



VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
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August 25, 2011

The Honorable Charles J. Colgan
Chair, Senate Committee on Finance
General Assembly Building, Room 626
Post Office Box 396
Richmond, Virginia 23218

The Honorable Lacey E. Putney
Chair, House Committee on Appropriations
General Assembly Building, Room 947
Post Office Box 406
Richmond, Virginia 23218

Re: Signed Memorandum of Understanding / Return on Investment Analysis
Advanced Shipbuilding Training Facility Grant Program
Huntington Ingalls Incorporated

Dear Senator Colgan and Delegate Putney:

Chapter 749 of the 2011 Acts of the General Assembly of Virginia amended and reenacted Chapters 798 and 850 of the 2009 Acts of the General Assembly of Virginia that originally created the Advanced Shipbuilding Training Facility Grant Program for the benefit of Huntington Ingalls Incorporated, formerly Northrop Grumman Shipbuilding, Inc. This new Chapter requires that the terms of the Grant Program be set forth in a Memorandum of Understanding among the Commonwealth, Huntington Ingalls, and the City of Newport News. An enactment clause requires that you be provided with a copy of the executed Memorandum of Understanding and the Virginia Economic Development Partnership's Return on Investment Analysis by August 31, 2011.

I have enclosed a signed copy of the Memorandum of Understanding and copies of two Return on Investment Analyses. Under the new Chapter, Huntington Ingalls may choose to stay with the 2009 Grant Program or elect to be the beneficiary of a larger grant, if certain private investment is made. The two ROIs reflect these two options.

We look forward to working with Huntington Ingalls and the City of Newport News in the coming years to administer this innovative and exciting Grant Program. Thank you for your help.

Very truly yours,

Carrie D. Hileman
Manager, Legislation and Policy

Enclosures

cc: Ms. Betsey Daley, Staff Director, Senate Committee on Finance
Mr. Robert P. Vaughn, Staff Director, House Committee on Appropriations
The Honorable James S. Cheng
Mr. Stephen D. Haner
Ms. Florence G. Kingston

**AMENDED AND RESTATED
MEMORANDUM OF UNDERSTANDING**

**ADVANCED SHIPBUILDING TRAINING
FACILITY GRANT PROGRAM**

THIS AMENDED AND RESTATED MEMORANDUM OF UNDERSTANDING (this "Memorandum"), dated as of the 31st day of August, 2011, among the COMMONWEALTH OF VIRGINIA (the "Commonwealth"), HUNTINGTON INGALLS INCORPORATED, a Virginia corporation, formerly Northrop Grumman Shipbuilding, Inc. (the "Company"), and the INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF NEWPORT NEWS, VIRGINIA, a political subdivision of the Commonwealth (the "IDA") provides:

Recitals

This Memorandum amends and restates the Memorandum of Understanding dated June 30, 2009 (the "Original Memorandum") between the Commonwealth and Northrop Grumman Shipbuilding, Inc., as the predecessor in interest to the Company.

Section 59.1-284.23 (the "Act") of the Code of Virginia of 1950, as amended (the "Virginia Code") created an Advanced Shipbuilding Training Facility Grant Program (the "Grant"). The Original Memorandum memorialized the terms and provisions of the Grant, in accordance with the original version of the Act. The Act was amended in the 2011 session of the General Assembly. In order to reflect the amendments to the Act and implement certain options now available under the Act for receiving the Grant, the Commonwealth, the Company and the IDA desire to enter into this Memorandum on the terms set forth herein. Upon the full execution and delivery hereof by the parties, the Original Memorandum shall be deemed to be amended and restated in conformity with this Memorandum.

The Commonwealth, in consideration of the Capital Investment to be made, the New Full-Time Jobs within the Virginia Class Submarine Program to be created and maintained, the Training Expenses to be incurred, the New Training Facility anticipated to be developed by or on behalf of the Company, and the Private Capital Target to be achieved, as such capitalized terms are defined below, has offered certain incentives, including the Grant. It is expected that the Grant will be paid to the Company or the IDA, as applicable, based on certain performance targets set forth in the Act and this Memorandum.

The stimulation of the additional tax revenue and economic activity to be generated by the Capital Investment, the private capital investment represented by the Private Capital Target, the New Full-Time Jobs within the Virginia Class Submarine Program and the Training Expenses, and the enhanced workforce training opportunities that may be offered by the Company at the New Training Facility constitute valid public purposes for the expenditure of public funds and are the animating purposes for the Advanced Shipbuilding Training Facility Grant Program.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, receipt of which is hereby acknowledged, the Commonwealth, the Company and the IDA agree as follows:

Section 1. Definitions.

As used in this Memorandum:

“Act” means Section 59.1-284.23 of the Virginia Code, as such Section may be amended or supplemented, as originally enacted by Chapters 798 and 850 of the Acts of the General Assembly of Virginia of 2009 and as amended by Chapter 749 of the Acts of the General Assembly of Virginia of 2011.

“Advanced Shipbuilding” means (i) the manufacture, construction, assembly, overhaul, repair, and test of nuclear vessels and submarines for the United States Navy; (ii) the design or development of nuclear vessels and submarines for the United States Navy; or (iii) the manufacturing activities of a private company described under 2007 index number 336611 of the North American Industry Classification System.

“Application” means an annual written application for a Grant payment, with supporting documentation, provided to the Secretary by the Company or by the IDA and the Company, as described in Section 3(b).

“Base Training Expense” means the total Training Expenses made by the Company in calendar year 2008. The Base Training Expense is \$52,957,919.

“Capital Investment” means an investment by or on behalf of the Company on or after January 1, 2009, in real property, tangible personal property, or both, within the Eligible City. Such investment must be directly or indirectly related to Advanced Shipbuilding, but need not be related to the Company’s Virginia Class Submarine program.

“Eligible City” means the City of Newport News, Virginia, or the IDA.

“Fiscal Year” means the Commonwealth’s fiscal year, which runs from July 1 of one calendar year through June 30 of the following calendar year.

“Full-Time Job” means employment of an indefinite duration in the Eligible City, for Advanced Shipbuilding or activities ancillary to or supportive of Advanced Shipbuilding and as the direct result of the Capital Investment, for which the average annual wage is at least equal to the prevailing average annual wage in the Eligible City and for which the standard fringe benefits are paid by the Company, requiring a minimum of either (i) 35 hours of an employee’s time per week for the entire normal year of the Company’s operations, which “normal year” must consist of at least 48 weeks or (ii) 1,680 hours per year. Seasonal or temporary positions, and positions created when a job function is shifted from an existing location in the Commonwealth shall not qualify as Full-Time Jobs. The aggregate number of hours worked

(including paid holidays, vacation, sick leave, and all other paid time off) during a particular calendar year will count toward the Full-Time Jobs.

"Full-Time Jobs within the Virginia Class Submarine Program" shall be the total number of man hours of work in a work week on the Virginia Class Submarine program performed by people holding Full-Time Jobs, divided by 40 less any holiday time during that week. The man hours of work shall be as reported by the Qualified Shipbuilder to the United States Navy. The annual average will be for the first 48 work weeks of each calendar year.

