

February 4, 1943

MEMORANDUM WITH RESPECT TO CONCRETE
BARGES BEING CONSTRUCTED BY THE
MACEVOY SHIPBUILDING CORPORATION AT
SAVANNAH, GEORGIA.

On June 30, 1941 the Maritime Commission prepared a memorandum entitled "Discussion of Reinforced Concrete Ship Design".

This pointed out that during the world war the concrete ship program had been disappointing. Five 7500-ton tankers and four 3500 ton cargo ships were built. One 7500-ton cargo ship was designed and partly built. The carrying capacity of steel ships per dead-weight ton was greater then, and still remains greater than that of concrete ships.

There is no record of any of the world war ships making an official crossing and very sketchy records of their performance. The shortest building time during the last war was 547 days for the 7500-ton ships and 396 days for the 3500-ton ships. The forms necessary for rapid and repeated use in pouring a series of concrete ships will weigh about as much as the hull itself and cost five or ten times as much. The concrete ships require more than half as much ^{steel} as steel ships, for concrete is practically worthless in tension, and the reinforcing steel must take all of the load. Minimum thickness is dictated by coverage of reinforcing steel, and this results in excessive weight of hull. Concrete ships are more susceptible to impact damage than steel but are much easier to repair. Because of their lack of dead-weight capacity as compared with steel, concrete ships are particularly unsuited to oil or other dense cargoes.

The memorandum containing the above conclusions was signed by R. D. Carr, Head of the Hull Scientific and Research unit.

The Maritime Commission proceeded, however, to prepare a program and specifications for reinforced concrete barges during August and asked for proposals to be submitted by September 30, 1941.

About 14 of a total of 64 proposals were selected about October 5, 1941 for further negotiation with their sponsors. After the proposals had been requested, it was determined to man the ships and changes had to be made accordingly.

On November 8 the Maritime Commission approved contracts for five barges each with the Port Newark Shipbuilding Corporation near Newark , N. J., Concrete Ship Constructors near San Diego, California and San Jacinto Shipbuilders near Houston, Texas.

The proposals for the construction of concrete barges had required the companies to submit alternate proposals for (1) fixed sum; (2) price adjusted to labor and material cost; and (3) cost plus a variable fee. The Maritime Commission chose to

accept the second proposal and on November 17, 1941 entered into a contract with the Port Newark Shipbuilding Corporation. The contract provided (Art. VI) that the barges were to be completed March 2, March 9, June 22, June 28 and October 13, 1942 respectively, subject to extensions as plans and specifications were changed or delay beyond the reasonable control of the contractor should occur.

The contract is on the regular form of what the Maritime Commission calls its COST MINUS CONTRACT, or ADJUSTED CONTRACT. It provides a price of \$548,292.00 per vessel or a total of \$2,741,460.00 (Art. III) subject to increase or decrease for increased or decreased labor and material cost, determined in accordance with the contract (Art. V). Subdivision (a) of Article V increases labor and material costs in accordance with labor and commodity index figures. Subdivision (d) of Article V provides that in the event that amounts payable under Article XIV shall exceed the contract price as adjusted by labor and commodity index figures, the amount paid under Article XIV shall become the contract price. Article XIV provides that partial payments on account of the contract price shall be made semi-monthly and shall be based upon that portion of the value of the work done and materials on hand which is represented by the cost thereof, inclusive of overhead.

The net result of the contract is that the contractor receives regularly partial payment on the basis of the cost of the work done and the materials on hand regardless of whether the materials

have been used. The contract price is then adjusted upwards to what the materials and labor will actually cost plus a sum of \$15,000.00 per each barge, which may be regarded as a sort of fee. The supposed advantages of this type of contract are that in the event that the cost should be less than the contract price, the price to the Maritime Commission will be reduced by one-half of the net difference between the contract price and the actual cost as adjusted (Art. XIVd). The vice of the contract is that there is no ceiling on the cost.

