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REPORT TO THE CONGRESS

74-0312

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Build And Charter Program For Nine Tanker Ships

B-174839

Military Sealift Command
Department of the Navy

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

701650

AUG. 15, 1973

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-174839

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the program to build and charter nine tankers for use by the Military Sealift Command, Department of the Navy.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretaries of Defense, the Navy, and the Treasury.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

DOD	Department of Defense
DWT	dead weight tons
GAO	General Accounting Office
OMB	Office of Management and Budget
O&M	Operation and Maintenance
POL	petroleum, oil, and lubricant

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BUILD AND CHARTER PROGRAM FOR
NINE TANKER SHIPS
MILITARY SEALIFT COMMAND
Department of the Navy B-174839

D I G E S T

WHY THE REVIEW WAS MADE

The Navy uses tankers to transport fuel for its use and for other military services' use. Part of the tanker fleet consists of 14 Government-owned T-2 tankers built during the 1940s. Navy studies concluded that lower transportation costs would be obtained by replacing the 14 old tankers with 9 new ones.

The Navy entered into a long-term (20 year) leasing arrangement on June 20, 1972, by having private interests obtain the funds to finance the construction of the tankers with Navy's guarantee that it would lease them. (See p. 12.)

GAO made this review to determine (1) whether the Navy's action was the more economical method to meet its needs, (2) whether or not the Congress had an opportunity to consider the wisdom of the transaction before the formal commitment to spend future funds, and (3) whether review and approval by the Congress should be required for future transactions of this type. (See p. 5.)

Background

The Comptroller General's March 23, 1972, decision on the legality of this leasing arrangement stated that GAO could not say the transaction resulted in purchase of an asset, for which funds are required to be authorized and appropriated by the Congress, because the Navy never obtains actual title to the tankers.

In transmitting this decision to the Secretary of Defense, GAO said it had no legal objection to the transaction but that, in view of the program's magnitude, it would seem appropriate to inform the House and Senate Committees on Armed Services and Appropriations of Navy plans before going forward. (See p. 10.) Navy officials advised GAO that they gave informal rather than formal notification to selected committee staff members.

FINDINGS AND CONCLUSIONS

If the tankers were purchased, total Government payments would be made during a 3-year construction period. By leasing, total payments are spread over a 20-year period with no payments due until the tankers are ready for use.

Determining whether leasing is more economical than purchasing depends on the discount rate used to convert future dollars into today's value.

Criteria for economic analysis

The Navy's lease-versus-purchase analysis used the criteria established in Department of Defense (DOD) Instruction 7041.3. This instruction requires a 10-percent discount rate which represents an estimate of the average return on private investment, before taxes and after inflation. The source cited in this instruction is the Office of Management and Budget (OMB) Circular A-94.

Circular A-94 prescribes the discount rate for evaluating Government decisions concerning the initiation, renewal, or expansion of programs or projects. However, A-94 states that its provisions do not apply to the evaluation of Government decisions concerning the acquisition of commercial-type services and that guidance for making such decisions is contained in Circular A-76.

OMB Circular A-76 criteria for valuing money is the yield on long-term Department of the Treasury borrowings rate. This rate, at the time the transaction was entered into, was about 6 percent.

A comparison follows of the effects on Government costs if (1) no present-value discount is used, (2) a 10-percent discount is used--A-94 criteria--and (3) a 6-percent discount is used--A-76 criteria.

	(millions)	
No present-value discount	$178.1	<u>more</u> to lease
At 10-percent (A-94) discount	10.4	<u>less</u> to lease
At 6-percent (A-76) discount	29.6	<u>more</u> to lease

At a discount rate of about 8-3/4 percent, there is little difference between leasing and purchasing.

By leasing instead of purchasing, the Navy is not required to obtain specific congressional authorization and approval. The Navy told GAO that it would prefer to purchase new tankers but that it had been unsuccessful in obtaining procurement funds in prior years, and therefore, considered leasing as its only viable alternative. However, future Government payments under this lease transaction will more than double the amount that would have been paid if direct congressional approval had been received and the tankers had been purchased.

Although leasing is recognized as a proper means of acquiring assets, the magnitude of the funds involved in this transaction clearly warrants congressional input to the decision-making process.

Navy officials agreed that the manner in which the Congress was informed of this program could be improved.

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary of Defense revise DOD instructions to provide for application of the guidelines set forth in Circular A-76 in evaluating long-term leasing of assets such as ships.

To improve congressional awareness of future build and charter programs, the Secretary of Defense should assist the Congress by

--providing it with information on the proposed method acquisition (long-term leasing or purchasing);

--providing, to appropriate congressional committees, a detailed cost analysis showing full impact on future budgets when long-term leasing is proposed; and

--requiring analyses of long-term leasing arrangements to be made on a total-cost-to-the-Government basis, including direct effects of delayed payments of income taxes.

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD and Navy generally accepted GAO's recommendations for improving congressional review of future build and charter programs. DOD assured GAO that formal presentations would be given to key congressional oversight committees.

The Navy did not concur, however, in GAO's treatment of deferred taxes, because it believes that the value of deferred payment of income taxes should not be recognized as a cost. (See p. 29.)

In addition, DOD did not concur with GAO's recommendation that DOD instructions be revised to provide for application of the guidelines set forth in OMB Circular A-76 in evaluating long-term leasing of assets such as ships. (See p. 29.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Since the Navy's Build and Charter program is similar to Government programs for leasing buildings, the Congress should evaluate the need for legislation similar to Public Law 92-213 of June 16, 1972.

This law amended the Public Buildings Act of 1959 to require congressional approval of all leases greater than $500,000 a year. It also requires that a prospectus containing details of the transaction be provided to the Congress. Similar legislation may be appropriate for long-term leasing of such assets as ships.

Because the Build and Charter program can be considered as setting a precedent (the Navy is considering acquiring other types of vessels, such as dry-cargo ships, in this manner), legislation could be an effective tool to insure congressional oversight of future long-term leasing programs.

CHAPTER 1

INTRODUCTION

BUILD AND CHARTER PROGRAM

In June 1972 the Military Sealift Command, Department of the Navy, entered into the Build and Charter program to acquire the use of nine new tankers. Private interests were to provide for their construction and financing, with a commitment from the Navy, that it would lease the tankers, with renewal provisions, for 20 years.

By renting instead of purchasing, the Navy can apply Operation and Maintenance (O&M) funds which, unlike procurement funds, do not require specific authorization and approval by the Congress.

We selected the Build and Charter program for review because it was an unusual procurement method which committed the Government to significant expenditure of funds (fixed charter payments) in future years. We wanted to determine (1) whether the Navy's action was the more economical method to meet its needs, (2) whether or not the Congress had an opportunity to consider the wisdom of the transaction before the formal commitment to spend future funds, and (3) whether review and approval by the Congress should be required for future transactions of this type.

SCOPE OF REVIEW

We analyzed the agreements entered into on June 20, 1972, resulting from the Navy's acceptance of an offer from Marine Transport Lines, Inc.; Citicorp Leasing, Inc. (formerly First National City Leasing, Inc.); and Salomon Brothers to arrange for building and financing nine new tankers to be constructed especially for chartering to the Navy. We obtained most of our study material from Navy documents and interviews with Navy personnel from November 1972 through February 1973.

We did not make a detailed analysis of the Navy requirement for these vessels. We did not attempt to evaluate the extent of competition for the Build and Charter program, nor did we review the reasonableness of the shipyard construction prices.

CHAPTER 2

NAVY'S REASONS FOR THE BUILD AND CHARTER PROGRAM

NEED FOR TANKERS

One of the Navy's activities is to arrange for Department of Defense (DOD) ocean transportation of bulk petroleum, oil, and lubricant (POL) products. Almost all of the demands placed upon the Navy for this liquid-cargo transportation are for long distances, generally from the refineries, where crude oil is converted into POL products, to established military distribution terminals. Throughout the world, there are 117 distribution terminals: 26 Army, 31 Air Force, and 60 Navy. To service these terminals, the Navy employs a fleet of both Government-owned and commercially chartered tankers.

The tankers are civilian-manned, contract-operated, commercial-type ships. The principal products carried are (1) Navy special fuel oil, a product used as ship fuel, (2) jet aircraft fuel (JP-4 and JP-5), (3) gasoline for piston aircraft, (4) motor gasoline, and (5) diesel fuel.