For the employees and employers noted in clauses (a) through (d) below, jobs will count as Full-Time Jobs within the Virginia Class Submarine Program on a full-time equivalent basis, even if the jobs are not of an indefinite duration or even if the Company is not directly paying the wages or providing the fringe benefits, but only so long as the other conditions for a Full-Time Job have been satisfied. Whether to include the growth in these categories of jobs above their calendar year 2008 baseline numbers in determining the achievement of the New Full-Time Jobs Target shall be at the option of the Qualified Shipbuilder, but once included they must continue to be reported in subsequent Applications:

- (a) Employees of a subsidiary or partner, a joint venturer, or an affiliated company, if such employees are in the Commonwealth and are assigned to the Company's Virginia Class Submarine program;
- (b) Employees of contractors and subcontractors in the Commonwealth who provide dedicated full-time support during a particular calendar year related to the Company's technical, production, manufacturing or similar operations in support of the Company's Virginia Class Submarine program;
- (c) Members of the United States Navy assigned to duty in the Eligible City to support the Virginia Class Submarine Program or to serve on Virginia Class Submarines during construction, testing or outfitting by the Qualified Shipbuilder in the Eligible City; and
- (d) Employees of the Qualified Shipbuilder enrolled full time in the Apprentice School above the calendar year 2008 base enrollment of 750.

"Fund" means the Advanced Shipbuilding Training Facility Fund created under the Act and established on the books of the Comptroller of the Commonwealth. Grant payments will be made to the Company or the IDA, as applicable, from the Fund.

"Grant" means the expected advanced shipbuilding training facility grant payments to be made by the Commonwealth to the Company or the IDA, as applicable, pursuant to the Act and in accordance with this Memorandum.

"New Full-Time Job Target" means each of the annual targets shown below for the aggregate number of New Full-Time Jobs within the Virginia Class Submarine Program, to be created and maintained by the Company:

| <u>Calendar Year</u> | <u>Aggregate New Full-Time Jobs Within the Virginia Class Submarine Program Created and Maintained</u> |
|----------------------|--|
| 2011 | 81 |
| 2012 | 276 |
| 2013 | 500 |
| 2014 | 750 |
| 2015 | 1,000 |

“New Full-Time Jobs within the Virginia Class Submarine Program” means the number of Full-Time Jobs within the Virginia Class Submarine Program over the calendar year 2008 base of 3,010 including apprentices or 2,892 not including apprentices.

“New Training Facility” means a facility that may be constructed after January 1, 2009, that is to be operated by the Company, primarily to provide education, training and retraining of workers in the shipbuilding industry. Such New Training Facility may be owned by the Company, or may be operated by the Company through a lease agreement with the Eligible City or a private developer.

“Private Capital Target” means private non-public capital investment in real property, tangible personal property or both, in an amount equal to or greater than the cost of the New Training Facility, and which is located adjacent to the New Training Facility pursuant to a development plan approved by the Eligible City and the Company. For the purposes of determining whether the Private Capital Target has been achieved, the capital expenditures made on the New Training Facility through December 31, 2015 shall be the basis of the Private Capital Target.

“Qualified Shipbuilder” means a shipbuilder located in an Eligible City that (i) makes a Capital Investment of at least \$300 million from January 1, 2009 through December 31, 2011, related to Advanced Shipbuilding in an Eligible City; (ii) creates at least 1,000 New Full-Time Jobs within the Virginia Class Submarine Program from January 1, 2009 through December 31, 2015 in an Eligible City for Advanced Shipbuilding or activities ancillary to or supportive of Advanced Shipbuilding; (iii) maintains an apprenticeship program accredited by the Council for Occupational Education with an average annual enrollment of at least 750 and articulation agreements with local community colleges that allow its graduates to qualify for accredited associate degrees from those institutions; and (iv) maintains a level of Training Expenses in each calendar year no less than the Base Training Expense.

“Secretary” means the Secretary of Commerce and Trade for the Commonwealth, or his designee.

“*Substantial Reduction*” means either (i) the aggregate Capital Investment remaining at the end of a calendar year is more than 20% less than the Capital Investment remaining at the end of the previous calendar year because the assets that constitute the Capital Investment previously reported on an Application have been sold or otherwise disposed of, without an offsetting additional Capital Investment, or (ii) the number of New Full-Time Jobs within the Virginia Class Submarine Program remaining at the end of a calendar year is (A) more than 20% less than the number of New Full-Time Jobs within the Virginia Class Submarine Program during the previous calendar year and (B) is lower than the New Full-Time Job Target for that year.

“*Training Expense*” means an expense paid directly or indirectly by the Company to train or retrain a new or existing employee in Advanced Shipbuilding or activities ancillary to or supportive of Advanced Shipbuilding, including but not limited to (i) the personnel cost of employees of the Company conducting the training or being trained; (ii) materials and supplies used in providing that training; (iii) tuition and other costs paid to a school or vendor for training of a new or existing employee; or (iv) the capital or lease cost of any New Training Facility, including any lease cost for the New Training Facility paid by the IDA.

“*VEDP*” means the Virginia Economic Development Partnership Authority, and its successors and assigns.

“*Waiver*” means the exercise by the Company of its option to forego the receipt by the Company of Grant payments under Subsection B. of the Act in favor of the receipt by the IDA of Grant payments under Subsection F. of the Act.

Section 2. Advanced Shipbuilding Training Facility Grant Program; Generally; Waiver.

(a) Company as Qualified Shipbuilder. The parties anticipate that the Company will be a “Qualified Shipbuilder,” as defined above and in the Act. The Company will undertake to continue to be a “Qualified Shipbuilder” throughout the entire period of the payment of the Grant.

(b) Memorandum. The parties intend that this Memorandum meet the requirement in the Act that there be a memorandum of understanding among the Company, the Commonwealth and the Eligible City setting forth the requirements for the payment and receipt of Grant payments.

(c) Grant Payments Subject to Appropriation. The Commonwealth’s obligations under this Memorandum and the Act to make Grant payments to the Company or the IDA, as applicable, shall constitute contractual obligations to make such payments; *provided* that the parties acknowledge that all of the Grant payments described in this Memorandum are subject to appropriation by the Virginia General Assembly, will be paid from the Fund, and are subject to reduction should there be insufficient moneys in the Fund to make the Grant payments in full.

Although payments to the Company or the IDA, as applicable, under this Memorandum are subject to appropriation by the Virginia General Assembly, the Secretary, on behalf of the

Commonwealth, agrees to exercise diligence in seeking the necessary funding for Grant payments under this Memorandum from the Virginia General Assembly. The Secretary will include such funding in the appropriate budget requests to the Governor for the appropriate fiscal years and for later fiscal years, should there be any deferrals of Grant payments or failures to appropriate in earlier fiscal years. The Governor shall include in the Budget Bill he submits to the General Assembly in 2011 and later years pursuant to §2.2-1509 of the Virginia Code all appropriations necessary to fulfill the obligations of the Commonwealth pursuant to this Memorandum. The obligation to include such funding in budget requests to the Governor for later fiscal years based on the Commonwealth's failure to appropriate in a prior fiscal year will cease three fiscal years after the failure to appropriate.

