



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
R. Michael Gill | Secretary of Commerce
Signe Pringle | Deputy Secretary of Commerce

May 18, 2022

Ms. Lori Nieto
Northrop Grumman Systems Corporation
Corporate State Tax Director
2980 Fairview Park Drive
Falls Church, VA 22042

SUBJECT: Northrop Grumman Systems Corporation expansion project.

Dear Ms. Nieto:

The Department of Commerce (the “Department”) and Cecil County (the “County”) are pleased to support Northrop Grumman Systems Corporation (the “Company”) in its initiative to maintain and expand its existing operations in Cecil County, Maryland (the “Project”). **This letter supersedes the Proposal Letter issued on April 21, 2022.**

Below is summary of the proposed State and local assistance for the Project that is further defined in the body of the letter:

Assistance	Source	Amount
<u>Conditional Loan/Grants</u>		
MEDAF – Conditional Loan <i>Refer to Section 3(a) for details</i>	State	\$800,000
Partnership for Workforce Quality Grant <i>Refer to Section 3(b) for details</i>	State	\$200,000
Cecil County <i>Refer to Section 4(a) for details</i>	County	\$80,000
<u>Tax Credits</u>		
Job Creation Tax Credit - <i>subject to availability.</i> <i>Refer to Section 5(a) for details</i>	State	\$600,000
More Jobs for Marylanders Tax Credit - <i>subject to availability</i> <i>Refer to Section 5(b) for details</i>	State	\$8,696,270
Enterprise Zone Property Tax Credit <i>Refer to Section 5(c) for details</i>	State	\$1,829,517
Enterprise Zone Income Tax Credit <i>Refer to Section 5(c) for details</i>	State	\$200,000
Total		\$12,405,787

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 2

1. **THE SUBDIVISION**: This letter is intended to describe the major elements of the transaction and to describe the assistance that may be offered to the Company for the Project in Cecil County, Maryland. These terms are not transferable to any other subdivision.

2. **PROJECT DESCRIPTION**: As we understand the Project, the Company will retain its existing operations and expand its manufacturing capabilities located at 55 Thiokol Road in Elkton, Cecil County, Maryland (the "Project Site"). The Company operates in approximately 150 buildings, totaling approximately 345,000 square feet of enclosed floor space, situated on 550 acres. Estimated costs associated with the Project are anticipated to be \$110,000,000 for construction costs, and furniture, fixtures, and equipment at the Project Site (the "Project Costs"). We further understand that the Company will employ 575 permanent full-time employees by December 31, 2023, and will hire an additional 200 permanent full-time employees by December 31, 2028, for total employment of 775 permanent full-time employees at the Project Site.

We understand the Company will use its best efforts to use the Baltimore/Washington International Thurgood Marshall Airport and the Port of Baltimore for its shipping and transportation and Maryland contractors and construction workers for construction of the Project at the Project Site. Additionally, Maryland strongly supports our military personnel and encourages companies to use their best efforts to employ veterans.

Of course, any changes to the Project as outlined in this letter should be immediately brought to the Department's attention since they could affect the Department's proposed assistance for the Project.

3. **DEPARTMENT PARTICIPATION**. The Department is willing to consider providing the following assistance to enable the Company to complete the Project at the Project site in Cecil County, Maryland:

(a) **Conditional Loan** under the Maryland Economic Development Assistance Fund (the "Loan"):

Borrower:	Northrop Grumman Systems Corporation or an entity acceptable to the Department.
Amount:	\$800,000.
Approval:	The Loan is subject to approval by the Secretary of the Department.
Purpose:	The proceeds of the Loan would be used to reimburse Eligible Project Costs at the Project Site.
Eligible Project Costs:	Those costs associated with the Project that are eligible for reimbursement under the Maryland Economic Development Assistance Fund program.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 3

This would include the construction or acquisition of a building or real property and the acquisition, construction, or installation of machinery, equipment, furnishings, fixtures, leasehold improvements, site improvements, or infrastructure improvements at the facility.