As of October 1971, when the Navy briefed DOD officials on its proposed Build and Charter program, the Military Sealift Command tanker fleet consisted of 56 tankers having a total capability of 1,316,000 dead weight tons (DWT).[1] Of the 56 tankers, 32 were commercial charters, representing about 75 percent of the total DWT capability. The remaining 24 tankers were Government owned: 10 were T-1 or T-5 tankers, representing about 9 percent of the total DWT capability, and 14 were T-2 tankers, representing about 16 percent of that capability. On the basis of Navy and DOD studies made from 1965-69, Navy officials stated they needed 9 new tankers to replace the 14 T-2 tankers which were of World War II vintage. Because the T-2 tankers were more than 25 years old, the Navy believed operating and repair costs had increased to the point where it was not cost effective to continue their operation.

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[1] Dead weight ton (DWT) is the measurement of a ship's total carrying capacity in tons weight including cargo, fuel, passengers and crew, when fully loaded down to her permitted loadline.

The Navy concluded that each new tanker needed to have a length not greater than 600 feet, a draft of 32 feet, a speed of 16 knots, and a displacement of 25,000 DWT. The specifications of the T-2 tankers scheduled for replacement were: a length of 523 feet, a draft of 30-1/2 feet, a speed of 14 knots, and a displacement of 16,600 DWT. An artist's concept of a Build and Charter program tanker is shown in exhibit A. (See p. 8.) The Navy's reason for this particular size of tanker is that fuel transportation services must be provided to ports too shallow to accommodate the larger size tankers (38,000 DWT and larger).

According to Navy officials, U.S.-flag tankers with the specifications needed by the Navy are not available for long-term charter and, furthermore, new tankers with these specifications are not being built commercially in the United States. Commercial carriers of POL products prefer larger tankers, or super tankers (38,000 to 250,000 DWT), because of lower transportation costs. Tankers of the 25,000 DWT size are available under foreign flags, but the Cargo Preference Act of 1904 requires that all DOD material be shipped under the U.S. flag, if available. If the Navy chartered foreign-flag vessels on a long-term basis, a problem would develop each time a U.S.-flag vessel became available for charter hire. To obtain tankers meeting its specifications, the Navy concluded that new tankers must be built.

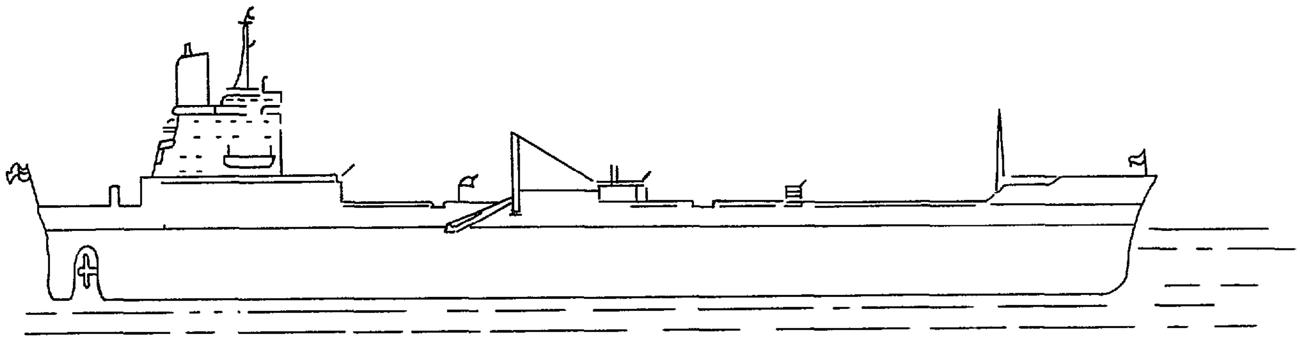
NAVY'S ATTEMPTS TO OBTAIN PROCUREMENT FUNDS FOR NEW TANKERS

Navy officials told us that, since 1958, they have requested procurement funds to purchase new tankers to replace the T-2 tankers. The requests were denied at higher budget review levels within the Navy or DOD because procurement funds were needed for higher priority combatant ship construction programs. The Build and Charter program was designed to meet the need for new tankers without spending procurement funds.

The program contemplates 20 years of fixed, biweekly charter payments (rent) for the exclusive use of nine tankers. Because the money is for rent payments and not for outright purchase, O&M funds can be used. Furthermore, because O&M funds are used, specific line-item congressional approval is not mandatory.

ARTIST'S CONCEPT OF THE TANKERS TO BE ADDED TO THE MILITARY SEALIFT COMMAND VIA "BUILD & CHARTER"

EXHIBIT A



APPROXIMATE COMMERCIAL SPECIFICATIONS:

LENGTH	587 FT.
BEAM (WIDTH)	84 FT.
DRAFT	32 FT.
SPEED	16 KNOTS
DISPLACEMENT	25,000 DWT (DEAD WEIGHT TONS)
CAPACITY	9.2 MILLION GALLONS
DIESEL POWER PLANTS	CONSUME DIESEL OIL AT THE RATE OF 13,000 GALLONS PER DAY WHEN CRUISING AT 16 KNOTS
CREW SIZE	26 PEOPLE

The tankers are operated under the Navy Industrial Fund, a revolving fund reimbursed from the appropriated O&M funds of the Army, Air Force, Marine Corps, and Navy. Industrial fund operations allow the Navy to spread costs to the other military services using the POL transported in the tankers. The POL transportation rates are set annually on the basis of forecasted costs, and the military service customers are billed at these rates for services received. Thus, the costs of operating the tanker fleet--including charter costs--are ultimately passed on through the Navy Industrial Fund to the O&M accounts of the military services receiving the transported POL products.

PRIOR ATTEMPT TO BUILD AND CHARTER

On February 12, 1969, after full advertisement and under competitive procedures, the Navy awarded the charter of nine 25,000 DWT tankers to Central Gulf Steamship Corp. The Navy presented the details of this proposed transaction on March 25, 1969, at hearings before the House Committee on Appropriations on fiscal year 1970 appropriations.

During the hearings the Navy disclosed that the Central Gulf transaction had been terminated during the prior week because the company that was initially interested could not provide the money at the interest rate quoted in its bid.

On February 4, 1971, the Navy again requested proposals for the construction of nine tankers for long-term charter. Fourteen competitors submitted bids, which were analyzed using competitive-award procedures, and the winner of that competition resulted in the Build and Charter agreements described in chapter 3.

PREAWARD RULINGS

Before contract award, the prospective contractor and the Navy requested several key rulings from our Office, the Department of Justice, and the Internal Revenue Service. The requests and replies are summarized below.

General Accounting Office

By letter dated December 27, 1971, the prospective contractor's attorney requested our opinion on whether the Navy had all the needed authority to proceed with the charters as an industrial fund activity and particularly whether the obligations incurred would be only obligations of the Navy Industrial Fund or general, full-faith-and-credit obligations of the United States.

Our letter reply (B-174839, Mar. 23, 1972, [51 Comp. Gen. 598]) stated:

> "* * * While the MSC [Military Sealift Command] assumes all the liabilities attached to ownership and in effect equitable ownership of the vessels upon construction, the fact remains that MSC never obtains actual title to all or any portion of any of the nine vessels. We therefore cannot say that the arrangement results in the purchase of an asset for which funds are required to be authorized and appropriated by the Congress."

We suggested that an opinion on the full-faith-and-credit issue be obtained from the Attorney General.

In transmitting a copy of the decision to the Secretary of Defense, we stated that, in view of the magnitude of the program, it would seem appropriate to inform the House and Senate Committees on Armed Services and Appropriations of the DOD plans before going forward with them.

Department of Justice

The Navy's June 14, 1972, letter asked the Department of Justice for a ruling on the full-faith-and-credit issue. The Assistant Attorney General, Office of Legal Counsel, stated in his June 20, 1972, letter that:

> "(a) COMSC [Commanding Officer, Military Sealift Command] is authorized to enter into the Agreements to Construct and Let and the Demise Charters.
>
> "(b) The Agreements to Construct and Let and the Demise Charters, when executed, by COMSC or a contracting officer duly designated by him, will constitute valid and binding obligations of the United States enforceable in accordance with their respective terms, and the obligations of the United States in the Demise Charters to pay charter

hire as it accrues, Termination Value, stipulated loss value and the other amounts which may become payable by the United States thereunder in the circumstances and in the amounts set forth in such charters (including any renewal periods assuming the conditions for renewals set forth in such charters are satisfied) will constitute valid general obligations of the United States which are secured by its full faith and credit.

