal ships disposal programs.

USCG-Titled Non-Retention Vessels in the National Defense Reserve Fleet

Figure L lists the USCG-titled vessels in the Maritime Administration (MARAD) National Defense Reserve Fleet (NDRF) facilities.

Figure L: USCG – Titled Non-Retention Vessels in the NDRF

USCG Vessels in the NDRF			
Ship	**Location**	**Method of Disposition**	**Projected Cost of Disposal**
Iris – WLB-395	MARAD – Suisun Bay, Benicia, CA	Dismantle	$1,667,000 *
Planetree – WLB-307	MARAD – Suisun Bay, Benicia, CA	Dismantle	

* The estimated cost for both vessels as of April 2015 includes drydocking cost in San Francisco prior to tow for compliance with invasive species mitigation requirements, towing cost for the 5,000 mile transit to a MARAD qualified Gulf coast recycling facility and recycling costs for ship dismantlement and hazardous material remediation.

USCG/Maritime Administration Cooperation

USCG and MARAD executed a Memorandum of Agreement (MOA) whereby the USCG utilizes the sales and contracting expertise of the MARAD Ship Disposal Program to solicit and accomplish the dismantling of decommissioned Coast Guard vessels that have been removed from service. The MOA is primarily concerned with the disposal of the USCGC IRIS (WLB-307 and the USCGC PLANETREE (WLB-395) located MARAD's Suisun Bay Reserve Fleet.

USCG Vessel Disposal Alternatives

When disposing of excess USCG vessels, the Coast Guard will make inquiries throughout the Department of Homeland Security (DHS) to see if there is a need for the vessel by any other DHS entity. USCG will confer with the General Services Administration (GSA) in order for GSA to offer the vessel to other Federal Agencies. GSA will also offer the vessel for donation to State, local public agencies or non-profit organizations. Donated vessels are primarily used for a museum or for an artificial reef program. Surplus vessels not donated for museums or artificial reefs may be sold for re-use or scrapped. The USCG may nominate vessels for inclusion in the Foreign Military Assistance Program where they are transferred and operated in the navy or coast guard of another country. USCG may also convey vessels to the Coast Guard auxiliary or the Sea Scouts of the Boy Scouts of America where they would be operated as a vessel. In the case of the USCG vessels *IRIS* and *PLANETREE* the presence of PCBs precludes disposal of the vessels by donation or public sale.

USCG Source Selection Procedures

The Federal Property and Administrative Services Act (FPASA) of 1949 requires excess property to be identified by the USCG and declared as such. In general, non-retention vessels are those vessels that are unable to serve the USCG in the use and capacity for which they were designed. Vessel obsolescence is gauged by a vessel's inability to serve the needs of the USCG. The USCG primarily utilizes the GSA for vessel sales and the Foreign Military Assistance Program to convey vessels for continued use by foreign countries. GSA conducts internet auctions with the excess property being offered for a specified period of time with the highest bid at the close of the auction the winner. USCG vessels nominated for inclusion in the Foreign Military Assistance Program are screened through the Department of Defense and the Department of State prior to transfer.

USCG Five-Year Disposal Program Projections

The USCG five-year projections for disposal of vessels anticipates the disposal of the two buoy tenders *IRIS* and *PLANETREE* located at the MARAD Suisun Bay Reserve Fleet (SBRF) and the retirement of approximately one 378-foot High Endurance Cutter in each of the next five years subject to congressional budget approval. It is anticipated the 378-foot High Endurance Cutters will be offered as excess defense articles through the foreign military assistance program. Figure N, provides a five year projection of USCG vessel disposals by fiscal year.

Figure N: USCG Five-Year Vessel Disposal Projections

Vesse Disposal Projections by Fiscal Year					
Fiscal Year	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Start of Fiscal Year	2	3	1	1	1
Removed from Fleet	0	3	1	1	1
Added for Disposal	1	1	1	1	1
End of Fiscal Year	3	1	1	1	1

Two vessels in FY 2016 are the two buoy tenders, *IRIS* and *PLANETREE* located in the SBRF.