- Term: The term of the Loan will be ten (10) years.
- Interest Rate: Three percent (3%) fixed per annum.
- Repayment: All principal and accrued interest would be deferred over the term of the Loan. In the event that all of the Performance Criteria of the Loan are met over the term, all outstanding deferred principal and accrued interest would be forgiven at the end of the Loan term. In the event that any of the Performance Criteria are not met, the Loan would be repayable as described in the Conditions section.
- Disbursement: The Loan would be disbursed for up to 70% of directly incurred Eligible Project Costs by the Borrower, not otherwise reimbursed by a third party.
- Collateral: None
- Guarantors: Northrop Grumman Corporation.
- Conditions Precedent To Disbursement(s):
- (1) The Borrower will furnish evidence acceptable to the Department of its lease/ownership of the Project Site.
 - (2) The Department will have received satisfactory evidence that the Company employs a minimum of 575 full-time permanent employees at the Project Site.
 - (3) The Borrower will have directly expended at least \$1,200,000 of Eligible Project Costs at the Project Site, not otherwise reimbursed by a third party against which the Loan may be disbursed.
 - (4) The County will have approved and funded its \$80,000 Conditional Loan.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 4

(5) Documentation and closing of the Loan.

Performance Criteria:

(1) The Borrower will employ at least 575 full-time permanent employees at the Project and remain at least at that level for the term of the Loan.

(2) The Borrower will employ an additional 200 full-time permanent employees at the Project Site by December 31, 2028, for a total of 775 full-time permanent employees, and retain that level of full-time permanent employment at the Project Site for the remaining term of the Loan

“Full-time” means that an employee works at least 1,800 hours in a 12-month period, is paid an hourly wage of at least 150% of the federal prevailing minimum wage, as adjusted from time to time, and is eligible for an employer-subsidized health care benefits package.

A new full-time permanent position at the Project Site would be a net new position to the State and would not include the movement of existing Company employees at other locations in the State, or employees of a company acquired by the Company after this date, if the employee’s place of employment immediately before the acquisition was elsewhere in the State.

“Permanent” means that the employee is on the payroll of the Company and not employed under a contract relationship.

Full-time employment will be measured annually as of December 31st of each required year, with employment reports due to the Department by January 31st of the following year with the first reporting beginning on the first December 31st following disbursement. The Company will initially provide an employment report at closing and disbursement of the Loan.

(3) The Borrower will spend or cause to be spent a minimum of \$110,000,000 for Project Costs at the Project Site by December 31, 2026.

(4) The Borrower will retain its operations at the Project Site for the term of the Loan.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 5

(5) The Borrower will remain in compliance with the terms of the County's Conditional Loan during the term of the Loan.

Conditions:

(A) If at any time after December 31, 2028 during the term of the Loan, full-time employment at the Project Site is less than 775 but greater than 574; the Borrower would repay a pro-rata portion of principal (\$4,000) and the associated portion of accrued interest due for every permanent full-time employee less than the required amount.

(B) If the Borrower does not meet Performance Criteria (1), (3), (4) or (5) the Borrower would repay the Loan in full.

(C) The Loan will close and be fully funded by December 30, 2023, date may be extended by the Department.

(b) **Partnership for Workforce Quality Grant**. The Partnership for Workforce Quality can reimburse qualifying companies for up to 50% of the direct cost of training and can also provide professionals to assist businesses in connecting with other State resources available for productivity and training needs assessments and to advise businesses about training curriculum development. The Grant will provide the Company with up to **\$200,000** of eligible training costs.

Please contact Ms. Brigitte Peters, Senior Business Development Representative, Commerce, at 443-890-4440, for additional information regarding the PWQ Workforce Grant.

4. **CECIL COUNTY INCENTIVES**. Based upon the Project, the terms developed by the Department, and the County's understanding that the Company will create 200 new jobs at the Project Site, the County is prepared to offer the following assistance to enable the Company to complete the Project at the Project Site in Cecil County, Maryland:

(a) **Conditional Loan**. The County will offer a separate **\$80,000** conditional loan to enable the Company to complete the Project at the Project Site, subject to terms, conditions, and performance criteria that are consistent with the Department's Conditional Loan in all material respects. The County's conditional loan requires the approval of the County Executive.