(d) No Double-Counting. No capital expenditures made nor new jobs created that are subject to any other performance agreement with the Commonwealth, the Eligible City or any other Virginia locality may count as Capital Investments or New Full-Time Jobs within the Virginia Class Submarine Program under this Memorandum. For example, the capital expenditures to be made and the new jobs to be created by AREVA Newport News, LLC or by Newport News Energy Company that are related to the nuclear power industry, may not be counted as Capital Investments or New Full-Time Jobs within the Virginia Class Submarine Program.

When reporting on the New Full-Time Jobs within the Virginia Class Submarine Program, the Company or the IDA and the Company, as applicable, will be consistent throughout the Grant payment period on whether to include or exclude apprentices.

(e) Use of Grant Proceeds. The Company or the IDA, whichever is the Grant recipient, agrees to expend the proceeds of each Grant payment on Training Expenses for the benefit of the Company, including, without limitation, the lease costs or development and capital costs of the New Training Facility.

(f) Waiver. By October 3, 2011, the Company shall provide to the Commonwealth written notice indicating whether it has or has not elected to make the Waiver. Once such notice is provided to the Commonwealth, the election is irrevocable. Unless the Company has elected to make the Waiver, the IDA shall not be eligible to apply for a Grant payment.

Section 3. Grant Payments.

(a) Maximum Payments.

(i) *If no Waiver is Made:* If the Company does not make the Waiver, the maximum aggregate amount of the Grant payments to be made under this Memorandum is \$25 million. Notwithstanding the foregoing, as described in the last paragraph of this clause (i), the Secretary may recommend to the Virginia General Assembly that the Company be eligible for an additional \$25 million in Grant payments to be paid in five annual installments of \$5 million each in a future five-year period, on terms and conditions to be considered by the Virginia General Assembly at that time.

Except as noted in Section 4 related to deferred payments, the maximum Grant payment to be made hereunder in any of the Commonwealth's Fiscal Years is \$5 million.

No later than 90 days following the Secretary's receipt of the Application for the fifth Grant installment payment, the Secretary shall provide a report to the chairmen of the House Committee on Appropriations and the Senate Committee on Finance detailing the performance of the Company under the Grant. Such review shall include, but not be limited to, an evaluation of (i) the return on investment, (ii) the time frame for return on investment to the Commonwealth, (iii) the average wages of the New Full-Time Jobs within the Virginia Class Submarine Program created by the Company, (iv) the additional Capital Investment made by the Company, and (v) the status of the Company's apprenticeship program and facilities. If the Secretary finds the Company has met the terms of the Grant program, he may recommend to the Virginia General Assembly eligibility for an additional \$25 million in grants for additional training activities by the Company payable over a subsequent five-year period.

(ii) *If Waiver is Made:* If the Company makes the Waiver, the maximum aggregate amount of the Grant payments to be made under this Memorandum is \$32,777,745, payable to the IDA in accordance with the schedule set forth on Exhibit A attached hereto and made a part hereof.

Except as noted in Section 4 related to deferred payments, the maximum Grant payment to be made hereunder in any of the Commonwealth's Fiscal Years is the amount shown for that Fiscal Year on Exhibit A.

(b) Annual Application for Grant Payment. On or before April 1 of each year, commencing April 1, 2012, (i) the Company, if the Waiver is not made, or (ii) the IDA and the Company, if the Waiver is made, shall provide an Application for a Grant payment providing evidence, satisfactory to the Secretary, of:

(i) the aggregate number of New Full-Time Jobs within the Virginia Class Submarine Program in the period from January 1, 2009 through the end of the previous calendar year, and the average annual wage paid for the Full-Time Jobs within the Virginia Class Submarine Program in the previous calendar year;

(ii) the extent to which, if any, the number of New Full-Time Jobs within the Virginia Class Submarine Program at the end of the previous calendar year is less than the number of New Full-Time Jobs within the Virginia Class Submarine Program at the end of the second previous calendar year;

(iii) the aggregate amount of the Capital Investment made or lost in the period from July 1, 2009 through December 31, 2011 and through the end of the previous calendar year;

- (iv) the extent to which, if any, the aggregate Capital Investment at the end of the previous calendar year is less than the aggregate Capital Investment at the end of the second previous calendar year;
- (v) (A) the continued existence of the Company's apprenticeship program, (B) the continued accreditation of that program by the Council for Occupational Education, or a successor or similar accreditation organization, (C) the continued existence of articulation agreements between that program and one or more of Virginia's community colleges, and (D) the number of apprentices enrolled in that program in the previous calendar year;
- (vi) the aggregate amount of Training Expenses incurred during the previous calendar year;
- (vii) only if the Waiver is made, the approval by the Eligible City and the Company of a development plan that includes the New Training Facility and additional private capital investment located adjacent to the New Training Facility that is equal to or greater than the Private Capital Target;
- (viii) only if the Waiver is made, the date construction began on a New Training Facility, the date or projected date of occupation by the Company, and once occupied, the continued use by the Company, and for the Application due by April 1, 2016, the total capital cost of the New Training Facility, which will become the measure of the amount of the Private Capital Target; and
- (ix) only if the Waiver is made, the date construction began on the private capital investment and the amount expended by the end of the previous calendar year towards the Private Capital Target amount.

Failure to meet the April 1 filing deadline shall result in a deferral of a scheduled Grant payment, as set forth in Section 4(a). For filings by mail, the postmark cancellation shall govern the date of the filing determination.

(c) Annual Grant Payment. Assuming that the following conditions have been met and have been demonstrated to the satisfaction of the Secretary in a timely-filed Application for a Grant payment, (1) if the Waiver has not been made, in each of the five Fiscal Years 2013 through 2017, a Grant payment will be made to the Company in the amount of \$5 million each, or (2) if the Waiver has been made, in each of the five Fiscal Years 2013 through 2017, a Grant will be made to the IDA in the amount for that Fiscal Year shown on Exhibit A. Such Grant payment will be made in the Fiscal Year following the filing of the Application. To receive the full scheduled Grant payment in each Fiscal Year, the Company or the IDA and the Company, as applicable, must have timely filed an Application by the prior April 1 demonstrating to the satisfaction of the Secretary:

- (i) that the Company has achieved the New Full-Time Jobs Target in the period from January 1, 2009 through the end of the previous calendar year;

- (ii) that no Substantial Reduction in the number of New Full-Time Jobs within the Virginia Class Submarine Program occurred during the previous calendar year;
- (iii) that the aggregate amount of the Capital Investment made in the period from January 1, 2009 through December 31, 2011, was at least \$300 million;
- (iv) that no Substantial Reduction in the aggregate amount of Capital Investment occurred during the previous calendar year;
- (v) that (A) the Company's apprenticeship program continues to exist, (B) that program continues to be accredited by the Council for Occupational Education, or a successor or similar accreditation organization, (C) the articulation agreements between that program and one or more of Virginia's community colleges continue to exist, and (D) the number of apprentices enrolled in that program in the prior calendar year is not less than 750;
- (vi) that the amount of Training Expenses incurred by the Company and the IDA in the prior calendar year was at least \$52,957,919 plus the amount of any Grant payment received in the previous calendar year;
- (vii) only if the Waiver is made, that the Eligible City and the Company have approved the development plan described in clause 3(b)(vii) above;
- (viii) only if the Waiver is made, that (A) the New Training Facility is under construction and is still intended to be used by the Company, or (B) the New Training Facility has been completed and is actually being used the Company; and
- (ix) only if the Waiver is made, for the Application due by April 1, 2016, that the Private Capital Target has been achieved.