"(c) The obligations of the United States mentioned above are not conditional upon future appropriation of funds by Congress for their payments. The fact that future appropriations may be necessary does not make the obligations incurred by the United States any less than general obligations of the United States secured by its full faith and credit."

Internal Revenue Service

By letter dated June 19, 1972, the Chief, Corporation Tax Branch, gave a favorable ruling which allowed owner participants to be treated as a partnership for tax purposes and allowed the tankers to be depreciated in 14-1/2 years by either the double-declining-balance method or the sum-of-the-years-digits method. One of the material representations relied on for this ruling was that, at the end of the charter term, the tankers would have an estimated value of not less than 15 percent of cost.

CHAPTER 3

NAVY BUILD AND CHARTER PROGRAM

On June 20, 1972, the Navy entered into a series of principal financing documents for the construction and leasing of nine tankers. The Navy executed contracts with two special-purpose corporations, Marine Ship Leasing Corp. and Marine Vessel Leasing Corp. (Since Marine Transport Lines, Inc., will act as the fiscal agent for the two special-purpose corporations and to simplify discussion of this transaction, Marine Transport can be considered--for purposes of this report only--the owner of the tankers.) In essence, the Navy, in these contracts, promises to lease the nine tankers when they are built, tested, and delivered. The lease period, with renewal options, is 20 years. The type of lease is called a bareboat charter, which means that only the ship is leased; the Navy is to bear other operating costs for such things as crew, fuel, maintenance, and insurance. The transaction can be divided into three phases: (1) construction (2) delivery and long-term financing, and (3) charter.

CONSTRUCTION PHASE

Marine Transport executed construction contracts simultaneously with Todd Shipyards Corporation for building four tankers and with Bath Iron Works Corporation for building five tankers. The Navy and the shipbuilders have no direct contractual arrangement. The fixed-price construction contracts' prices are shown in the following table.

Contractor	Unit price	Units	Total
Bath	$16,031,000	5	$ 80,155,000
Todd	16,595,000	4	66,380,000
Total		9	$146,535,000

These commercial-type tankers, built to standards of the maritime industry, are not of a military design. Their specifications are described in exhibit A. (See p. 8.) The contractual delivery dates, by hull or ship number, are stated in exhibit B. (See p. 13.)

Since Government progress payments will not be available to finance the construction, Marine Transport will obtain contruction loans from the interim lenders, the Chase Manhattan Bank (Todd's banker) and the First National City Bank (Bath's banker). The annual interest rate on the construction loans, which is not fixed, will be 115 percent of the bank's base rate on 90-day loans to substantial and responsible commercial borrowers in effect at the opening of the first business day of the calendar quarter when funds are made available.

From time to time, and as needed during the contruction period, Marine Transport will borrow money from the interim lenders and provide it to the shipbuilders as they progress on the construction of the tankers. The interim lenders will obtain liens against the tankers until the loans, plus interest, are repaid. A simplified diagram describing the construction phase appears as exhibit C. (See p. 14.)

Build and Charter Ship Delivery Schedule

Exhibit B

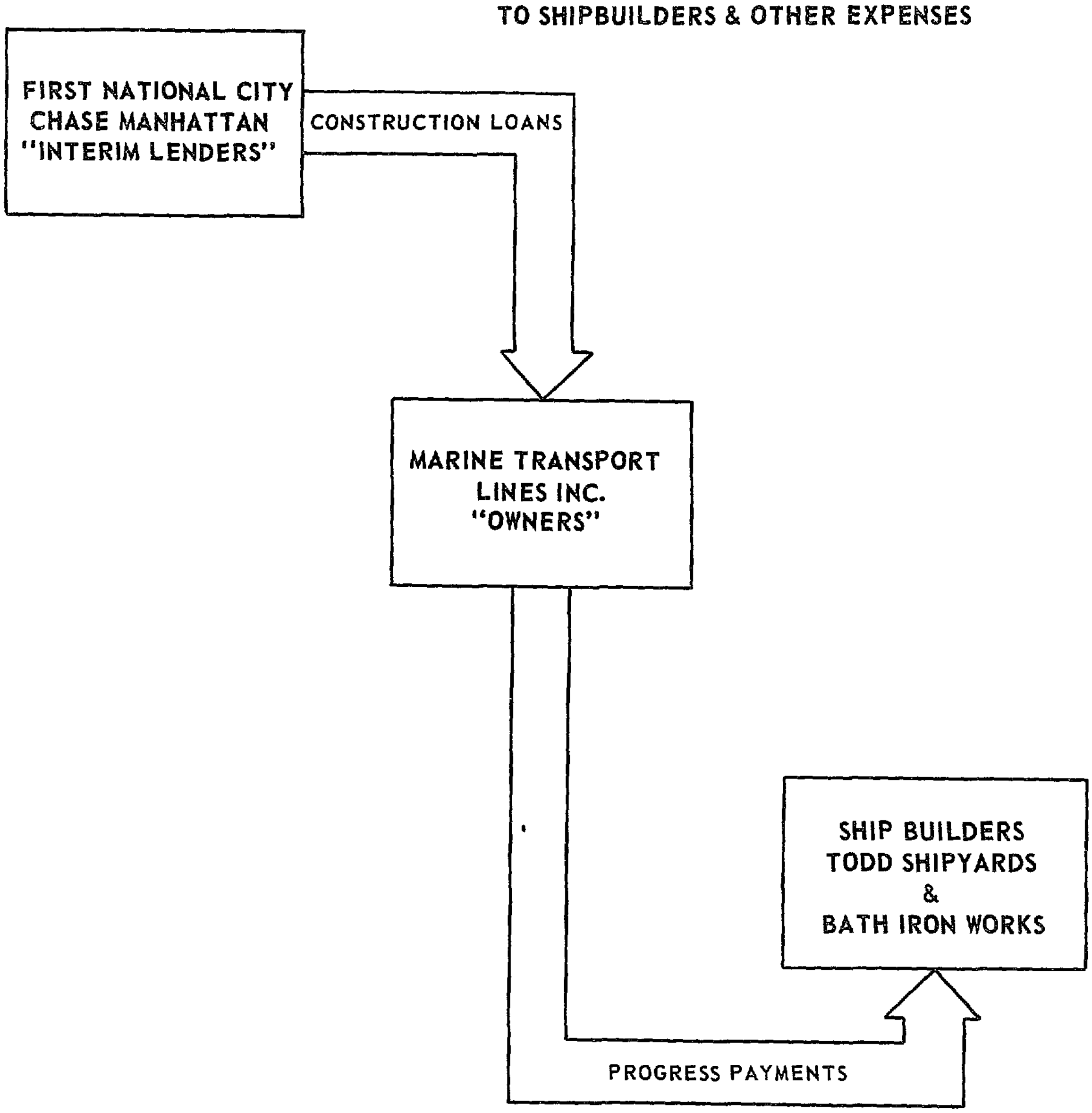
Delivery date	Hull number	Shipbuilder
1. June 15, 1974	100	Todd Shipyards
2. July 5, 1974	360	Bath Iron Works
3. July 27, 1974	101	Todd Shipyards
4. Oct. 19, 1974	361	Bath Iron Works
5. Oct. 26, 1974	102	Todd Shipyards
6. Nov. 16, 1974	362	Bath Iron Works
7. Nov. 30, 1974	363	Bath Iron Works
8. Dec. 7, 1974	103	Todd Shipyards
9. Dec. 7, 1974	364	Bath Iron Works

DELIVERY AND LONG-TERM-FINANCING PHASE

After the construction phase is completed, the ships are delivered to Marine Transport and the previously agreed-to, long-term-financing arrangements become operative. Until the ships are delivered, the total cost cannot be determined. The Navy estimate of total or capitalized costs is shown as schedule 1. (See p. 15.) Capitalized costs are fundamental to determining (1) the amount of both borrowed and equity funds to be invested through selling bonds and ownership

CONSTRUCTION PHASE
EXHIBIT C

DURING CONSTRUCTION PERIOD
(JUNE 1972 – DEC. 1974)
"OWNERS" BORROW FROM "INTERIM LENDERS"
ENOUGH MONEY TO MAKE PROGRESS PAYMENTS
TO SHIPBUILDERS & OTHER EXPENSES



rights, (2) the amount of the Navy's charter payments, and (3) all other miscellaneous dollar flows related to the Build and Charter program. Although the February 1973 Navy estimate of capitalized costs is $158.5 million, we have assumed that the December 1974 actual capitalized costs will be $160 million. This assumption facilitates our calculating estimated dollar flows later in this report but does not distort the analysis.