(b) **Workforce Development**. If requested by the Company, the Office of Economic Development (OED) will work with the Susquehanna Workforce Network to provide workforce recruitment support, screening services, and interviewing services based upon the specifications of the Company. If requested by the Company, these services, which will be provided at no cost, will also include providing access to current candidates within our centers, outreach, and customized recruitment activity to assist in filling anticipated employment needs. If requested by the Company, the posting of opportunities will also be made available through the Maryland

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 6

Workforce Exchange, a statewide database of employment opportunities and candidate referral system. If requested by the Company, local one-stop agencies can also provide candidate screening for job openings.

(c) **Transportation Resources.** Travel Training: Cecil Transit provides free travel training to companies, employers, or individuals in need of instruction on using public transportation to access job sites. The training includes an explanation of bus routes, bus stops, bus schedules and rider safety plus "on-site" instruction on Fixed Route. Please contact Cecil Transit at 410-996-5295 #2 for additional detail or to schedule an on-site training.

For additional information and to make application for these programs of assistance, please contact Ms. Sandra Edwards, Acting Director, Cecil County Office of Economic Development, at 410-996-8471, for additional information on County programs.

5. **OTHER INCENTIVES.** In addition to the incentives described above, the State would provide, through the appropriate state and local governmental instrumentalities, certain incentives to induce the Company to complete the Project at the Project Site, including:

(a) **Job Creation Tax Credit.** The Company could be eligible for a Job Creation Tax Credit if it establishes or expands a Maryland business facility that is primarily engaged in manufacturing, research, development, the operations of a central administrative offices or a company headquarters. The new or expanded facility may also qualify for the credit if it is primarily engaged in business services and is located in one of the following "priority funding areas": an incorporated municipality, within the Baltimore Beltway, within the Maryland portion of the Washington, D.C. Beltway, in a federal empowerment zone, in a Maryland Enterprise Zone, in a sustainable community as defined in Section 6.01 of the Housing and Community Development ("DHCD") Article, in any area in a county designated by the county as a priority funding area, or in that portion of the port land use development zone that has been designated as an area appropriate for growth in the county comprehensive master plan.

For businesses applying for certification for the Job Creation Tax Credit after December 31, 2017, to qualify, most business entities must create at least 60 "qualified positions" within a 2-year period (permanent newly created Maryland positions of at least 1,680 hours per year resulting from the establishment or expansion of a business facility in a single location in the state, paid at least 150% of State minimum wage or the prevailing wage rate for an employee classification under section 17-201 of the State Finance and Procurement Article and provides employee benefits, including but not limited to, career advancement training, right to collective bargaining for wages and benefits, unemployment insurance, workers' compensation, health insurance benefits and retirement benefits). The 60 new job minimum is reduced to 25 new jobs if the facility is located in one of the "priority funding areas" listed above and reduced to 10 jobs if the business is located in a County with average annual employment less than 75,000 or median household income two-thirds of the statewide median household income.

Credit granted will be \$3,000 per qualified position. If the new or expanded facility is located in a "revitalization area" (a federal empowerment zone, a Maryland Enterprise Zone, or a DHCD sustainable community or a Tier 1 County), then the credit is \$5,000 for each qualified position. The Department can certify no more than \$4 million Job Creation Tax Credits per year. The credits will be certified on a first come, first serve basis.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 7

The maximum credit allowed during any credit year for a single facility is \$1 million. If, during the three (3) years succeeding the credit year, the average number of qualified positions falls below the applicable minimum number of qualified positions, all credits shall be recaptured. If the number of qualified positions falls more than 5%, but not below the applicable minimum number of qualified positions, then the credit is recaptured in proportion to the decline in qualified employees.

Based upon the following assumptions provided by the Company including that it employs at least 25 qualified positions within a 2-year period and a total of 200 at the Project Site, paying at least 150% of State minimum wage, the Company may qualify for credits of up to \$600,000 (200 x \$3,000), subject to final certification and the availability of credits at the time of certification.