Section 4. Deferred or Reduced Grant Payments.

(a) Deferral for Late Application. If an Application that otherwise would have demonstrated compliance with the conditions for a Grant payment is submitted after an April 1 deadline date, the Grant payment will not be made in the succeeding Fiscal Year, but will be made in the second succeeding Fiscal Year, together with any other Grant payment that may be due in that second succeeding Fiscal Year.

(b) Deferral for Failure to Meet Capital Investment Target. If the Company has failed to make Capital Investments of at least \$300 million in the period from January 1, 2009 through December 31, 2011, the Company will have until December 31, 2014, to make Capital Investments of at least \$300 million. No Grant payment will be made unless and until the Company has made Capital Investments of at least \$300 million. An Application demonstrating compliance may be filed no later than April 1, 2015, reflecting Capital Investments made by December 31, 2014. If so filed, that Grant payment or payments that were deferred will be paid in the first Fiscal Year after which the Company has demonstrated in an Application compliance

with such condition. Any such deferred payment will be added to any Grant payment otherwise due in such succeeding Fiscal Year.

(c) Deferral for Failure to Achieve New Full-Time Jobs Target. If the Company has failed to achieve the applicable New Full-Time Jobs Target as of the end of the preceding calendar year, the Company or the IDA, as applicable, will be ineligible for a Grant payment in the succeeding Fiscal Year, but that Grant payment will be deferred and paid in the first Fiscal Year after which the Company has demonstrated in an Application compliance with such condition. Any such deferred payment will be added to any Grant payment otherwise due in such succeeding Fiscal Year. An Application demonstrating compliance may be filed no later than April 1, 2016, reflecting achievement of the New Full-Time Jobs Target by December 31, 2015.

(d) Deferral for Failure to Maintain Targets Related to Apprenticeship Program. If an Application indicates that the Company has failed to achieve or maintain one or more of the conditions described in Section 3(c)(v), related to the Company's apprenticeship program, the Company or the IDA, as applicable, will be ineligible for a Grant payment in the succeeding Fiscal Year, but that Grant payment will be deferred and paid in the first Fiscal Year after which the Company has demonstrated in an Application compliance with such conditions. Any such deferred payment will be added to any Grant payment otherwise due in such succeeding Fiscal Year. An Application demonstrating compliance may be filed no later than April 1, 2016, reflecting achievement or maintenance of such conditions through December 31, 2015.

(e) Reduction and Deferral for Substantial Reduction. If an Application reveals that a Substantial Reduction, either in aggregate Capital Investment or New Full-Time Jobs within the Virginia Class Submarine Program has occurred, the amount of the Grant payment due in the following Fiscal Year shall be reduced, but not if the Capital Investment has been reduced below \$300 million or the New Full-Time Jobs within the Virginia Class Submarine Program retained has been reduced below the applicable New Full-Time Jobs Target. For this purpose, each regularly-scheduled Grant payment will be allocated 50% to the Capital Investment and 50% to the New Full-Time Jobs within the Virginia Class Submarine Program and the reduction will reflect the percentage by which there has been a Substantial Reduction. For example, if an Application reveals that there has been a reduction in the aggregate Capital Investment in the previous calendar year of 25% from the second previous calendar year and a reduction in the New Full-Time Jobs within the Virginia Class Submarine Program in the previous calendar year of 25% from the second previous calendar year, the Grant payment shall be reduced by 25% of that portion allocable to the Capital Investment and by 25% of that portion allocable to the New Full-Time Jobs within the Virginia Class Submarine Program. The amount of the reduction will be deferred for payment with any Grant payment otherwise due in a Fiscal Year following an Application which demonstrates that the Capital Investment and/or New Full-Time Jobs within the Virginia Class Submarine Program, as applicable, have returned to a level that existed in the second previous calendar year that served as the base year for the Substantial Reduction. No Grant payments so deferred will be paid unless the Capital Investment or New Full-Time Jobs within the Virginia Class Submarine Program have returned to such a level by the second Application after the Substantial Reduction.

If a Substantial Reduction has reduced the remaining Capital Investment below \$300 million or the New Full-Time Jobs within the Virginia Class Submarine Program retained below the applicable New Full-Time Jobs Target, no Grant payments, including deferrals from prior years, will be made until the level of aggregate Capital Investment has returned to at least \$300 million and the level of New Full-Time Jobs within the Virginia Class Submarine Program retained has returned to at least the applicable New Full-Time Jobs Target.

(f) Reduction and Deferral Related to Training Expenses; Clawback. If an Application shows that the Training Expenses for the prior calendar year were less than the Base Training Expense plus the amount of any Grant payment received by the Company or the IDA, as applicable, in the prior calendar year, the next Grant payment will be reduced by the amount of the shortfall. If a future Application demonstrates that the Training Expenses for the prior calendar year were more than the Base Training Expense plus the amount of any Grant payment received by the Company or the IDA, as applicable, in the prior calendar year, the Grant amount deferred in the prior year may be added to the Grant amount due in the next Fiscal Year, until the amount earlier deferred is fully recovered, subject to deferral and reduction as provided herein.

The Company or the IDA and the Company, as applicable, shall file an Application by April 1 in the year after the final Grant payment was made, which need only provide the information required by Section 3(b)(vi) above. If such Application shows that the Training Expenses for the prior calendar year were less than the Base Training Expense plus the amount of any Grant payment received by the Company or the IDA, as applicable, in the prior calendar year, the Company shall repay to the Commonwealth the amount of the shortfall. Such repayment is due by June 30 of that year.

(g) Substantial Reduction Caused by United States Government. If there are reductions in either Capital Investment or New Full-Time Jobs within the Virginia Class Submarine Program that occur because of a decision by the United States Government to reduce, delay or cancel the current Virginia Class Submarine program production schedule of two ships per year, or if, for the same reason, the Company is unable to achieve the New Full-time Job Target, the Commonwealth, the Company and the IDA will discuss and consider amendments to this Memorandum that may be appropriate to allow an additional period for achieving the Capital Investment and New Full-Time Job Target and to allow additional programs where job creation or growth are occurring or planned to be counted toward the New Full-Time Job Target. These amendments must conform to the provisions of the Act (including the provisions related to the status of the Company as a Qualified Shipbuilder), and, as to the Commonwealth, may be based in part upon an analysis of the economic impact to the Commonwealth of the adjusted capital expenditure and new jobs expectations. Further, the Commonwealth, the Company and the IDA will consider whether to present to the Virginia General Assembly amendments to the Act that will allow the Company or the IDA, as applicable, to continue to qualify for Grant payments.

