



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
R. Michael Gill | Secretary of Commerce
Benjamin H. Wu | Deputy Secretary of Commerce

April 8, 2016

Mr. Mike Miller
Senior Vice President, Division Leader
Southland Industries, Inc.
22340 Dresden Street, Suite 177
Dulles, VA 20166

SUBJECT: Southland Industries, Inc. expansion project in Prince George's County, Maryland.

Dear Mr. Miller:

The Department of Commerce (the "Department") and Prince George's County (the "County") are pleased to support Southland Industries, Inc. (the "Company") in its initiative to expand its engineering and metal fabrication operations in Maryland (the "Project"). **This letter supersedes the Proposal Letter issued on June 5, 2015.**

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 to assist the Project. These terms are not transferable to any other subdivision.

2. **PROJECT DESCRIPTION.** It is our understanding that the Company will lease approximately 115,000 square feet of space at 13150 Mid Atlantic Boulevard, Prince George's County, Maryland in the Brick Yard Business Park (the "Project Site") where it will consolidate and expand its engineering and metal fabrication operations. We also understand that the Company will invest approximately \$3,000,000 for build out and equipment costs (the "Project Costs") at the Project Site. The Company will retain its 40 existing permanent full-time employees and consolidate 70 permanent full-time employees from its Lorton, Virginia facility to the Project Site by December 31, 2016. In addition, 25 new permanent full-time employees will be hired by December 31, 2018 for a total of 135 permanent full-time employees at the Project Site.

"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 prevailing federal minimum wage 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.

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commerce.maryland.gov

We also understand the Company will use its best efforts to use Baltimore/Washington International Thurgood Marshall Airport and the Port of Baltimore for its shipping and transportation and Maryland contractors and construction workers for construction associated with the Project. 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 Prince George's County, Maryland:

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

Borrower:	Southland Industries, Inc. or an entity acceptable to the Department.
Amount:	\$228,000
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. 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 Project Site.
Term:	The term of the Loan would be ten (10) years from disbursement.
Interest Rate:	Three percent (3%) fixed per annum.
Collateral:	To be determined based upon a financial and collateral review of the Borrower and the final structure of the Loan.

- Guarantors:** To be determined based upon a financial and collateral review of the Borrower and the final structure of the Loan.
- Disbursement:** The Loan would be disbursed for up to 70% of incurred Eligible Project Costs.
- Conditions Precedent To Disbursement(s):**
- (1) The Borrower will furnish evidence acceptable to the Department of a lease for approximately 115,000 square feet of space at the Project Site for a term of not less than the Loan term.
 - (2) The Borrower will have directly expended at least \$500,000 of Eligible Project Costs at the Project Site against which the Loan may be disbursed.
 - (3) The Department will have received satisfactory evidence that the Borrower employs at least 40 permanent full-time permanent employees at the Project Site.
 - (4) The Department will have received satisfactory evidence that the County has approved and funded its incentive.
- 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.
- Performance Criteria:**
- (1) The Borrower will employ 40 permanent full-time employees at the Project Site for the term of the Loan.
 - (2) The Borrower will employ 110 permanent full-time employees at the Project Site by December 31, 2016 and retain at least that amount at the Project Site through the remaining term of the Loan.

(3) The Borrower will employ 135 permanent full-time employees at the Project Site by December 31, 2018 and retain at least that amount at the Project Site through the remaining term of the Loan.

Full-time employment will be measured by averaging employment as of April 30th, August 31st, and December 31st of each required year. All employment reports will be collectively submitted to the Department by January 31st of the following year and include a summary showing the total number of permanent full-time employees as of each reporting date and the average number of employees for the reporting year. The first reporting will begin the December 31st following disbursement.

(4) The Borrower will spend or cause to be spent a minimum of \$3,000,000 in Project Costs at the Project Site by December 31, 2016. The Loan proceeds may count as part of the Borrower's spending requirement.