(b) **More Jobs for Marylanders Incentive Program.** The Company could be eligible income tax incentive if it is an existing Maryland manufacturer. To qualify the business entity must be primarily engaged in activities included in NAICS codes 31, 32 or 33 (not including refiners) at its facility. The manufacturer must notify the Department of its intent to enroll its project in the program prior to creating new qualified positions. It must create at least 10 new qualified positions in a Tier 2 Area and begin hiring within 12 months after its notice of intent. It must meet the 10-job minimum within 12 months of the date of its first new hire. The qualified positions must always pay at least 120% of State minimum wage. The business must apply to the Department to enroll its project in the program and be certified as a Qualified Business Entity to qualify for available tax incentives.

The income tax credit available to an existing Maryland manufacturer that is certified as a Qualified Business Entity is a 10-year income tax benefit. The benefit is a refundable State income tax credit equal to 5.75% of wages per new job. State income tax credits are available when the business has created the required number of new jobs (5 or 10) and those jobs have been filled for 12 months. State income tax credits will be available on a first come/first served basis, subject to funding.

The benefit period lasts 10 years and begins when the business has created the minimum number of jobs and filled them for 12 months. If the number of qualified positions at the project decreases to a number less than the number established in the first year of the benefit period, the project shall be removed from the program and all benefits will be terminated for the remainder of the benefit period.

*The More Jobs for Marylanders Tax Credit Program will sunset **June 1, 2022**, unless extended by the General Assembly. If the program sunsets, the Company will not be able to apply for credits after that date.*

*Based upon information provided by the Company and **subject to availability at the time of certification**, if the Company hires 200 qualified positions located in Cecil County, the business may qualify for credits up to **\$8,696,270**. **The Company must submit a Notice of Intent with Commerce prior to creating its first qualified job at the Project Site to be eligible for available tax incentives.** Instructions on how to file a Notice of Intent can be found at: <http://commerce.maryland.gov/fund/programs-for-businesses/more-jobs-for-marylanders>.*

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 8

(c) **Enterprise Zones**. The Project is not entirely located in a Cecil County Enterprise Zone. Subject to the timely submission by Cecil County of an application to expand the existing Enterprise Zone, the eligibility of the area subject to the expansion request, and approval by the Commerce, the Company could be eligible for special property and income tax credits.

- **Property Tax Credit**. A ten-year local real property tax credit is available to businesses that build new or substantially improve existing business facilities in State enterprise zones. The credit is based on the difference between the “base year” real property assessment (the assessment in the year before improvement) and the assessment in the year after improvement of the real property. The amount of the property tax credit will be 80% of the tax on the difference between the base year assessment and the post-improvement assessment in each of the first five taxable years; 70% in the sixth year; 60% in the seventh year; 50% in the eighth year; 40% in the ninth year; and 30% in the tenth year.
- **State Tax Credit**. An income tax credit is available to businesses that create new, full-time (at least 35 hours per week) jobs paying at least 150% of minimum wage in an enterprise zone. If the new position is filled by an employee who is “economically disadvantaged”, the business may take a credit of up to \$3,000 in the first year of employment, \$2,000 in the second year, and \$1,000 in the third year. If the employee filling a new position is not economically disadvantaged, the business may only take a \$1,000 credit in the first year. The term “economically disadvantaged” generally refers to an individual whose household income is 70% of the poverty rate. (This determination is made by the Department of Labor, Licensing and Regulation.)

Based upon the assumptions provided by the Company including that it will employ at least 200 qualified positions, the Company may qualify for \$1,829,517 of property tax credits and \$200,000 of income tax credits. The income tax credits could be greater if the Company hires economically disadvantaged employees.

Businesses seeking Property Tax Credits must apply to the Cecil County Office of Economic Development prior to completing the construction or expansion project. Property tax credits may not be granted retroactively. For additional information, please contact Sandra Edwards, Enterprise Zone Administrator, at (410) 996-8468.

(d) **Inventory Tax Exemptions**: Cecil County exempts 100% of commercial inventory from personal property tax.

(e) **Manufacturing Equipment Property Tax Exemption**. The Company may qualify for property tax exemption based on qualifying manufacturing equipment located at the Project Site.