(h) Deferral or Repayment for Failure to Provide a New Training Facility or Meet Private Capital Target. The provisions of this subsection (h) shall apply only if the Waiver has been made. If the construction of the New Training Facility has been abandoned or ceased prior to its completion, if (during the construction period) the Company indicates that it no longer plans to use the New Training Facility, or if the Company is not actually using the completed

New Training Facility, no Grant payment will be made unless and until, as applicable, the construction has recommenced, and the New Training Facility is intended to be used or is being used by the Company. An Application demonstrating compliance may be filed no later than April 1, 2016, reflecting performance through December 31, 2015. If so filed, the Grant payment or payments that were deferred will be paid in the first Fiscal Year after which the Application demonstrates compliance with such conditions. Any such deferred payment will be added to any Grant payment otherwise due in such succeeding Fiscal Year.

If the Private Capital Target has not been achieved by December 31, 2015, no further Grant payment will be made. An Application demonstrating compliance may be filed no later than April 1, 2016, reflecting performance through December 31, 2015. If compliance with such condition is not achieved, the IDA shall repay any Grant payments previously received, as described in Section 5.

(i) Other Provisions Related to a Substantial Reduction. In the case of any Substantial Reduction, the Company shall provide written notice to the Secretary and VEDP within thirty (30) days of becoming aware of such event and shall meet with VEDP to propose and discuss a recovery plan.

Section 5. Repayment Obligation of the Company and the IDA.

According to the Act, a Qualified Shipbuilder entitled to Grant payments must have created at least 1,000 New Full-Time Jobs within the Virginia Class Submarine Program. Until the Company creates at least 1,000 New Full-Time Jobs within the Virginia Class Submarine Program any Grant payments received by the Company or the IDA, as applicable, are subject to repayment to the Commonwealth. If by the Application filed by the Company or the IDA and the Company, as applicable, on or before April 1, 2016, reflecting the Company's performance as of December 31, 2015, the Company has not created at least 1,000 New Full-Time Jobs within the Virginia Class Submarine Program the Company or the IDA, as applicable, must repay to the Commonwealth all Grant payments previously received and will be entitled to no further Grant payments. Such repayment is due by June 30, 2016. If such a repayment is made by the IDA to the Commonwealth under this paragraph of this Section 5, the Company shall reimburse the IDA for such amount.

Further, according to the Act, if the Waiver has been made, the Private Capital Target must be achieved. Until the Private Capital Target has been achieved, any Grant payments received by the IDA are subject to repayment to the Commonwealth. If by the Application filed by the IDA on or before April 1, 2016, reflecting performance as of December 31, 2015, the Private Capital Target has not been achieved, the IDA must repay to the Commonwealth all Grant payments previously received and will be entitled to no further Grant payments. Such repayment is due by June 30, 2016.

Section 6. Reporting and Tracking.

(a) Pre-Submission Evaluation. In advance of submitting any Application, the Company or the IDA, as applicable, may request of the Secretary a pre-submission evaluation for

the purpose of determining the adequacy of records and other documentation proposed to be submitted.

(b) Secretary's Report on Application. Within thirty (30) days after receiving an Application, the Secretary shall certify to (i) the Comptroller of the Commonwealth, (ii) the Company, and (iii) if the Waiver has been made, the IDA, the amount of the Grant to which the Company or the IDA is entitled under this Memorandum. Such Grant amount will be paid to the Company or the IDA, as applicable, from the Fund in the next Fiscal Year. The Comptroller shall not draw any warrants to issue checks to the Company or the IDA, as applicable, without a specific legislative appropriation, as specified in the conditions and restrictions on expenditures in the applicable appropriation act.

(c) Confidential and Proprietary Information. Any documents containing confidential and proprietary information made available and identified as such by the Company or the IDA on the Company's behalf to the Commonwealth, shall be maintained as confidential by VEDP and the Secretary, to the extent permitted by law.

(d) Transfer of New Training Facility; Status of Lease. Upon its fulfillment of the conditions set forth in the Act, the Company may apply to the Commonwealth for a determination that the Company has met the conditions of the Act. The IDA acknowledges and agrees that upon such determination the IDA, in conjunction with the private developer, will provide for the transfer of title of the New Training Facility to the Company at the conclusion of the Grant period, if and when the Company so requests. At the conclusion of the Grant period, the Company shall have the right to assume ownership of the New Training Facility. The transfer of ownership shall be provided for in a separate agreement among any of a private developer, the IDA and the Company. The Commonwealth assumes no responsibility or liability of the IDA or the private developer for their obligation to transfer ownership of the New Training Facility to the Company.

The IDA covenants and agrees that the terms and provisions of the lease or other arrangement that it will enter into with a private developer with respect to the New Training Facility will not cause that lease or other arrangement to be characterized as a capital lease by the IDA, under the Internal Revenue Code of 1986, as amended, and the regulations thereunder. Upon request of the Secretary, the IDA will provide to the Secretary a copy of any such lease or other arrangement and documentation regarding any debt of the private developer supported by payments under the lease or other arrangement.

Section 7. Miscellaneous.

(a) Assignments. The Commonwealth acknowledges that the Company, now known as Huntington Ingalls Incorporated, was known as Northrop Grumman Shipbuilding, Inc. at the time of the Original Memorandum. None of the rights or responsibilities of any party under this Memorandum shall be transferred or assigned, including by operation of law, without the prior written consent of the other parties hereto; *provided*, that in the case of the IDA's assignment of its rights hereunder to a financial institution in connection with the financing of the construction

by the IDA or a private developer of the New Training Facility, such consent shall not be unreasonably withheld, conditioned or delayed.

(b) Successors and Assigns. Subject to the limitations on assignments set forth in subsection (a) above, all of the provisions of this Memorandum shall be binding upon and for the benefit of the respective successors and assigns of the parties hereto, to the same extent as if each successor and assign were in each case named as a party to this Memorandum.

(c) Completeness; Modification. This Memorandum constitutes the entire agreement among the parties with respect to the Grant and supersedes all prior discussions, understandings, agreements and negotiations among the parties, except the Act. This Memorandum may be modified only by a written instrument duly executed by the parties and any such modification must be in accordance with the Act. Any modification to this Memorandum shall be submitted by the Secretary to the chairmen of the House Committee on Appropriations and the Senate Committee on Finance no later than 30 days after being executed by the Secretary.

(d) Numbers; Gender. Whenever in this Memorandum the singular number is used, the same shall include the plural where appropriate, and vice versa. Words of any gender used in this Memorandum shall include each other gender where appropriate.