When Marine Transport obtains the tankers in the second half of 1974, it must pay back the money (principal plus interest) it borrowed to make progress payments during the construction phase. The bond purchasers (see app. II) are then called on for 75 percent, or $120 million, of the assumed $160 million capitalized cost and the owner participants (see app. III) are called on for 25 percent, or $40 million, of this amount. (See exhibit D, p. 16.)

Military Sealift Command Estimate of Capitalized Cost, February 1973

Schedule 1

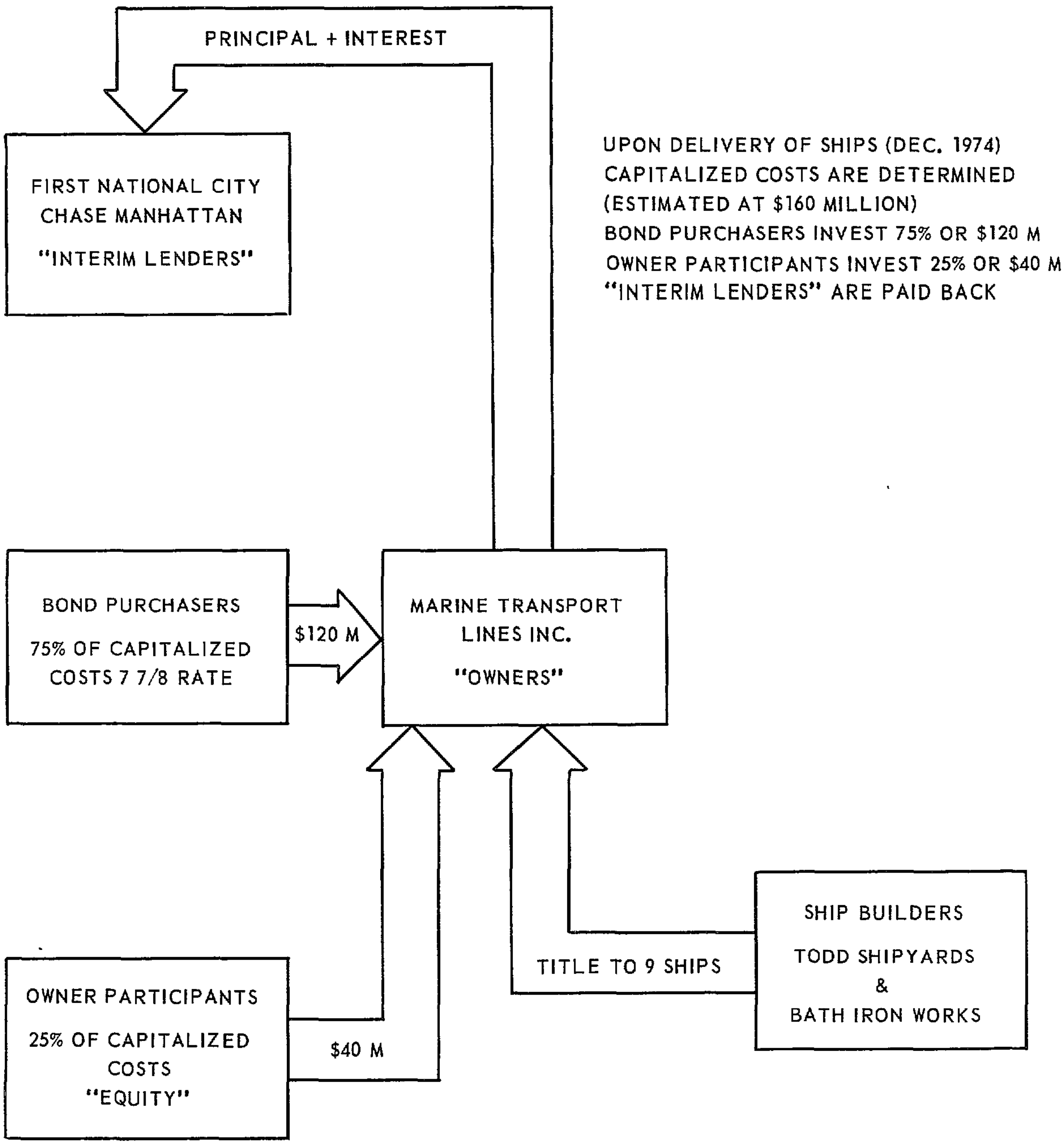
	Bath		Todd		Total
	One tanker	Five tankers	One tanker	Four tankers	(nine tankers)
Construction price	$16,031,000	$80,155,000	$16,595,000	$66,380,000	$146,535,000
Supervisory fee	64,444	322,220	64,445	257,780	580,000
Performance bond (note a)	25,000	125,000	25,000	100,000	225,000
Commitment fee (1/2 of 1 percent) (note b)	100,194	500,970	103,719	414,874	915,844
Interest on loan 6 percent per year	1,118,160	5,590,800	1,157,493	4,629,974	10,220,774
Total	$17,338,798	$86,693,990	$17,945,657	$71,782,628	
Total estimate of capitalized costs					$158,476,618

[a]Paid by Bath and Todd.

[b]Paid to bond purchasers.

DELIVERY AND LONG-TERM FINANCING PHASE

EXHIBIT D



The bonds to be purchased bear 7-7/8 percent interest and are called "First Preferred Fleet Mortgage Bonds." The bond purchasers, 35 institutional investors (see app. II), will receive interest only during the first 10 years after bond purchase. During the second 10 years they will receive interest plus purchase price.

The 14 owner participants shown in appendix III invest 25 percent of the capitalized cost ($40 million) plus an added 2 percent of capitalized cost ($3 million). The $3 million is a fee to Marine Transport Lines, Inc.; Citicorp Leasing; and Salomon Brothers for arranging the Build and Charter transaction. In return the owner participants receive a paper loss for tax purposes during the first 13 years due primarily to the rapid depreciation of the ships. This loss, used to offset income from other sources, thereby reduces their tax liability in that year.

The net effect is that the owner participants are buying a tax loss, or Marine Transport is selling depreciation expense. The transaction does not allow the companies to avoid paying taxes; it defers payment of taxes to the later years of the contract. To the owner participant, as a 48-percent taxpayer, every dollar of tax deferral translates into 48 cents of interest-free money which can be reinvested. (See exhibit E, p. 18.)

The analysis of estimated dollar flows resulting from this transaction assumes that the original 14 owner participants will remain parties to the agreement for the full 20-year lease period. The analysis would change depending on such factors as (1) the original owners' decision to sell their rights, (2) the sale proceeds from the transactions, (3) the gain or loss on the sale, and (4) the depreciation to be allowed to subsequent owners.