(f) **More Jobs for Marylanders Accelerated and Bonus Depreciation**. The Company could be eligible for accelerated and bonus depreciation on property purchased after January 1, 2019.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 9

(g) **Sales Tax Exemptions**. The Company could be exempt from state sales taxes on equipment that is purchased for use in a production activity, tangible personal property consumed in a production activity, and energy sources consumed directly and predominately in a production activity, in connection with the Company's production.

(h) **Single Sales Factor Apportionment for Manufacturing Corporations**. Maryland's corporate tax law provides that a manufacturer's income tax is based solely on its percentage of in-State sales. A single sales factor apportionment formula is used to apportion income to the State, for purposes of the corporate income tax, for "manufacturing corporations" that carry on a trade or business in and out of the State.

(i) **Maryland Research and Development ("R&D") Tax Credit**. Companies that are eligible for the federal research and development tax credit may also be eligible for the Maryland Research and Development Tax Credits for qualified R&D activities conducted in Maryland. The basic credit is 3% of eligible expenses that do not exceed the Maryland Base Amount. The growth credit is 10% of the eligible expenses in excess of the Maryland Base Amount. The basic credit is subject to an aggregate statewide ceiling of \$5.5 million and the growth credit is limited to \$6.5 million. If the credits are oversubscribed, Commerce will prorate the credits. The businesses may claim their allocated tax credits on amended tax returns. A firm must submit an application to the Department by November 15th of the year following the taxable year in which the Maryland qualified research and development expenses were incurred.

The credit can be carried forward seven years and "small businesses" may claim a refund. A "small business" is defined as a business that has net book value assets, as reported on the balance sheet, totaling, at the beginning or end of the tax year in which the expenses are incurred, of less than \$5 million.

(j) **Maryland Employer Security Clearance Costs Tax Credit**. Businesses that incur qualified federal security clearance administrative expenses may qualify for a State income tax credit of up to \$200,000. In addition, the business may qualify for an income tax credit of 50% of the costs up to \$200,000 for costs related to constructing or renovating a sensitive compartmented information facility (SCIF). For costs related to constructing multiple SCIFs, the credit may be up to \$500,000. In addition, a qualified small business that performs security-based contracting in Maryland may be eligible for an income tax credit up to \$200,000 for the first year of rental payments for spaces leased in Maryland. The aggregate amount of credits for businesses is capped at \$2 million. If the aggregate amount of credits applied for by all businesses exceeds \$2,000,000, each business will receive its pro rata share. Businesses must submit an application to the Department by September 15th for expenses incurred in the previous tax year.

(k) **Maryland Disability Employment Tax Credit**. The Maryland Disability Employment Tax Credit ("MDETC") is a Maryland State tax credit that allows employers to claim credit for employees with disabilities.

- For each of the first two years of employment, a credit is allowed in an amount equal to 30% of up to the first \$9,000 (\$2,700) of wages paid. Employers can also benefit from a tax credit for work-related childcare or transportation expenses paid by the

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 10

employer. The credit is up to \$900 of the qualified childcare or transportation expenses incurred during each of the first two years of employment. The MDETC may be claimed concurrently with any available federal tax credits for which the employee may be eligible.

The Company must hire an individual with a disability and obtain a determination from the Division of Rehabilitation Services (“DORS”) of the Maryland State Department of Education, or the Maryland Department of Labor, Licensing, and Regulation for a disabled veteran, that the individual is a qualified employee with a disability. *Please call the Department of Labor, Licensing and Regulation (“DLLR”) at 410-767-2047 for more details.*

(1) **Maryland Commuter Tax Credit.** Maryland employers that pay for part or all of eligible monthly commuting expenses for their employees can qualify for a tax credit equal to 50% of the cost of those expenses with a cap of \$50 per employee per month. This includes expenses incurred for monthly usage of bus or rail service provided by the Washington Metropolitan Area Transit Authority, Maryland Mass Transit Administration, or the Baltimore Area Transit System, MARC trains, and vanpools. The credit can be claimed against State income taxes, or insurance premium taxes. When combined with federal tax incentives, this State tax credit allows employers to offer a new employee benefit for a fraction of the total cost. Please call the Maryland Mass Transit Administration at 410-767-8755 for specific details.