(e) Notices. All notices, communications and other information provided under this Memorandum shall be in writing and shall be given by (i) personal delivery, (ii) a nationally recognized overnight courier (providing confirmation receipts) for delivery on the following business day, (iii) confirmed facsimile, or (iv) first class mail postage prepaid, as follows:

If to the Commonwealth:

Address: Commonwealth of Virginia
1111 East Broad Street, 4th Floor (zip code: 23219)
P.O. Box 1475
Richmond, VA 23218
Attention: Secretary of Commerce and Trade
Telecopier: (804) 371-0250

With a copy to:

Address: Virginia Economic Development Partnership
901 East Byrd Street, 19th Floor (zip code: 23219)
P.O. Box 798
Richmond, VA 23218-0798
Attention: President and Chief Executive Officer
Telecopier: (804) 545-5611

If to the Company:

Address: Huntington Ingalls Incorporated
4101 Washington Avenue
Building 86-3
Newport News, Virginia 23607
Attention: Vice President, Human Resources and Administration
Telecopier: (757) 688-7750

With a copy to:

Address: Law Department
4101 Washington Ave.
Building 86-3
Newport News, Virginia 23607
Attention: Ann L. Pharr, Assistant General Counsel
Telecopier: (757) 380-3875

If to the IDA:

Address: Industrial Development Authority of the City of Newport News, Virginia
2400 Washington Avenue, 3rd Floor
Newport News, Virginia 23607
Attention: Secretary/Treasurer
Telecopier: (757) 926-3504

With a copy to:

Address: Raymond H. Suttle, Jr. Esquire
Jones, Blechman, Woltz & Kelly, P.C.
701 Town Center Drive, Suite 800
Newport News, Virginia 23606
Telecopier: (757) 873-8103

or to such other address or telecopier number as shall be notified by any party to the other parties. Except as noted in the next sentence, any notice shall be deemed given when received or first refused by the addressee. Any evidence provided by the Company or the Eligible City by mail pursuant to Section 3 shall be deemed given when postmarked.

(f) Governing Law. This Memorandum shall be governed by and construed in accordance with the laws of the Commonwealth, without reference to its choice of law rules.

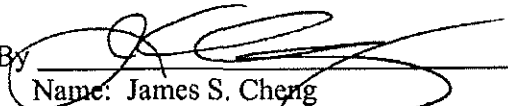
(g) Severability. If any court determines that any clause, provision or section of this Memorandum is illegal or invalid, the parties shall negotiate in good faith a substitute clause, provision or section, which such substitute must be in accordance with the Act, and the unaffected provisions shall remain in effect.

(h) Counterparts. This Memorandum may be executed in several counterparts, each of which will be an original, and the counterparts will together constitute one and the same instrument.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

WITNESS the following signatures as of the day and year first written above.

COMMONWEALTH OF VIRGINIA

By 
Name: James S. Cheng
Title: Secretary of Commerce and Trade

HUNTINGTON INGALLS INCORPORATED

By _____
Name: _____
Title: _____

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

By _____
Name: _____
Title: _____

ATTEST:

Florence G. Kingston
Secretary/Treasurer

(SEAL)

Approved as to Form:

Raymond H. Suttle, Jr., Esquire
IDA Counsel

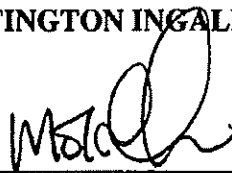
Exhibit A: Schedule of Grant Payments if Waiver is Made

WITNESS the following signatures as of the day and year first written above.

COMMONWEALTH OF VIRGINIA

By _____
Name: James S. Cheng
Title: Secretary of Commerce and Trade

HUNTINGTON INGALLS INCORPORATED

By  _____
Name: Matthew Mulherin
Title: President

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

By _____
Name: _____
Title: _____

ATTEST:

Florence G. Kingston
Secretary/Treasurer

(SEAL)

Approved as to Form:

Raymond H. Suttle, Jr., Esquire
IDA Counsel

Exhibit A: Schedule of Grant Payments if Waiver is Made

WITNESS the following signatures as of the day and year first written above.

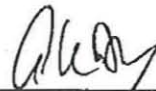
COMMONWEALTH OF VIRGINIA

By _____
Name: James S. Cheng
Title: Secretary of Commerce and Trade

HUNTINGTON INGALLS INCORPORATED

By _____
Name: _____
Title: _____

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF NEWPORT NEWS, VIRGINIA**


By  _____
Name: Alonzo R. Bell, Jr.
Title: Chairman

ATTEST:



Florence G. Kingston
Secretary/Treasurer

(SEAL)

Approved as to Form:


Raymond H. Suttle, Jr., Esquire
IDA Counsel

Exhibit A: Schedule of Grant Payments if Waiver is Made

Exhibit A
Schedule of Grant Payments
If Waiver is Made
Under Section 59.1-284.23.F of the Act

| | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Expected Payment Date | 09/01/12 | 09/01/13 | 09/01/14 | 09/01/15 | 09/01/16 |
| Fiscal Year | 2013 | 2014 | 2015 | 2016 | 2017 |
| Amount of Grant | \$5,000,000 | \$5,000,000 | \$8,029,323 | \$7,592,582 | \$7,155,840 |

Total: \$32,777,745

Newport News Shipbuilding (HII) Update

Assumptions

| | |
|--|----------------------|
| Total Capital Investment of Project | \$334,681,550 |
| Qualifying Investment | \$334,681,550 |
| Taxable Machinery & Tools / Personal Property | \$78,371,940 |
| Non-Taxable Machinery & Tools | \$81,277,660 |
| Qualifying Real Estate | \$175,031,950 |
| Land Cost | \$0 |
| Capital Lease or Lease of New Building | \$0 |
| Purchase of Publicly-Owned Shell Building | \$0 |
| Construction Cost, Including Leaseholder Improvements | \$175,031,950 |
| Labor - Construction Cost (45% of Building Cost) | \$78,764,378 |
| Materials for Construction (55% of Building Cost) | \$96,267,573 |
| Non-Qualifying Investment | \$0 |
| Purchase of Existing Building | \$0 |
| Non-Capital Lease or Lease of Existing Building | \$0 |
| Other Non-Qualifying Investment | \$0 |
| Direct Employment | |
| Total Number of Direct Employees | 1,000 |
| Number of New Direct Employees | 1,000 |
| Number of Saved Direct Employees | 0 |
| Number of New Non-Qualifying Direct Employees | 0 |
| Average Salary For Direct Employees (2010) | \$53,662 |
| Indirect Employment | |
| Ship Building and Repairing - NAICS 336611 | |
| Indirect Employment Multiplier - IMPLAN Model | 2.147 |
| Total Number of Indirect Employees | 1,147 |
| Number of Indirect Employees (New jobs) | 1,147 |
| Number of Indirect Employees (Saved jobs) | 0 |
| Average Salary For Indirect Employees (2010) | \$31,511 |
| Employment and Salary / Wage Parameters | |
| Average Annual Salary Growth Rate (ECI) After 2011 | 2.5% |
| Community Data: Newport News City | |
| Prevailing Wage (Average of last 4 quarters - VEC QCEW) | \$42,614 |
| 85% Wage | \$36,221 |
| 2010 Annual Unemployment Rate | 7.8% |
| 2009 Poverty Rate | 13.5% |
| VEDP ROI Model - Version 4.2 | |