CHARTER PHASE

When Marine Transport accepts the tankers, they are immediately chartered to the Navy. The Navy pays the charter hire on the fifteenth and last days of each month. the initial charter period is for 5 years with options to renew for three additional 5-year periods. At the end of the 20-year period, the tankers are to be returned. The terms of the contracts prohibit the Navy or any other Government agency from ever purchasing these tankers. This prohibition

CHARTER PHASE

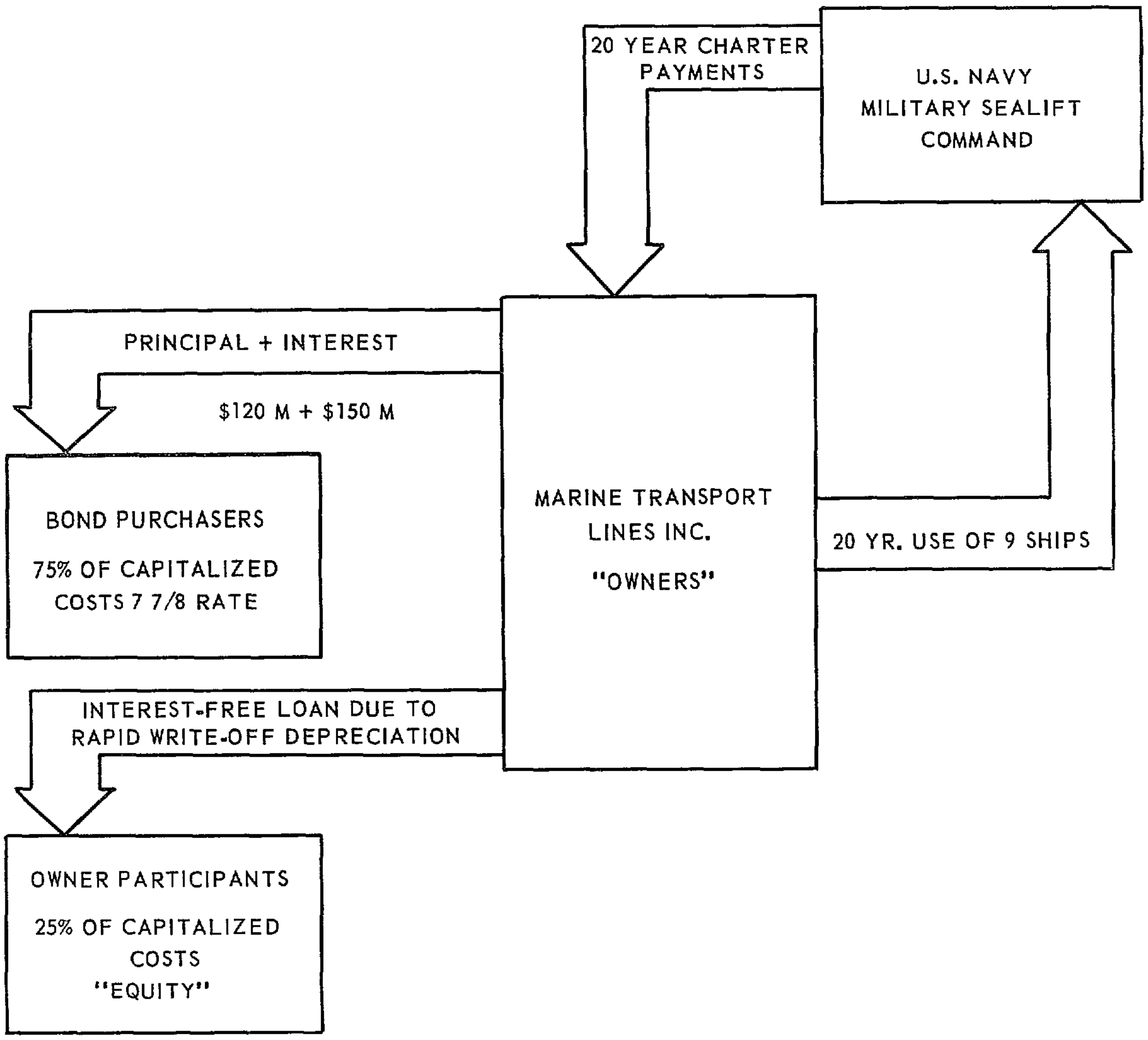
EXHIBIT E

DEC. 1974 – 1994 NAVY PAYS RENT

DEC. 1974 – 1984 NAVY RENT PAYS BOND INTEREST ONLY

DEC. 1984 – 1994 NAVY RENT PAYS BOND INTEREST PLUS PRINCIPAL

OWNER PARTICIPANTS RECEIVE ADVANTAGE OF INTEREST-FREE MONEY FROM TAXES DEFERRED BECAUSE OF HIGH DEPRECIATION EXPENSES IN THE FIRST 10 YEARS



was needed so that, for income-tax purposes, the transaction could not be considered as a deferred sale to the Government.

The Navy's charter payments are structured so that, during the first 10 years, the amount paid is exactly equal to the interest that the owners must pay to the bond purchasers. After the tenth year, the Navy's charter payments are more than double because, during the second 10-year period, principal and interest must be paid to the bond purchasers. Assuming a total cost of $160 million, the charter payments for nine tankers would be about $9 million each year for the first 10 years and about $22 million each year for the second 10 years.

TERMINATION FEATURES

Construction period

If the Navy terminated the Build and Charter program during the construction period, the Government would be obligated to pay:

--Construction costs incurred up to the termination date.

--Costs incurred for settling termination claims.

--$180,000 for each ship terminated for expenses and profit to the parties arranging the Build and Charter program.

--To the extent not covered above, expenses paid and interest thereon to the owner participants, interest to the interim lenders, and unpaid commitment fees to the bond purchasers.

Total termination costs to the Government cannot exceed the construction contract price, less payments already made, less any work not terminated.

Lease period

If the Navy terminates for convenience during the lease period, the Government must pay (1) the termination value of the ships, less net sales proceeds, and (2) final fees and expenses of the trustees. Termination value for the first 12 years of charter is 122.5 percent of capitalized costs;

it declines in the later years of the contract and reaches 42.5 percent of capitalized costs in the 20th year of charter. If termination occurs due to loss at sea or seizure, a stipulated loss value, approximately the same as the termination value of each year, is applied.

CHAPTER 4

LEASE-VERSUS-PURCHASE ANALYSIS

The Navy, in evaluating the economics of leasing versus purchasing tankers, used the criteria established in DOD Instruction 7041.3. This instruction provides that a 10-percent discount rate be applied. This rate represents an estimate of the average return on private investment, before taxes and after inflation. The source cited for this instruction is OMB Circular A-94.

Circular A-94 prescribes the discount rate for evaluating Government decisions concerning the initiation, renewal, or expansion of programs or projects. However, A-94 states that its provisions do not apply to the evaluation of Government decisions concerning the acquisition of commercial-type services. The circular states that guidance for making these decisions is contained in Circular A-76.

Circular A-76 prescribes that the yield on long-term Department of the Treasury borrowings be used in evaluating lease-versus-purchase alternatives. This rate, at the time the transaction was entered into, was about 6 percent.

Whether leasing or purchasing is the more economical alternative depends upon the discount rate applied. Table 1 summarizes the cost of lease and purchase alternatives when A-94 (10 percent) and A-76 (6 percent) criteria are applied. An 8-percent discount rate and an undiscounted column are also included to show the sensitivity at various discount rates.

Table 1

		Present value at various discount rates		
	Undiscounted	6 percent	8 percent	10 percent
	(millions)			
Cost to Government to lease:				
Adjusted charter payments to reflect tax effects	$314.1	$160.2	$132.4	$110.9
Cost to Government to purchase:				
Capitalized cost	$160.0	$136.9	$130.2	$124.0
Less residual value	-24.0	-6.3	-4.1	-2.7
	$136.0	$130.6	$126.1	$121.3
Cost advantage of leasing	-$178.1	-$ 29.6	-$ 6.3	+$ 10.4

Under A-76 criteria (6 percent) purchasing would have been the more economical alternative by about $29.6 million. Under A-94 criteria (10 percent) leasing would have been the more economical alternative by about $10.4 million.

Each of the cost elements is discussed below.

COST TO GOVERNMENT TO LEASE

To show the cost to the Government, we have adjusted the Navy charter payments to reflect the tax effect. The adjusted charter payments totaling $314.3 million are made up of (1) the actual cash payment of charter hire by the Navy and (2) the taxes that are deferred (not paid until later years)--shown as an addition--in the early years of the contract and taxes paid--shown as a subtraction--in the later years of the contract.

For example, in the fourth year the estimated Navy charter payment is $9.5 million and the deferred taxes are $9 million, thus the adjusted charter payment is actually $18.5 million. In the 20th charter year the estimated Navy payment is $21.6 million and the taxes paid are $6.4 million; a subtraction results in an adjusted charter payment of $15.2 million. We have made this calculation for each of the 23 years, and the total adjusted charter payments are $314.3 million. (See sch. 2, pp. 24 and 25.)

COST TO GOVERNMENT TO PURCHASE

Capitalized costs

Assuming the Navy could, or wanted to, justify applying procurement funds for the purchase of the nine tankers, we used the same capitalized costs ($160 million) in our analysis as were used for the Build and Charter program. We recognize that, to purchase the tankers, the Navy would have to pay some amount more than the $146.5 million to the shipbuilders because the Navy would have to administer the shipbuilding contracts and make progress payments. The difference of $13.5 million should be more than enough to cover costs of administering the contract and of borrowing funds to make progress payments during the 3-year construction period.

