

Summary of Lockheed Martin & the State of Connecticut Agreement

September 21, 2016

Agreement with: The Lockheed Martin Corporation (the “Company”), and its subsidiaries

For: Identification of CT as the production facility for the CH-53K heavy lift helicopter

Term: Execution of Assistance Agreement through June 30, 2032, with funding to commence upon production of the helicopters in 2018

Topline Overview

Lockheed Martin and the State of Connecticut will enter into an agreement to maintain its headquarters in Connecticut and produce nearly 200 CH-53K (King Stallion) heavy lift helicopters in the state through at least June 2032. Sikorsky will have the opportunity to earn up to \$220 million over the term of the agreement if it meets targets for employment, increased in-state supply chain spending and capital expenditures.

Terms of Agreement: Over the term of the agreement, the Company commits to maintain minimum levels of employment, payroll, capital investment, & supply chain expenditures and:

- Keep the Sikorsky headquarters in Connecticut
- Maintain CT as a primary production facility for its government based helicopter business
- Retain and grow its full time employment to over 8,000 over the term of the agreement
- Nearly double its spending with suppliers throughout the state
- Increase its capital spend by 22%

In exchange, the State will provide financial incentives totaling up to \$220 million through:

- **Grants:** The Company will earn grants up to \$8.574 million on an annual basis for 14 years, by retaining at least the minimum required level of employment, spending on payroll, utilizing suppliers in the state, and deploying capital for machinery, equipment and other long term investments.
- **Sales and use tax exemption:** Sales and use taxes will be exempted up to \$5.714 million per year for 14 years.
- **Performance Incentive:** If Lockheed Martin exceeds the target level employment by 100 to 550 jobs in any given year of the agreement, it will be eligible for a performance incentive grant of up to \$1.9 million, for a total of up to \$20 million.

Length of the Agreement: Through at least June of 2032 with the opportunity to extend should the underlying federal contract be lengthened.

Agreement is Dependent Upon:

- 1) Legislation authorizing the terms of this agreement
- 2) An agreement between Labor and Lockheed Martin
- 3) Awarding of the CH-53K Low Rate Initial Production Contract by the U.S. Navy to the Company

Additional Detail and Information

Financial assistance: dependent upon meeting Minimum Requirements

<u>Assistance</u> [FY 2019-FY 2032]	<u>Amount</u> <u>Up to</u> <u>(in millions)</u>	<u>Annual</u> <u>Maximum</u> <u>(in millions)</u>	<u>Further Details</u>
Sales and Use Tax Exemption	\$80.0	\$5.714	<ul style="list-style-type: none"> • Annual award requires meeting minimum requirements. • Any unused exemptions can be carried-forward for up to three years
Grants (bond funding)	\$120.0	\$8.571	Annual amount received is scalable based on 4 Criteria each worth \$2.143M per year (see Table 1): 1) full-time employment in CT 2) total payroll in CT 3) supplier spend in CT 4) capital expenditures in CT Must meet minimum requirement for any funds; scales up to maximum funding at target level. For cap ex, must achieve 90% of the target annually to receive grant
Performance Incentive	\$20.0	\$0.350 to \$1.925	Performance incentive of \$3,500 per employee above employment Target. See Table 1 for incentive employment Targets. Must also exceed certain specified average payroll per employee targets.
Total	\$220.0		

Minimum Requirements: needed to earn any financial assistance:

1) **Employment** - Total annual employment in Connecticut

<u>Fiscal Years</u>	<u>Full-Time Employment</u>
FY 2019 - FY 2023	6,500
FY 2024 - FY 2032	7,000

2) **Payroll** - Total annual payroll in Connecticut

<u>Fiscal Years</u>	<u>Total Payroll</u>
FY 2019 - FY 2023	\$611 million
FY 2024 - FY 2032	\$700 million

3) **Supplier Spend** -- Annual spend on supply chain companies in Connecticut

<u>Fiscal Years</u>	<u>Supplier Spend</u>
FY 2019 - FY 2024	\$300 million
FY 2025 - FY 2029	\$410 million
FY 2030 - FY 2032	\$470 million

- 4) **Headquarters** - Company shall maintain the Sikorsky headquarters in Connecticut
- 5) **Primary Helicopter Production Facility** – Connecticut shall be the Company’s primary helicopter production facility for current U.S. Government programs.
- 6) **CH – 53K Helicopters** - Primary production of the CH-53K helicopters shall occur in Connecticut.
- 7) **Defaults** – the Company shall not be in default under the agreement. Default includes:
 - a) Failure to adhere to the terms of the Letter of Intent;
 - b) The termination or abandonment of the Project or the cessation of the Company’s CH-53K Production in Connecticut;
 - c) Failure to retain a minimum of 6,000 employees in Connecticut for five consecutive years.