(5) The Borrower will retain its lease and engineering and metal fabrication operations at the Project Site for the term of the Loan.

Conditions:

(A) If at any time after December 31, 2016, permanent full-time employment at the Project Site is less than 110, but greater than 40 the Borrower would repay a pro-rata portion of principal (\$2,400) and the associated portion of accrued interest due for every employee below the goal. Such sum, less any amounts previously repaid, would be due no later than 90 days from the measurement date.

(B) If at any time after December 31, 2018, permanent full-time employment at the Project Site is less than 135, but greater than 40 the Borrower would repay a pro-rata portion of principal (\$2,400) and the associated portion of accrued interest due for every employee below the goal. Such sum, less any amounts previously repaid, would be due no later than 90 days from the measurement date.

(C) If at any time during the term of the Loan the Borrower does not meet Performance Criteria (1) or (5), or does not meet Performance Criteria (4) by December 31, 2016, all accrued principal and interest under the Loan would be repaid at the discretion of the Department.

(D) The Loan must be documented and closed within six (6) months of this letter's acceptance.

4. **PRINCE GEORGE'S COUNTY INCENTIVES.** The County is willing to consider providing the following assistance to enable the Company to complete the Project at the Project Site in Prince George's County, Maryland:

(a) **Financial Assistance:** The County has created an Economic Development Incentive Fund ("EDI Fund") to support job retention and attraction and economic development and redevelopment in Prince George's County. The County will offer a separate **\$155,000** 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 EDI Fund conditional loan requires approval by the County Chief Administrative Officer and notice to the Prince George's County Council. Of its new employee positions, the Borrower agrees to utilize "best efforts" to meet a 25% local hiring goal of Prince Georges County residents. "Best Efforts" means the efforts that a reasonable commercial enterprise in the business of developing or undertaking an economic development project, that it intends to own and operate on a long-term basis, would use to exercise good faith business judgment in an effort to achieve the goals specified.

It is the policy of Prince George's County to encourage and in some cases require businesses that accept financial assistance from the EDI Fund, and other economic development tools and incentives, to commit to specific goals or minimum requirements for local, small, and/or minority business (LSMBE) participation in the projects that are being supported by the financial assistance. Prince George's County endorses the goal of improving the quality of life for all citizens by strengthening the economic capacity of its local, small, and minority business communities. As a condition of assistance, the Company will be expected to enter into an agreement with the County to meet specified LSMBE goals and requirements.

(b) **Workforce Services.** The Workforce Services Division ("WSD") of Prince George's County Economic Development Corporation has the responsibility of developing integrated and comprehensive solutions to the workforce needs of County employers. WSD will offer the following services for the Project at no cost to the Company:

- Customized Recruitment, Pre-screening, and Assessment of job candidates;
- Customized Training (administrative and soft skills, up to 50 percent of shared costs);
- Screening for various tax credit opportunities due to creating new employment; and
- Dedicated WSD staff to provide these services.

Regulations limit the ability of the WSD to use some of its program resources for recruitment of new companies. However, once the Company is established in the County, WSD will create customized, on-the-job training for a wide range of skills and provide reimbursement of up to 50% of the participant's wage rate. For example, the On-the-Job-Training/Customized Training can reimburse 50% of the employer's training costs, up to \$50,000. Should the Company decide to locate in the County, the above mentioned training strategies are available. As this would be an expansion into our region with no displacement of workers, the programs can be implemented without the 120-day wait period.

The Company is eligible to apply for both the Prince George's County New Jobs Credit Tax Credit program and the Revitalization Tax Credit program, however, only one program can be used for the Project.

(c) **Prince George's County New Jobs Creation Tax Credit**. It is Prince George's County's understanding that the Company proposes to create approximately 135 new jobs upon completion of its expansion in Prince George's County.