Unless otherwise noted, for additional information regarding the State tax incentives listed above, please contact Ms. Lani Sinfield, Program Director, Tax Incentives Group, Office of Finance Programs, Commerce, at 410-767-4041, toll-free at 877-821-0099, or email at Lani.Sinfield1@maryland.gov for additional information and, if applicable, to make application for the Job Creation Tax Credit and More Jobs for Marylanders Programs.

6. **CONDITIONS.** The extension of financial assistance will be subject to the Department’s and County’s due diligence review of the Company’s business and financial affairs and documentation satisfactory to the Department’s and County’s counsel. The Loan is subject to approval by all appropriate approval authorities. **A later commitment for any financial assistance will be subject to the availability of funding and adequate appropriations, the payment of applicable fees, and compliance with all applicable state and federal laws.**

Any public communication (i.e., letters to legislators, press releases, discussion with local media, tombstone ads, staged events with public officials) about the proposed Project must first be agreed to by the Department’s Communications Office 410-767-6318, since erroneous or premature publicity could affect the composition of the incentives under discussion.

Recipients of the Department’s financial assistance are prohibited from discriminating on the basis of race, color, sex, religion, or national or ethnic origin in the hiring of contractors (or permitting contractors to discriminate in the hiring of subcontractors) for projects funded by that financial assistance. The recipient agrees to support the State’s interest in expanding procurement opportunities for contractors and vendors who are minority business enterprises (“MBEs”). The recipient will designate an individual to identify procurement opportunities in the Project and to work cooperatively with the Department’s Office of Contracts and Procurement to identify MBEs that have the capacity to provide goods or services for the Project.

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 11

(Contact Mr. Daniel Leonard, Director, EEO and Fair Practices, at 410-767-6470, 401 East Pratt Street, 5th Floor, Baltimore, Maryland 21202.) The recipient will submit a list, updated at least annually until the Project is completed, of the MBEs from which goods or services were procured, and the nature and dollar amount of the goods or services.

7. **EXPIRATION.** While this letter is intended as a non-binding expression of intent rather than an enforceable commitment, and while material provisions that will be critical to an acceptable agreement are absent from this summary, we hope that it will serve as a useful framework for the prompt completion of negotiations. Please sign and return this letter to the Department as soon as possible, but no later than **May 31, 2022**, to expedite negotiations and preserve the Project’s high priority status.

The Department invites you to contact Ms. Shirley Howard of the Office of Finance Programs, Commerce, at shirley.howard@maryland.gov or 443-473-9471 for details and further steps. We look forward to working with you.

Sincerely,

DocuSigned by:
Mike Gill
ACFF1BFA58484B2...
R. Michael Gill
Secretary
Department of Commerce

DocuSigned by:
Danielle Hornberger
F973988592DB457...
Danielle Hornberger
County Executive
Cecil County, Maryland

Accepted this 26 day of May, 2022

Northern Grumman Systems Corporation

Name: Lori D. Nieto
Signature: *Lori D. Nieto*
Title: Assistant Treasurer
FID#: 95-1055798
U&I #: 0044788578
NAICS CODE: 336410

Ms. Lori Nieto
Northrop Grumman Systems Corporation
May 18, 2022
Page 12

Upon signing, please return this letter directly to Ms. Shirley Howard, Finance Specialist, Office of Finance Programs, Commerce, 401 East Pratt Street, Suite 1760, Baltimore, Maryland 21202.

cc: Ms. Sandra Edwards, Acting Director, Cecil County Economic Development
Mr. Andy Fish, Senior Director, Office of Finance Programs, Commerce
Mr. Timothy P. Doyle, Program Manager, Office of Finance Programs, Commerce
Ms. Shirley T. Howard, Finance Specialist, Office of Finance Programs, Commerce
Ms. Lani Sinfield, Program Manager, Tax Incentives, OFP, Commerce
Ms. Lori Ratzburg, Senior Director Regional Growth & Retention, Commerce
Ms. Brigitte Peters, Senior Business Development Representative, Commerce
FPAA Workflow Coordinator, Office of Finance Programs, Commerce