| | |
|---|---------------------|
| Project Begins, Fiscal Year | 2009 |
| Direct Construction Employees - Full Time Equivalent | |
| Dollars Paid Per Hour - Construction Employees | \$22.08 |
| Annual Salary / Wage Per Construction Employee | \$45,927 |
| Indirect Construction Employees - Full Time Equivalent | |
| Indirect Construction Employment Multiplier - IMPLAN Model | 1.523 |
| Construct new nonresidential manufacturing structures | |
| Annual Salary Per Indirect Construction Worker | \$35,713 |
| Taxes | |
| Virginia State Sales Tax | 4% |
| In-Migrant Costs | |
| Number of In-Migrants | 0 |
| Average Cost Per In-migrant | \$1,124 |
| Average State Cost Growth Rate (CPI) | 2.2% |
| Discount Rate, 20 Year Treasury Bonds | |
| Yield, 1st Business Day of Current Qtr, 7/1/2011 | 4.12% |
| State Grants & Credits <i>(Allocations Are Analyzed As End Of Year Expenditures)</i> | |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | \$25,000,000 |
| Total State Grants | \$25,000,000 |
| Positive Cash Flow Attained | |
| Discounted | Fiscal Year |
| | Years into Project |
| | 2009 |
| | 1st year |
| Undiscounted | Fiscal Year |
| | Years into Project |
| | 2009 |
| | 1st year |

**Newport News Shipbuilding (HII) Update
State Benefits - Costs Analysis Summary**

| | 5 Year Total | | 10 Year Total | | 15 Year Total | | 20 Year Total | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * |
| STATE BENEFITS (Income & Sales Tax) | | | | | | | | |
| Income & Sales Tax Collected - Direct Workers | \$1,770,769 | \$1,470,997 | \$17,031,084 | \$12,423,924 | \$36,214,514 | \$23,765,306 | \$58,736,703 | \$34,650,291 |
| Income & Sales Tax Collected - Indirect Workers | \$1,025,620 | \$851,769 | \$10,277,306 | \$7,486,985 | \$22,223,087 | \$14,549,852 | \$36,039,878 | \$21,225,238 |
| Taxable Equipment / Personal Property | \$3,134,878 | \$2,851,572 | \$3,134,878 | \$2,851,572 | \$3,134,878 | \$2,851,572 | \$3,134,878 | \$2,851,572 |
| Construction Materials | \$3,850,703 | \$3,489,623 | \$3,850,703 | \$3,489,623 | \$3,850,703 | \$3,489,623 | \$3,850,703 | \$3,489,623 |
| Direct Construction Employment | \$4,050,931 | \$3,671,076 | \$4,050,931 | \$3,671,076 | \$4,050,931 | \$3,671,076 | \$4,050,931 | \$3,671,076 |
| Indirect Construction Employment | \$1,584,653 | \$1,436,060 | \$1,584,653 | \$1,436,060 | \$1,584,653 | \$1,436,060 | \$1,584,653 | \$1,436,060 |
| TOTAL BENEFITS (Income & Sales Tax) | \$15,417,553 | \$13,771,097 | \$39,929,555 | \$31,359,241 | \$71,058,767 | \$49,763,490 | \$107,397,746 | \$67,323,861 |
| STATE COSTS | | | | | | | | |
| Grants | | | | | | | | |
| Governor's Opportunity Fund | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Virginia Jobs Investment Program | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Virginia Investment Partnership Grant | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | \$5,000,000 | \$4,086,008 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 |
| Total Grants | \$5,000,000 | \$4,086,008 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 |
| TOTAL STATE COSTS | \$5,000,000 | \$4,086,008 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 | \$25,000,000 | \$18,875,939 |
| NET BENEFIT TO VIRGINIA | \$10,417,553 | \$9,685,089 | \$14,929,555 | \$12,483,302 | \$46,058,767 | \$30,887,551 | \$82,397,746 | \$48,447,922 |
| * Discount Rate = 4.12% | | | | | | | | |
| Average Annual Return on Investment | | 28% | | 5% | | 7% | | 7% |
| <i>Benchmark</i> | | | | <i>19%</i> | | | | <i>13%</i> |
| Cumulative Benefit-to-Cost Ratio | | 3.4 | | 1.7 | | 2.6 | | 3.6 |
| <i>Benchmark</i> | | | | <i>5.8</i> | | | | <i>10.8</i> |

| | Project Analysis | | Positive Cash Flow Attained | | |
|---|------------------|----------------|-----------------------------|------------|-----------|
| | Project | Benchmark † | Discounted | Project †† | Benchmark |
| Direct New Employment | 1,000 | 250 | Fiscal Year | 2009 | |
| GOF (NPV) per New Job | \$0 | \$1,654 | Years into Project | 1st year | 2.2 |
| State Grants (NPV) per New Job | \$18,876 | \$5,645 | | | |
| Direct Investment | \$334.7 (Mill.) | \$13.5 (Mill.) | Undiscounted | | |
| Company Investment per \$GOF (NPV) | #DIV/0! | \$139 | Fiscal Year | 2009 | |
| Company Investment per State Grants (NPV) | \$18 | \$35 | Years into Project | 1st year | 2.1 |

† Averages based on announced ROIs with GOF and/or VIP FY00 - FY10, except for Direct Investment which is the median. GOF (NPV) per New Job is based on projects that were awarded GOF. †† Projects are assumed to take at least one year to achieve positive cash flow and are rounded to the nearest quarter.

| Performance Grants | | | | | |
|--|---------------|---------------|--------------|--------------|-------------|
| | Payout Starts | Annual Payout | Payout Years | Total Payout | Payout Ends |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | 2013 | \$5,000,000 | 5 | \$25,000,000 | 2017 |