Residual value

We recognize that it is highly conjectural to attempt to project, 23 years into the future, a value of 9 not-yet-built tankers; however, the estimate given to Internal Revenue Service for its ruling on depreciation was 15 percent ($24 million) of original costs ($160 million).

PRESENT-VALUE AND DISCOUNT RATES

To analyze the cost to rent compared with the cost to buy, we discounted the series of payments at a given rate to determine the present value as set forth in published tables. For example, if it were necessary to determine the present value of a series of three $100 annual rent payments at a 6-percent rate, the calculation would be as follows:

$100 x .9433	=	$ 94.33
100 x .8899	=	88.99
100 x .8396	=	83.96
Present value at 6 percent		$267.28

The undiscounted amount is $300.00, but the present value at 6 percent is $267.28. Present value discounts future payments back to what they are worth today. This is the method used to compute the analysis in table 1. The data in table 1 is presented graphically in schedule 3. (See p. 26.)

Estimated (note a) Dollar Flows Resulting From

Military Sealift Command's Nine Tanker

Build and Charter Program

SCHEDULE 2

Tax year	Column 1 Charter payments	Column 2 Interest income	Column 3 Interest expense	Column 4 Depreciation expense
	(000 omitted)			
1	$ -	$ -	$ [b]399	$ -
2	-	-	[b]3,021	-
3	2,156	-	[b]8,689	9,713
4	9,450	65	[c]9,450	18,756
5	9,450	65	9,450	17,416
6	9,450	65	9,450	16,076
7	9,450	65	9,450	14,737
8	9,450	65	9,450	13,397
9	9,450	65	9,450	12,057
10	9,450	65	9,450	10,718
11	9,450	65	9,450	9,378
12	9,450	65	9.450	8,038
13	9,450	65	9,450	6,698
14	21,628	149	9,290	4,287
15	21,628	149	8,626	1,272
16	21,628	149	7,908	-
17	21,628	149	7,133	-
18	21,628	149	6,296	-
19	21,628	149	5,391	-
20	21,628	149	4,413	-
21	21,628	149	3,358	-
22	21,628	149	2,218	-
23	21,628	149	985	-
	$312,936	$2,140	$162,227	$142,543

[a]The estimated dollar flows are based on the following assumptions.

--Capitalized cost of nine tankers will be $160 million.

--Federal tax rate will be 48 percent.

--Average delivery date of nine tankers will be October 1974.

--Total time will be 23 years: 3 years for construction, 20 years for charter.

--Other income in years 1 to 13 will offset tax losses.

--Original owner participants will remain with this program for 23 years.

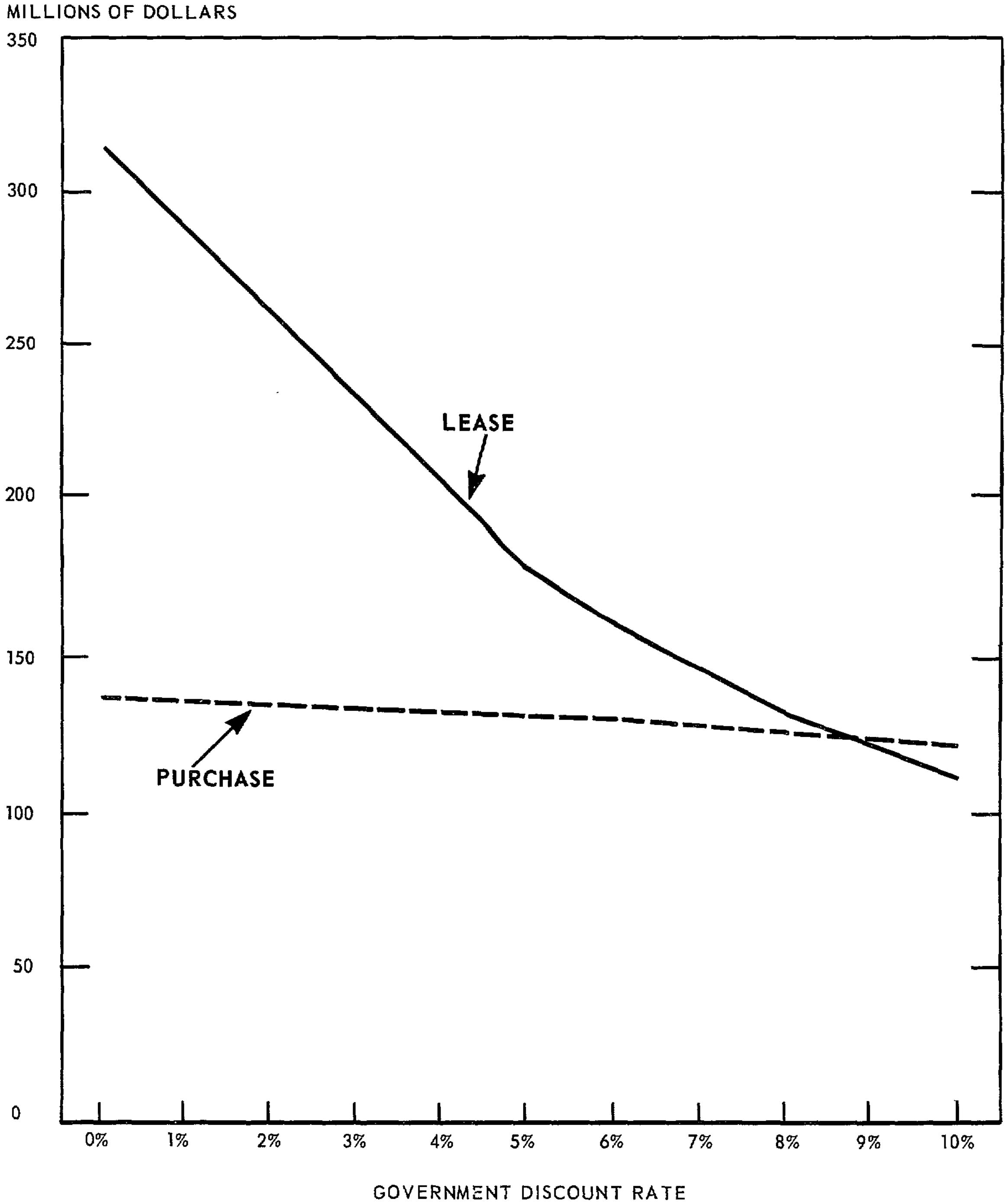
[b]Interest on construction loans, years 1 through 3.

[c]Interest on bonds, year 4 through 23.

Column 5	Column 6	Column 7	Column 8
Other expense	Charter tax loss (-) or profit	Charter taxes deferred or paid (-)	Adjusted charter payments to reflect tax effects Col. 1 (+) or (-) Col. 7
(000 omitted)			
$ 790	$ -1,189	$ 571	$ 571
41	-3,062	1,470	1,470
3,246	-19,492	9,356	11,512
61	-18,752	9,001	18,451
61	-17,412	8,358	17,808
61	-16,072	7,715	17,165
61	-14,733	7,072	16,522
61	-13,393	6,429	15,879
61	-12,053	5,786	15,236
61	-10,714	5,143	14,593
61	-9,374	4,500	13,950
61	-8,034	3,857	13,307
61	-6,694	3,213	12,663
61	8,139	-3,907	17,721
61	11,818	-5,672	15,956
61	13,808	-6,628	15,000
61	14,583	-7,000	14,628
61	15,420	-7,402	14,226
61	16,325	-7,836	13,792
61	17,303	-8,305	13,323
61	18,358	-8,812	12,816
61	19,498	-9,359	12,269
7,564	13,228	-6,350	15,278
$12,800	$ -2,494	$ 1,200	$314,136

LEASE VS. PURCHASE
NAVY "BUILD & CHARTER" PROGRAM, REFLECTING ADJUSTED CHARTER PAYMENTS

SCHEDULE 3



CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

CONCLUSIONS

Discount rates

As shown in chapter 4, whether or not leasing is more economical than purchasing depends on the discount rate used to calculate the present value of future payments.

The Navy used criteria comparable to that contained in Circular A-94 and evaluated the lease-versus-purchase decision using a discount rate of 10 percent. Under this criteria, the decision to lease appeared more economical than purchasing by $10.4 million.