If a business entity meets the requirements below, Prince George's County will grant a New Jobs Tax Credit for new or expanded premises and the personal property located on those premises that may be claimed against the County property taxes that would otherwise be due to equal a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows:

- (1) 52% during the first and second taxable years in which a credit is allowed;
- (2) 39% during the third and fourth taxable years in which a credit is allowed;
- (3) 26% during the fifth and sixth taxable years in which a credit is allowed; and
- (4) 0% for each taxable year thereafter.

To qualify for a New Jobs Tax Credit a business entity shall:

- obtain at least 5,000 square feet of new or expanded premises in the County (located in a Priority Funding Area) by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing newly constructed premises; and
- employ at least 25 persons, of which at least thirty percent (30%) shall be County residents, in new permanent full-time positions located in the new or expanded premises in the County during a 24-month period, during which the business entity must also occupy the new or expanded premises.
- notify the County, before it obtains the new or expanded premises or hires employees to fill new permanent full-time positions, that the business intends to claim the tax credit.

(d) **Revitalization Tax Credit.** Revitalization/Redevelopment tax credits encourage redevelopment and investment in certain communities of Prince George's County. The credits are available in all census tracts where the median household income does not exceed the County's median. Eligible improvements to real property located within these districts shall be allowed a tax credit on County real property taxes.

For the first tax year following the year in which the improvements are completed and assessed, non-residential improvements receive a tax credit for 100% of the amount of the County property tax imposed on the increased assessment. The tax credit is reduced to 80% in the second tax year, 60% in the third year, 40% in the fourth year, and 20% in the fifth year.

Residential improvements for the first tax year following the year in which the improvements are completed and assessed, receive a tax credit of 100% of the amount of the County property tax imposed on the increased assessment. The tax credit is reduced to 66% in the second tax year, and 33% in the third year. The maximum amount of eligible residential improvements is \$200,000 per dwelling unit.

5. **OTHER INCENTIVES.** In addition to the incentives described above, the State would provide, through the appropriate state and local governmental instrumentalities, certain other 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 business services if the facility is located in a State priority funding area.

To qualify for the job creation tax credit, most business entities must create at least 60 "qualified positions" (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 and paying at least 150% of the federal minimum wage) within a 2-year period. The 60 new job minimum is reduced to a 30 new job minimum if the aggregate annual payroll for the qualified positions exceeds 60 multiplied by the State's average annual salary. 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.

Credit granted will be the lesser of \$1,000 or 2.5% of a year's wages for each new employee in a 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), then the credit is increased to the lesser of \$1,500 or 5% of a year's wages for each employee in a qualified position.

The maximum credit allowed during any credit year for a single facility is \$1 million. The credit is allowed ratably, with 1/2 to be taken in the credit year and 1/2 taken in the following year (or carried forward, if necessary). 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.

(b) **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 the first taxable year, a credit is allowed in an amount equal to 30% of up to the first \$6,000 (\$1,800) of wages paid during the first year and 20% of up to the first \$6,000 (\$1,200) of wages paid during the second year of employment. Employers can also benefit from a tax credit for work-related childcare or transportation expenses paid by the employer. A credit of up to \$600 of the qualified childcare or transportation expenses incurred during the first year of employment and up to \$500 for the second year. 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.

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

(d) **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.

(e) **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 or the Maryland Mass Transit Administration, MARC trains and vanpools. The credit can be claimed against State income taxes, financial institution franchise 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 more details.

(Unless otherwise noted, for additional information regarding the State tax incentives listed above, please contact Mr. Mark Vulcan, Program Manager, Tax Incentives, Office of Finance Programs, Commerce, at 410-767-6438, toll-free at 877-821-0099, or email at mark.vulcan@maryland.gov, for additional information and, if applicable, to make application for the Job Creation Tax Credit.)

(f) **Baltimore Gas & Electric (“BGE”) Economic Development Incentive and Energy Efficiency Programs**. BGE is the energy service delivery company in central Maryland. To promote business growth and employment expansion within their service area, BGE offers the SEEDSM (Smart Energy Economic Development) Program. This incentive is available to

qualifying businesses that locate new operations or expand existing operations in the BGE service area.