Targets for the four Criteria: to earn the Grants annually

Table 1: Minimum Requirements, Targets, and Incentive for the four Criteria (in millions)									
	Fiscal Year Ending	<u>Full-time Employment</u>			<u>Total Payroll</u>		<u>Supplier Spend *</u>		<u>Capital Expenditures *</u>
		Min. Req.	Target	Incentive Target	Min. Req.	Target	Min. Req.	Target	Target
1	6/30/2019	6,500	7,084	100	\$611.0	\$681.0	\$300.0	\$353.6	\$76.0
2	6/30/2020	6,500	6,684	150	\$611.0	\$655.5	\$300.0	\$328.5	\$76.0
3	6/30/2021	6,500	6,582	250	\$611.0	\$658.5	\$300.0	\$333.1	\$76.0
4	6/30/2022	6,500	6,696	300	\$611.0	\$680.0	\$300.0	\$362.7	\$76.0
5	6/30/2023	6,500	6,978	350	\$611.0	\$718.5	\$300.0	\$400.0	\$78.0
6	6/30/2024	7,000	7,276	400	\$700.0	\$763.0	\$300.0	\$433.7	\$79.0
7	6/30/2025	7,000	7,537	500	\$700.0	\$806.0	\$410.0	\$469.7	\$81.0
8	6/30/2026	7,000	7,720	500	\$700.0	\$842.0	\$410.0	\$497.8	\$82.0
9	6/30/2027	7,000	7,773	500	\$700.0	\$864.5	\$410.0	\$522.7	\$84.0
10	6/30/2028	7,000	7,773	500	\$700.0	\$882.0	\$410.0	\$548.9	\$86.0
11	6/30/2029	7,000	7,773	515	\$700.0	\$900.0	\$410.0	\$576.3	\$87.0
12	6/30/2030	7,000	7,794	550	\$700.0	\$920.5	\$470.0	\$605.1	\$89.0
13	6/30/2031	7,000	7,924	550	\$700.0	\$954.5	\$470.0	\$635.4	\$91.0
14	6/30/2032	7,000	8,032	550	\$700.0	\$986.8	\$470.0	\$667.1	\$93.0

*If the actual Supplier Spend or Capital Expenditures amount exceeds the Target for a given year, the difference may be carried forward and utilized in the subsequent three years through the end of the term of the Agreement. An expenditure that meets both the definition of Supplier Spend and Capital Expenditures shall only be counted toward satisfaction of one of the two Criteria and not both Criteria.

Use of Funds:

Grant funding may be used for capital investments and development related to the Contract (the purchase of machinery and equipment and other CH-53K helicopter related expenses). Funding may not be used to pay current operating costs or dividends.

Residency Requirements and Penalties:

For the term of the Agreement, the company shall not:

- 1) Relocate Sikorsky headquarters outside CT
- 2) Relocate the primary helicopter Production facility for current U.S. Gov't. programs outside CT

If residency requirements are violated prior to July 1, 2023, the penalty shall be the greater of:

- 1) The full amount of the financial assistance received, plus a one-time penalty charge of 7.5% on the total amount of the financial assistance provided, or
- 2) \$25,000,000

If residency requirements are violated on or after July 1, 2023 through the end of the term of the Agreement, the penalty shall be the greater of:

- 1) (i) the number of years remaining in the term of the Agreement;
(ii) divided by the total number of years in the term of the Agreement; and
(iii) multiplied by the total amount of financial assistance, or
- 2) \$25,000,000

Audits:

The Company must hire a certified public accountant to perform audits, using procedures prescribed by DECD, to review (for the prior year) the outcomes of each of the criteria under the employment, payroll, capital and equipment spend and supplier spend obligations.

Conditions to Closing: the execution of the Agreement shall be conditioned upon:

- 1) **Due Diligence** - Final due diligence of DECD
- 2) **Acceptance of Terms** - The Company's acceptance of all terms and conditions deemed necessary by DECD.
- 3) **State Bond Commission** - Grant funding subject to the approval of the State Bond Commission.
- 4) **Union Contracts** - Company's execution of a final agreement with its union members with respect to its Connecticut facilities.
- 5) **Legal Fees** - Company will assume all legal fees associated with this agreement

Expected helicopter (CH-53K) delivery schedule:

Table 2: Anticipated Aircraft Deliveries														
Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
USMC	2	2	4	7	13	14	21	24	24	24	24	24	13	196

Projected Fiscal Impact to the General Fund:

Projected Budgetary Impact
(in millions)

	Fiscal <u>Year</u>	Sales <u>Tax</u>	Debt <u>Service</u>	<u>Total</u>
1.	2019	\$ 5.714	\$ -	\$ 5.714
2.	2020	5.714	1.249	6.963
3.	2021	5.714	2.487	8.201
4.	2022	5.714	3.737	9.451
5.	2023	5.714	4.974	10.688
6.	2024	5.714	6.198	11.912
7.	2025	5.714	7.406	13.120
8.	2026	5.714	8.624	14.338
9.	2027	5.714	9.800	15.514
10.	2028	5.714	10.935	16.649
11.	2029	5.714	12.029	17.743
12.	2030	5.714	12.196	17.910
13.	2031	5.714	12.357	18.071
14.	2032	5.714	12.478	18.192
15.	2033	-	12.578	12.578
16.	2034	-	11.186	11.186
17.	2035	-	9.817	9.817
18.	2036	-	8.452	8.452
19.	2037	-	7.128	7.128
20.	2038	-	5.846	5.846
21.	2039	-	4.605	4.605
22.	2040	-	3.401	3.401
23.	2041	-	2.225	2.225
24.	2042	-	<u>1.092</u>	<u>1.092</u>
	Total	\$79.996	\$170.800	\$ 250.796

Notes:

1. Assumes company receives maximum assistance.
2. Debt Service: Maximum authorization each year for 14 years. Assumes a taxable issuance at an interest rate of 4.0% for 10 years.