We believe that the A-94 criteria was not appropriate for evaluating the lease-versus-purchase decision and that criteria comparable to that contained in Circular A-76 would have been appropriate. Under A-76 criteria the decision would have been evaluated using the yield on long-term Treasury obligations which was about 6 percent at the time of the Navy's decision to lease. Using a discount rate of 6 percent, the decision to purchase would have been more economical by $29.6 million.

DOD's advance notification to the Congress

The Navy has authority to enter into long-term lease programs by using O&M funds appropriated by the Congress, but in so doing the authorizing prerogatives and oversight responsibilities of the Congress are diminished. In this instance we believe the Congress was not assured an opportunity to evaluate and participate in a decisionmaking process which resulted in the commitment of more than $300 million in public funds.

According to the commanding officer, Military Sealift Command, the only written communication provided to the Congress was a press release on January 4, 1972, stating the construction costs of $66.4 million to build four ships at Todd Shipyards and the construction costs of $80.1 million to build five ships at Bath Iron Works.

On March 23, 1972, the Comptroller General transmitted a copy of his decision (51 Comp. Gen. 598) to the Secretary of Defense and suggested that congressional committees be informed before final commitments were made. Navy officials stated that formal presentations were not made to congressional committees before contract award, but informal discussions were held with certain committee staff members.

An earlier build and charter program was discussed at congressional hearings, but the cost and contractual arrangements were different from this program and it was terminated. Informing the Congress on the earlier program is not an adequate disclosure of the present program.

The Navy selected the Build and Charter program, not as the result of a lease versus purchase analysis, but because it could not obtain procurement funds to purchase new tankers and would rather conserve its procurement funds for combatant ships. The Navy analysis of charter payments does not reflect the total cost to the Government because it does not take into account the direct tax effects of this transaction. However, the tax shelter was a key factor in arranging this transaction.

Navy officials agree that the manner in which the Congress was informed of this program could be improved.

RECOMMENDATIONS

We recommend that the Secretary of Defense revise DOD instructions to provide for application of the guidelines set forth in Circular A-76 in evaluating long-term leasing of assets such as ships.

To improve congressional visibility of future build and charter programs, the Secretary of Defense should assist the Congress by

--providing it with information on the proposed method of acquisition (long-term leasing or purchasing);

--providing, to the appropriate congressional committees, a detailed cost analysis showing full impact on future budgets when long-term leasing is the proposed acquisition method; and

--requiring analyses of long-term leasing arrangements to be made on a total-cost-to-the-Government basis, including the direct effects of delayed payments of income taxes.

AGENCY COMMENTS AND OUR EVALUATION

Both DOD and the Navy generally concur in our recommendations for providing Congress full information on future build and charter programs. DOD also agrees that appropriate congressional committees should be provided with detailed cost analyses showing full impact on future budgets when long-term leasing is the proposed acquisition method.

The Navy did not concur, however, in our treatment of deferred taxes. The Navy believes that a lease-versus-purchase analysis should not recognize the value of deferred payment of income taxes as a cost. Instead, the Navy considers the only true identifiable cost to the Government to be the charter hire payments. Further, it is the DOD position that the effects of tax deferral do not represent a readily identifiable cost to the Government and that it should not be included in the cost attributed to the Build and Charter program unless it can be identified with some precision.

We included the effect on taxes in our comparison because this was a key factor in the agreement, and the deferral of taxes represented the return to the owner participants on their investment of about $40 million. We believe that capital investment decisions should be made on a total-cost-to-the-Government basis, including the effect of tax revenues.

In addition, DOD did not concur in our recommendation that DOD instructions be revised to provide for application of the guidelines set forth in OMB Circular A-76 in evaluating long-term leasing of assets such as ships. DOD stated that it employs the 10-percent rate specified in DOD Instruction 7041.3 and disagreed that a 6-percent rate indicated in OMB Circular A-76 would be more appropriate.

In our report, we pointed out that OMB Circular A-94, the basis for DOD Instruction 7041.3, is not applicable to the acquisition of commercial-type services and that guidance for making such decisions is contained in OMB Circular A-76. DOD, along with OMB, should determine the appropriateness of Circular A-76 criteria for use in lease-versus-purchase analyses.

DOD also believes that the residual value of the ships should be shown as 5 percent, instead of 15 percent, of cost. We used 15 percent because this was the estimate given by the owners to the Internal Revenue Service for its ruling on depreciation.

Finally, DOD also points out that:

> "* * * tankers financed through the appropriation, Shipbuilding and Construction, Navy, had customarily represented military designs with special features which made them more costly than the commercial design called for in this program."

Although this may be true, Navy officials said that commercially designed ships could be obtained under either arrangement.

The full text of the DOD comments are shown as appendix I.

CHAPTER 6

MATTER FOR CONSIDERATION BY THE CONGRESS

Since the Navy's Build and Charter program is similar to Government programs for leasing buildings, the Congress should evaluate the need for legislation similar to Public Law 92-313 of June 16, 1972, which amended the Public Buildings Act of 1959, to require congressional approval of building leases greater than $500,000 a year and to require that a prospectus containing the details of the transaction be provided to the Congress. Similar legislation may be appropriate for long-term leasing of such assets as ships.

Since the Build and Charter program can be considered as setting a precedent (the Navy is considering acquiring other types of vessels, such as dry cargo ships, in this manner) legislation could be an effective tool to insure congressional cognizance of future long-term leasing programs.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

9 JUL 1973

INSTALLATIONS AND LOGISTICS

Mr. James H. Hammond
Deputy Director, Procurement
and Systems Acquisition Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Hammond:

This is in response to your letter of April 12, 1973, to the Secretary of Defense which forwarded copies of your draft report entitled "Build and Charter Program for Nine Tanker Ships Department of the Navy" Code 950041 (OSD Case 3607).

The Department of Defense (DoD) concurs in the recommendations that Congress should be provided full information regarding the proposed method of acquisition (long-term leasing as well as purchasing). DoD also agrees that appropriate Congressional Committees should be provided with detailed cost analyses showing full impact on future budgets when long-term leasing is the proposed acquisition method. Advance notification of concerned Committees by DoD respecting proposed build and charter programs has occasionally been informal in the past. At this time formal procedures providing for the systematic transmission of appropriate information on proposed programs are being developed in my office.

Regarding the recommendation of the draft report -- that "analyses of long-term leasing arrangements ... be made on a total-cost-to-the-Government basis <u>including the direct effects of delayed payments of income taxes to the Government</u>", there is some disagreement on the part of DoD respecting the portion which I have underlined. It has been stated in DoD that:

a. "...the Navy considers the only true identifiable cost to the Government to be the charter hire payments by [the Military Sealift Command] MSC";

b. "The valuation of tax deferrals is very complex and could be subject to much dispute .... An accurate assessment of tax impact would require solicitation of data which most taxpayers consider privileged."

c. "OMB guidance does not require a determination of deferred taxes .... It is believed that Congress is the proper body for determining whether certain provisions of the Internal Revenue Code, which have the effect of deferring taxes, are in the public interest."

It should be noted that the question in hand is not one which has been decided upon with finality by recognized professional authorities. Therefore, it is suggested that our dissenting view be presented in the GAO paper to give due recognition to both sides of the issue. This might be done through the incorporation of two additional sentences in Chapter 4, preferably on page 20 of the draft report and referenced to Table 1, as follows:

"It is the DoD position that the effects of tax deferral do not represent a readily identifiable cost to the Government and that they should not be included in the cost attributed to build and charter unless they can be identified with some precision. When the effect of tax deferral is excluded from the cost comparison presented in Table 1, the break-even point between purchase and lease occurs where the discount rate used in computing present value is approximately 6 percent."

This compares with a value between 9 and 10 percent in the GAO presentation. The draft report also "recommends that the Secretary of Defense revise DoD instructions to provide for application of the guidelines set forth in [OMB] Circular A-76 in evaluating long-term leasing arrangements." This refers to the money valuation criteria advanced in Circular A-76. These criteria provide for an effective discount rate of about 6 percent, which yields a preference for purchase over lease in the draft report formulation.