Although the first barge was to be delivered by March 2 and the last by October 13, 1942, no barge has as yet even been launched, but the amounts expended for the five barges as of December 31 was \$4,466,855.68, \$760,497.45 of which was overhead. These figures may be increased by vouchers still in process of consideration, and, according to the Maritime Commission, the percentage of completion of the five barges as of December 31, 1942 was as follows:

1	-	85.4%
2	-	81.9
3	-	60.8
4	-	50
5	-	40

It is therefore obvious that the total cost will be from two to three times the amount of the so-called contract price of \$2,741,460.00. Present estimates of total cost of the five barges based on the cost to date of the first barge projected to its completion will be \$7,021,150.

The Port Newark Shipbuilding Corporation, which received this contract, was a corporation which had been organized for the purpose and which at the time of the contract had no assets and no liabilities. Its stockholders were Benjamin Rachlin, Albert Rachlin, T. V. Standifer, E. A. Hurst and J. T. Freeman. The two Rachlins held 75% of the stock; Standifer and Hurst 10% each and Freeman 5%. The two Rachlins owned the bulk of the stock of the Franklin Lumber Company from which Clifford F. MacEvoy Company purchased most of its lumber requirements for the Linden, N. J. Housing project. Standifer was the brother of Guy Standifer, who was held in high esteem by the Maritime Commission as a shipbuilding expert. Hurst is President of New York Harbor Drydock Company. Freeman was attorney for the Rachlins. They paid nothing for their stock and expected to build the barges at the old submarine base on land adjacent to the Franklin Lumber Company at Port Newark, N. J., which they expected to lease from the city of Newark. Also, they expected to use their own buildings in the Franklin Lumber Company for drafting, mill work and other purposes. There were 28 sets of ways which Benjamin Rachlin states could have been rehabilitated

for \$70,000.00. The Navy has since taken over the site for use by the Federal Ship Yards at Kearney.

The Port Newark Shipbuilding Corporation was unable to obtain financing and Standifer introduced Mr. C. F. MacEvoy into the situation. MacEvoy discussed the possibility of taking a subcontract or of taking a majority interest and ultimately agreed to participate only if substantially all of the stock should be transferred to his company, the Clifford F. MacEvoy Company. The two Rachlins and Freeman gave up their 80% of the stock in exchange for agreements whereby Benjamin Rachlin and Alfred Rachlin were to receive \$12,508.00 each out of the profits of the corporation if and when earned. Subsequently, Alfred Rachlin sold his right to receive profits for \$4500.00. The balance of the stock held by Standifer and Hurst was acquired by the Clifford F. MacEvoy Company in exchange for an agreement to give to each of them 5% of the earnings, if any, on the five-barge contract when earned and received.

Standifer was employed by the MacEvoy Shipbuilding Corporation at a salary of \$9,000.00 per year until May 15, 1942.

The net result of these transactions was that the Clifford F. MacEvoy Company, which had itself submitted a proposal which had been turned down, acquired the stock of the Port Newark Shipbuilding Company and changed its name to the MacEvoy Shipbuilding Corporation. At that point, the MacEvoy Shipbuilding Corporation not only had no

assets and liabilities but it had mortgaged its future profits and it had acquired the services of Mr. Standifer at \$9,000.00 per year.

MacEvoy decided to build the barges at Savannah, Georgia at the site which he had intended to use in the proposal which had been rejected by the Maritime Commission. The reason which he assigns for the transfer was the fact that there was less of a wage differential between building trades and shipyard labor at Savannah than at Newark. Mr. Benjamin Rachlin testified that:

"They didn't go ahead with the lease and then the story was that they were having difficulty in getting labor to do the work. It was a question of whether they would use C.I.O. or A. F. of L. Then he said he would go to Savannah and build there on the right labor basis. * * * Mr. MacEvoy raised problems about everything. I think he did it to squeeze us out."

On December 9 the Maritime Commission approved the transfer of the yard to Savannah, Georgia, and thereafter the Clifford F. MacEvoy Construction Company undertook to rehabilitate the ways and to prepare facilities for the construction of the barges, all of which was to be done for the account of and at the expense of the MacEvoy Shipbuilding Corporation.