**Newport News Shipbuilding (HII) Update with Private Development
Assumptions**

| | |
|--|----------------------|
| Total Capital Investment of Project | \$404,664,550 |
| Qualifying Investment | \$404,664,550 |
| Taxable Machinery & Tools / Personal Property | \$79,454,940 |
| Non-Taxable Machinery & Tools | \$81,277,660 |
| Qualifying Real Estate | \$243,931,950 |
| Land Cost | \$4,500,000 |
| Capital Lease or Lease of New Building | \$0 |
| Purchase of Publicly-Owned Shell Building | \$0 |
| Construction Cost, Including Leaseholder Improvements | \$239,431,950 |
| Labor - Construction Cost (45% of Building Cost) | \$107,744,378 |
| Materials for Construction (55% of Building Cost) | \$131,687,573 |
| Non-Qualifying Investment | \$0 |
| Purchase of Existing Building | \$0 |
| Non-Capital Lease or Lease of Existing Building | \$0 |
| Other Non-Qualifying Investment | \$0 |
| Direct Employment | |
| Total Number of Direct Employees | 1,000 |
| Number of New Direct Employees | 1,000 |
| Number of Saved Direct Employees | 0 |
| Number of New Non-Qualifying Direct Employees | 0 |
| Average Salary For Direct Employees (2010) | \$53,662 |
| Indirect Employment | |
| Ship Building and Repairing - NAICS 336611 | |
| Indirect Employment Multiplier - IMPLAN Model | 2.147 |
| Total Number of Indirect Employees | 1,147 |
| Number of Indirect Employees (New jobs) | 1,147 |
| Number of Indirect Employees (Saved jobs) | 0 |
| Average Salary For Indirect Employees (2010) | \$31,511 |
| Employment and Salary / Wage Parameters | |
| Average Annual Salary Growth Rate (ECI) After 2011 | 2.5% |
| Community Data: Newport News City | |
| Prevailing Wage (Average of last 4 quarters - VEC QCEW) | \$42,614 |
| 85% Wage | \$36,221 |
| 2010 Annual Unemployment Rate | 7.8% |
| 2009 Poverty Rate | 13.5% |
| VEDP ROI Model - Version 4.2 | |

| | | |
|--|---------------------|----------|
| Project Begins, Fiscal Year | 2009 | |
| Direct Construction Employees - Full Time Equivalent | | |
| Dollars Paid Per Hour - Construction Employees | \$22.08 | |
| Annual Salary / Wage Per Construction Employee | \$45,927 | |
| Indirect Construction Employees - Full Time Equivalent | | |
| Indirect Construction Employment Multiplier - IMPLAN Model | 1.523 | |
| Construct new nonresidential manufacturing structures | | |
| Annual Salary Per Indirect Construction Worker | \$35,713 | |
| Taxes | | |
| Virginia State Sales Tax | 4% | |
| In-Migrant Costs | | |
| Number of In-Migrants | 0 | |
| Average Cost Per In-migrant | \$1,124 | |
| Average State Cost Growth Rate (CPI) | 2.2% | |
| Discount Rate, 20 Year Treasury Bonds | | |
| Yield, 1st Business Day of Current Qtr, 7/1/2011 | 4.12% | |
| State Grants & Credits (Allocations Are Analyzed As End Of Year Expenditures) | | |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | \$32,777,745 | |
| Total State Grants | \$32,777,745 | |
| Positive Cash Flow Attained | | |
| Discounted | Fiscal Year | 2009 |
| | Years into Project | 1st year |
| Undiscounted | Fiscal Year | 2009 |
| | Years into Project | 1st year |

Newport News Shipbuilding (HII) Update with Private Development State Benefits - Costs Analysis Summary

| | 5 Year Total | | 10 Year Total | | 15 Year Total | | 20 Year Total | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * | Cumulative Total | Net Present Value * |
| STATE BENEFITS (Income & Sales Tax) | | | | | | | | |
| Income & Sales Tax Collected - Direct Workers | \$1,770,769 | \$1,470,997 | \$17,031,084 | \$12,423,924 | \$36,214,514 | \$23,765,306 | \$58,736,703 | \$34,650,291 |
| Income & Sales Tax Collected - Indirect Workers | \$1,025,620 | \$851,769 | \$10,277,306 | \$7,486,985 | \$22,223,087 | \$14,549,852 | \$36,039,878 | \$21,225,238 |
| Taxable Equipment / Personal Property | \$3,156,538 | \$2,869,637 | \$3,178,198 | \$2,886,301 | \$3,178,198 | \$2,886,301 | \$3,178,198 | \$2,886,301 |
| Construction Materials | \$4,559,103 | \$4,080,454 | \$5,267,503 | \$4,625,452 | \$5,267,503 | \$4,625,452 | \$5,267,503 | \$4,625,452 |
| Direct Construction Employment | \$4,812,353 | \$4,305,857 | \$5,589,961 | \$4,904,099 | \$5,589,961 | \$4,904,099 | \$5,589,961 | \$4,904,099 |
| Indirect Construction Employment | \$1,876,176 | \$1,679,201 | \$2,172,847 | \$1,907,441 | \$2,172,847 | \$1,907,441 | \$2,172,847 | \$1,907,441 |
| TOTAL BENEFITS (Income & Sales Tax) | \$17,200,558 | \$15,257,914 | \$43,516,899 | \$34,234,203 | \$74,646,111 | \$52,638,452 | \$110,985,090 | \$70,198,823 |
| STATE COSTS | | | | | | | | |
| Grants | | | | | | | | |
| Governor's Opportunity Fund | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Virginia Jobs Investment Program | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Virginia Investment Partnership Grant | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | \$5,000,000 | \$4,086,008 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 |
| Total Grants | \$5,000,000 | \$4,086,008 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 |
| TOTAL STATE COSTS | \$5,000,000 | \$4,086,008 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 | \$32,777,745 | \$24,535,472 |
| NET BENEFIT TO VIRGINIA | \$12,200,558 | \$11,171,906 | \$10,739,154 | \$9,698,731 | \$41,868,366 | \$28,102,981 | \$78,207,345 | \$45,663,351 |
| * Discount Rate = 4.12% | | | | | | | | |
| Average Annual Return on Investment | 30% | | 3% | | 5% | | 5% | |
| <i>Benchmark</i> | | | 19% | | | | 13% | |
| Cumulative Benefit-to-Cost Ratio | 3.7 | | 1.4 | | 2.1 | | 2.9 | |
| <i>Benchmark</i> | | | 5.8 | | | | 10.8 | |

| | Project Analysis | | Positive Cash Flow Attained | | |
|---|------------------|------------------------|-----------------------------|-----------------------|-----------|
| | Project | Benchmark [†] | Discounted | Project ^{††} | Benchmark |
| Direct New Employment | 1,000 | 250 | Fiscal Year | 2009 | |
| GOF (NPV) per New Job | \$0 | \$1,654 | Years into Project | 1st year | 2.2 |
| State Grants (NPV) per New Job | \$24,535 | \$5,645 | | | |
| Direct Investment | \$404.7 (Mill.) | \$13.5 (Mill.) | Undiscounted | | |
| Company Investment per \$GOF (NPV) | #DIV/0! | \$139 | Fiscal Year | 2009 | |
| Company Investment per State Grants (NPV) | \$16 | \$35 | Years into Project | 1st year | 2.1 |

[†] Averages based on announced ROIs with GOF and/or VIP FY00 - FY10, except for Direct Investment which is the median. GOF (NPV) per New Job is based on projects that were awarded GOF. ^{††} Projects are assumed to take at least one year to achieve positive cash flow and are rounded to the nearest quarter.

| Performance Grants | | | | | |
|--|---------------|---------------|--------------|--------------|-------------|
| | Payout Starts | Annual Payout | Payout Years | Total Payout | Payout Ends |
| Advanced Shipbuilding Training Facility Grant Program (SB1321) | 2013 | Varies | 5 | \$32,777,745 | 2017 |