The DoD employs the 10 percent rate specified in DoD Instruction 7041.3, and disagrees with the draft report's stated conclusion that the 6 percent rate indicated in Circular A-76 would be more appropriate. The draft report includes no analysis of the derivation or applicability of specific discount rates as such, and hence provides no basis for the selection of one rate over another. In this sense, the stated preference for a 6 percent rate appears to be a matter of opinion. Furthermore, there are other provisions of Circular A-76, not recognized in the draft report, which, if applied, would tend to shift the cost preference in the direction of build and charter.

Another observation in DoD is that the 15 percent residual ship value assigned in the draft report to the purchase approach is higher than the normal residual value of MSC ships when they are retired since they are normally held until their residual value is scrap value (at about 5 percent). Finally, it has been observed that there are potential secondary effects in terms of income to the Government from taxes on the interest income generated through the build and charter transaction which could be applied as credits against the cost of that option, thereby improving its position relative to the direct procurement approach. It is recognized that there are also other potential secondary tax effects. It is clear from our staff discussions that the GAO is aware of these extensive potential effects and it is suggested that if they are not to be taken into account the reasons for excluding them be explicitly stated in the report.

It should be noted that, as of the inception of the 9-tanker build and charter program, tankers financed through the appropriation, Shipbuilding and Construction, Navy, had customarily represented military designs with special features which made them more costly than the commercial design called for in this program. Furthermore, there is a question as to whether this would not continue to be the case in the future.

It is the general DoD feeling that, with the reservations noted, this is potentially a very useful report. It is hoped that it can be brought to final form along the indicated lines.

Sincerely,

(Signed Arthur I. Mendolia)
ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)

BUILD AND CHARTER PROGRAM BOND PURCHASERS

1. The Prudential Insurance Company of America
   Prudential Plaza
   Newark, New Jersey 07101

2. Teacher Retirement System of Texas
   Austin, Texas 78701

3. Aid Association for Lutherans
   Appleton, Wisconsin 54911

4. Benjamin Franklin Federal Savings and Loan Association of Portland
   517 Southwest Stark Street
   Portland, Oregon 97204

5. Bowery Savings Bank
   110 East 42d Street
   New York, New York 10017

6. The Life Insurance Company of Virginia
   P.O. Box 27601
   Richmond, Virginia 23261

7. The National Life and Accident Insurance Company
   National Life Center
   Nashville, Tennessee 37203

8. State Treasurer of the State of Michigan
   Custodian of Michigan Public School Employees' Retirement Systems Funds
   c/o State Treasurer
   P.O. Box 810
   Lansing, Michigan 48903

9. Liberty National Life Insurance Company
   P.O. Box 2612
   Birmingham, Alabama 35202

10. American National Insurance Company
    One Moody Plaza
    Galveston, Texas 77551

11. The New York Bank for Savings
280 Park Avenue South
New York, New York 10010

12. Los Angeles County Employees Retirement Association
437 Hall of Administration
500 West Temple Street
Los Angeles, California 90012

13. American United Life Insurance Company
P.O. Box 368
One West 26th Street
Indianapolis, Indiana 46206

14. Dollar Savings Bank
P.O. Box 987
Pittsburgh, Pennsylvania 15230

15. Teachers' Retirement System of Kentucky
309 Lewis Street
Frankfort, Kentucky 40601

16. Nationwide Life Insurance Company
246 North High Street
Columbus, Ohio 43216

17. Northwestern National Life Insurance Company
P.O. Box 20
Minneapolis, Minnesota 55440

18. Southwestern Life Insurance Company
P.O. Box 2699
Dallas, Texas 75221

19. Treasurer, State of Iowa, Custodian and Trustee for Iowa Public Employees' Retirement System
c/o State House
Des Moines, Iowa 50319

20. Brooklyn Savings Bank
Fulton and Montague Streets
Brooklyn, New York 11201

21. The Independent Order of Foresters
789 Don Mills Road
Don Mills, Ontario, Canada

22. Confederation Life Insurance Company
321 Bloor Street East
Toronto, Ontario, Canada

23. Continental Illinois National Bank and Trust Company of Chicago (not individually but as trustee of Trust No. 58532)
231 South La Salle Street
Chicago, Illinois 60604

24. Horace Mann Life Insurance Company
One Horace Mann Plaza
Springfield, Illinois 62715

25. Knights of Columbus (a corporation)
Columbus Plaza
New Haven, Connecticut 06507

26. The Lincoln National Life Insurance Company
1301 South Harrison Street
Ft. Wayne, Indiana 46801

27. Lutheran Brotherhood
701 Second Avenue South
Minneapolis, Minnesota 55402

28. Occidental Life Insurance Company of California
P.O. Box 2101 Terminal Annex
Los Angeles, California 90054

29. The Ohio National Life Insurance Company
P.O. Box 237
Cincinnati, Ohio 45201

30. State of Montana
State House
Capitol Building
Helena, Montana 59601

31. The Union Central Life Insurance Company
P.O. Box 177
Cincinnati, Ohio 45201

32. Western & Southern Life Insurance Company
400 Broadway
Cincinnati, Ohio 45201

33. Fidelity Life Association
c/o Supervised Investors Services, Inc.
120 South La Salle Street
Chicago, Illinois 60603

34. Federal Kemper Life Assurance Company
c/o Supervised Investors Services, Inc.
120 South La Salle Street
Chicago, Illinois 60603

35. Guarantee Reserve Life Insurance Company
c/o Supervised Investors Services, Inc.
120 South La Salle Street
Chicago, Illinois 60603

BUILD AND CHARTER PROGRAM

OWNER PARTICIPANTS

1. American Road Equity Corporation
   The American Road
   Dearborn, Michigan 48121

2. Citicorp Leasing, Inc.
   399 Park Avenue
   New York, New York 10022

3. First National Bank in Dallas
   P.O. Box 6031
   Dallas, Texas 75222

4. First National Bank of Minneapolis
   120 South Sixth Street
   Minneapolis, Minnesota 54480

5. First Hawaiian Bank
   161 South King Street
   Honolulu, Hawaii 96801

6. First National Bank of Montgomery Corp.
   2 Commerce Street
   Montgomery, Alabama 36104

7. Ohio National Bank of Columbus
   51 North High Street
   Columbus, Ohio 43216

8. State Street Bank and Trust Company
   225 Franklin Street
   Boston, Massachusetts 02101

9. South Carolina National Bank
   P.O. Box 168
   Columbia, South Carolina 29202

10. Virginia National Bank
    1 Commercial Place
    Norfolk, Virginia 23510

11. Wilmington Trust Company
    100 West 10th Street
    Wilmington, Delaware 19899

12. Manufacturers National Bank of Detroit
    151 West Fort Street
    Detroit, Michigan 48226

13. The Third National Bank and Trust
    Company of Dayton, Ohio
    34 North Main Street
    Dayton, Ohio 45402

14. Union Trust Company
    310 Main Street
    Stamford, Connecticut 06904

PRINCIPAL OFFICIALS OF DOD AND THE NAVY RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF DEFENSE		
SECRETARY:		
Melvin Laird	Jan. 1969	Jan. 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Vacant	May 1973	June 1973
James R. Schlesinger	July 1973	Present
DEPUTY SECRETARY:		
David M. Packard	Jan. 1969	Feb. 1971
Kenneth Rush	Feb. 1971	Jan. 1972
William P. Clemens, Jr.	Jan. 1972	Present
ASSISTANT SECRETARY (COMPTROLLER):		
Robert C. Moot	Aug. 1968	Jan. 1973
Don R. Brazier (acting)	Jan. 1973	Present
ASSISTANT SECRETARY (INSTALLATIONS AND LOGISTICS):		
Barry J. Shillito	Feb. 1969	Jan. 1973
Hugh McCullough (acting)	Feb. 1973	June 1973
Arthur I. Mendolia	June 1973	Present
DEPARTMENT OF THE NAVY		
SECRETARY:		
John Chafee	Jan. 1969	May 1972
John W. Warner	May 1972	Present
ASSISTANT SECRETARY (INSTALLATIONS AND LOGISITICS):		
Frank P. Sanders	Feb. 1969	Jan. 1971
Vacant	Feb. 1971	June 1971
Charles L. Ill	July 1971	Present

	Tenure of office	
	From	To
COMMANDER, MILITARY SEALIFT COMMAND:		
Vice Admiral Arthur R. Gralla	Mar. 1970	Nov. 1971
Rear Admiral John D. Chase	Dec. 1971	Present

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