The MacEvoy Shipbuilding Corporation obtained funds through an agreement with the Marine Midland Trust Company, which extended a line of credit for 2 million dollars at 3% interest secured by an assignment dated February 5, 1942 of the contract between the

MacEvoy Shipbuilding Corporation and the Maritime Commission.

This money was advanced as follows:

First advance	-	February 9, 1942
Total to date	-	\$7,841,000
Repaid by Maritime Comm.	-	\$6,562,162.41
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		\$1,278,837.59

2 $\frac{1}{2}$ % of the 3% interest charge is reimbursed by the Maritime Commission as part of the contract cost, on the theory that it was working capital.

The Clifford F. MacEvoy company claims to have spent for the account of the MacEvoy Shipbuilding Corporation for the construction of facilities on the leased premises at Savannah the sum of \$321,000.00, which should be contrasted with the \$70,000.00 which Mr. Benjamin Rachlin testifies would have been sufficient to rehabilitate the 28 ways at Newark, N. J. The \$321,359.51 includes machinery and equipment sold by the Clifford F. MacEvoy Company to the MacEvoy Shipbuilding Corporation at \$131,164.50. The Maritime Commission has appraised the value of such machinery at approximately \$65,000.00, which would indicate an inflated value of \$66,164.00. All of such machinery and equipment was obtained by the Clifford F. MacEvoy Company from the Park Avenue Storage Company and Rockledge, Inc., which were owned and controlled by the MacEvoy family. MacEvoy has been asked to furnish the figures which the books and

records of the Park Avenue Storage Company and Rockledge, Inc. indicate were paid out for such machinery and equipment. was not

In addition to the machinery and equipment which were sold to the MacEvoy Shipbuilding Corporation, equipment was rented for the use of the MacEvoy Shipbuilding Corporation from the Park Avenue Storage Company and Rockledge, Inc., with rentals aggregating \$15,132.72. (See Exhibit 1 and the chart attached to this memorandum).

The \$321,359.51 total cost of facilities for the MacEvoy Shipbuilding Corporation also includes \$12,511.51 traveling expenses and salaries paid to personnel at the Newark office of the Clifford F. MacEvoy Company. There were also undetermined amounts of unsupported amounts on the books of the MacEvoy Shipbuilding Corporation which are believed to be inflated. The result is that the cost of the facilities to the MacEvoy Shipbuilding Corporation can be said to have been inflated by at least \$90,000.00 and possibly by very much more.

The Maritime Commission was not obligated under the contract for the 5 barges to pay for the facilities of the MacEvoy Shipbuilding Corporation. However, despite the disappointing performance on the first contract, the Maritime Commission on May 12, 1942 entered into a second contract with the MacEvoy Shipbuilding Corporation for the construction of an additional 18 barges under an adjusted price contract. It was estimated that the 18 barges would cost \$13,127,400.00. Under that contract the Maritime Commission allowed the MacEvoy Shipbuilding Corporation, as rental for the facilities \$10,000.00

per vessel, subject to the provision that the total amount to be paid should not exceed the cost of the facilities established by audit of the Maritime Commission. The net result is that the MacEvoy Shipbuilding Corporation may receive as much as \$180,000.00 for facilities which may not have cost anywhere near that amount and which in any event the corporation was obligated to construct without reimbursement in order to perform its contract for the original 5 barges.

In addition, the Maritime Commission agreed to permit the construction of additional facilities for the purpose of handling the 18 barge contract at a cost originally estimated to be \$750,000, but which has now been increased to \$1,100,000.00. The Clifford F. MacEvoy Company is to obtain a fee of \$50,050.00 for building such additional facilities. In addition, Park Avenue Storage Company and Rockledge, Inc. have obtained up to and including December 31, 1942 as rental for equipment used in the construction of such facilities the sums of \$26,922.13 and \$6,364.66 respectively or a total of \$33,485.79. (See chart attached to Exhibit 1)

Over \$9,000 has been spent for materials used in repairing this equipment. That amount, plus the cost of labor, which can not be estimated has been paid by the Maritime Commission.