Requirements for Businesses located in a non-enterprise zone – A Business must create 10 or more new full-time jobs, meet 500kw of electric demand per month and/or 90,000 therms of natural gas annually.

Requirements for Businesses located in an enterprise zone – A Business must be certified by their local economic development office as an enterprise zone eligible business and are taking advantage of enterprise zone tax credits. Businesses must also create one or more full-time jobs.

The chart below illustrates the benefits and requirements for participating businesses in SEEDSM

	NON ENTERPRISE 500 kW of electric demand per month and/ or 90,000 therms of gas annually	ENTERPRISE ZONE No minimum load requirement
Job Requirement	10 FTE's	1 FTE
year 1 price reduction	25%	25%
year 2 price reduction	25%	25%
year 3 price reduction	25%	25%
year 4 price reduction	0	25%
year 5 price reduction	0	25%

Businesses that qualify for the SEEDSM incentive receive the discount for three (3) years, or for five (5) years if the site is within an Enterprise Zone. The company must contact BGE prior to any site decision or receiving a BGE service extension contract agreement. All businesses must pass a background check as part of the qualification process.

In addition to the economic development incentive, BGE offers the “BGE Smart Energy Savers Program®” that includes a variety of energy efficiency financial incentives and engineering services for industrial and commercial projects such as:

- Retrofits of existing inefficient equipment
- New construction
- Major renovation and remodeling
- New equipment purchases

Mr. Mike Miller

April 8, 2016

Page 10

- End-of-life equipment replacements

Programs for medium and larger industrial and commercial customers include:

- Energy Solutions for Business: Technical services to help you analyze specific projects, incentives of up to 50% of the total cost for retrofit projects or up to 75% of the incremental costs for new equipment as well as for new construction. There are incentives on numerous measures including HVAC systems, lighting and controls and even incentives for custom projects.
- Retro commissioning (RCx), which is the process of monitoring, troubleshooting and adjusting electrical, mechanical and control systems in existing buildings to optimize energy performance. Incentives cover up to 75% of the cost of the RCx services.
- Combined Heat and Power (CHP): incentives of \$900/kW with a project cap of \$2 million.

For information on BGE's economic development services, visit www.bge.com/economicdevelopment. For more details on the energy efficiency programs see: <http://www.bgesmartenergy.com/business>. You can also send an email to economicdevelopment@bge.com

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 the approval of 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, at 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 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 Equal Opportunity Office to identify MBEs that have the capacity to provide goods or services for the Project. (Contact the Equal Opportunity Office at 410-767-6488, 401 E. Pratt Street, 10th 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.

Mr. Mike Miller
April 8, 2016
Page 11

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 9, 2016** to expedite negotiations and preserve the Project's high priority status.

The Department invites you to contact Mr. Harry M. Carroll at 410-767-6360 of the Office of Finance Programs, Commerce, for details and further steps. We look forward to working with you.

Sincerely,



R. Michael Gill
Secretary
Department of Commerce



James R. Coleman
President and CEO
Prince George's County
Economic Development Corporation

Accepted this 29TH day of APRIL, 2016

Southland Industries, Inc.



Name: MICHAEL A. MILLER
Title: SR. VICE PRESIDENT
FID# _____

Upon signing, please return this letter directly to Mr. Harry M. Carroll, Finance Specialist, Office of Finance Programs, Commerce, 401 East Pratt Street, Suite 1760, Baltimore, MD 21202.

cc: Mr. David S. Iannucci, Deputy Chief Administrative Officer, Prince George's County
Mr. Harry M. Carroll, Finance Specialist, Office of Finance Programs, Commerce
Mr. Timothy P. Doyle, Program Manager, Office of Finance Programs, Commerce
Mr. Mark Vulcan, Program Manager, Tax Incentives, Office of Finance Programs, Commerce