Rockledge, Inc. has also acted as agent in connection with marine insurance coverage and performance bonds for which the Maritime Commission to date has made reimbursement in the amount of over \$37,000. The fees of Rockledge, Inc. for such work

were approximately 20%, or about \$7500.

The fees which were to be paid for the actual building of the barges on the 5-barge contract were \$15,511. per barge on a total of \$77,555., and the fees which were to be paid on the 180-barge contract were maximum \$66,300, minimum \$19,880. per barge or a total of maximum \$1,193,400., minimum \$357,840. The fees on the 18-barge contract were subsequently reduced to maximum \$49,725., minimum \$14,918. per barge or a total of maximum \$895,050., minimum \$268,476. because the facilities to be constructed by the Clifford F. MacEvoy Company were going to cost 50% more than had originally been estimated. Consequently, the total fees for constructing barges will be maximum \$972,605, minimum \$346,031.

This alone would be a most substantial profit for a corporation which started out with no assets, but in order to obtain the true profit to Mr. Clifford F. MacEvoy and his family, we must add the \$50,150. fee which the Clifford F. MacEvoy Company obtained for constructing the additional facilities for the account of the Maritime Commission, the \$7500. insurance which Rockledge, Inc. obtained for selling insurance for the project, the \$33,485.79 of rentals paid to Park Avenue Storage Company and Rockledge, Inc. for rent of equipment, or at least the portion thereof (probably the bulk) by which such rentals were excessive and the \$180,000.00 which is to be paid by the Maritime Commission under the 18-barge contract for rent for the facilities which were to have been provided under the 50-barge contract without charge. In addition

to these figures, Mr. MacEvoy attempted to obtain a salary of \$25,000.00 per year, reimbursable by the Maritime Commission, which the Maritime Commission allowed in the amount of \$18,000., and his brother, Warren MacEvoy, was allowed as a reimbursable salary the amount of \$12,000.

Consequently, it appears that Mr. MacEvoy and his family can receive without investment a sum in excess of \$1,250,000. as reward for their contribution to the concrete barge program. The \$180,000. rental for facilities, although a windfall for MacEvoy, probably cannot be classified as a profit because he built the facilities to perform the contract and their value after the War probably will be less than their cost. This figure of course will be subject to increase in the event that the program should be further expanded or the facilities or any portion thereof should be used in any other government project, or in the event that MacEvoy continues to supply equipment on rental. The MacEvoy family has already made huge profits of a similar character out of the defense housing project at Winfield, N. J., which the Committee found to be one of the worst and most costly housing projects that had ever been undertaken.

The profits made by Mr. MacEvoy are only a partial indication of the extent of the possible loss to the government. The present estimated cost of the 5 barges under the first contract is \$7,021.150., the 18 barges under the second contract \$27,816,840.,

the facilities \$1,100,000. and \$180,000. rental for the facilities originally constructed for the 5 barges, or a total of \$36,117,990. Of this sum \$6,562,162.41 has already been expended, and not one single barge has been delivered. When and if all deliveries are made, the government will have obtained barge carrying capacity of 103,500 tons. Such barges will not be self-propelled, and it will be necessary to build or furnish an ocean-going tug of a value of approximately \$1,100,000. for each two barges. If all of this is done, we will then have barges which, according to the Maritime Commission, "were not the maximum in efficiency but were built under a compelling emergency."

The cost per ton of cargo carrying capacity plus motive power of the barges will be approximately \$434. per ton. This should be compared with the cost of cargo-carrying capacity of Liberty ships which varies from \$317. per ton to \$507. per ton, dependent on the yard. See Exhibit 2. These figures may be entirely too favorable to concrete barges as they assume (1) that MacEvoy has honestly and correctly estimated the actual percentage of completion achieved to date, and (2) that estimates of future costs are not too low. Also, the costs of Liberty ships, with which the barges are compared, do not reflect the lower costs thereof which have been achieved in the last few months.

The Committee understands that present plans for the use of these barges contemplate that most of them will be towed to various points and used as storage tanks.