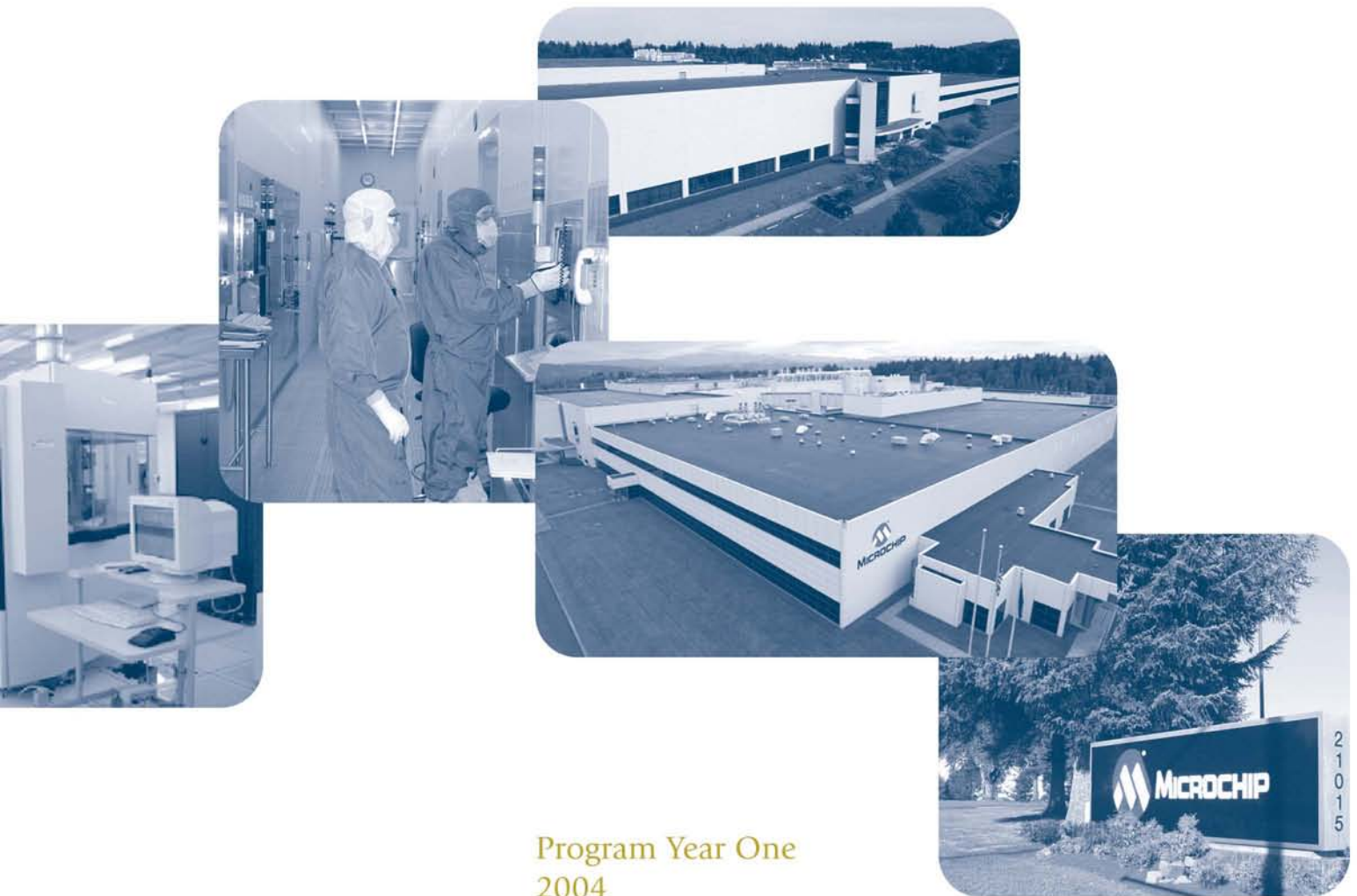


Multnomah County

Strategic Investment Program Microchip Technology Inc.



Program Year One
2004

Annual report on the Performance-Based Public-Private
Partnership between Multnomah County, the City of
Gresham, and Microchip Technology Inc.



This first report on the progress of the Strategic Investment Program (SIP) with Microchip Technology Inc. heralds a productive year of this public-private partnership resulting in benefits both to our community and industry.

The goals of the SIP agreement seek to create new and sustainable employment, invest in building a highly skilled world-class workforce, and encourage local purchasing of goods and services. Together with its pledge to environmental protection, Microchip Technology Inc. has demonstrated its commitment to these goals, which are summarized in this report.

Multnomah County, along with its state and local government partners is pleased with the continued benefits the Strategic Investment Program delivers to our region.

A handwritten signature in dark ink, appearing to read "Diane M. Linn".

Diane M. Linn, Chair

Multnomah County Board of County Commissioners

The Strategic Investment Program (SIP) was created by the Oregon Legislature in 1993 and was a benchmark for performance-based partnerships with high tech industry in East County. The SIP was created because of the extraordinarily high capital costs and resulting disproportionate property taxes associated with the investments in technology, manufacturing processes, and equipment necessary to design, develop, and manufacture semiconductors in the global market.

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INTRODUCTION

In 2001 as the microelectronics industry experienced the steepest decline in its history, Fujitsu Microelectronics, Inc. (FMI) decided to permanently close its Gresham plant. The City of Gresham and Fujitsu partnered to conduct a marketing campaign to sell the plant, and the firm of Colliers International (commercial real estate consultants) was employed to find a buyer. That buyer ultimately turned out to be Microchip Technology Inc. of Chandler, Arizona.

The SIP agreement with Microchip was executed in August, 2002 with a seven-year term and annual cap of \$490 million on the value of the property subject to tax relief. Any assessed value in excess of that amount would be taxed at the full rate.

The agreement was negotiated between Microchip, Multnomah County and the City of Gresham, in coordination with the Oregon Economic and Community Development Department.

The Finance Committee of the Oregon Economic and Community Development Commission also approved the agreement.



from left to right: Kathy Clevenger (Director of Manufacturing, Fab 4); Dave Lambert (Vice President of Fab Operations); Diane Linn (Multnomah County Chair); and Bob Lloyd (Vice President of Site Services and Facilities Management)

ABOUT MICROCHIP

Microchip is headquartered in Chandler, Arizona with design, manufacturing, and sales operations in Asia, Europe, Japan, and the Americas. Founded in 1989, this publicly held company had sales of over \$845 million in the fiscal year ending 2005. It has over 3,900 employees worldwide with 30 separate sales offices.

Manufacturing facilities are located in Chandler and Tempe, Arizona; Puyallup, Washington; Bangkok, Thailand; and Gresham, Oregon, and it has design centers in Bangalore, India; Lausanne, Switzerland; Mountain View, California, and Chandler, Arizona.

Microchip has a diversified client base. While not immune to the microelectronic industry's economic cycles, its electronic intelligence components supply a wide range of consumer products such as: garage door openers, remote-keyless-entry car door systems, and electronic thermostats. In addition, its "embedded" systems make machine tools, cameras, cellular phones, and

personal digital assistants more intelligent, efficient, and versatile.

Microchip's business model and customer base differs from its two predecessor SIP colleagues. While it manufactures microcontrollers, (as did LSI and Fujitsu) its products are more comprehensive and less susceptible to market swings. In addition, its diversified customer base helps insulate it from industry downturns.

Microchip's corporate culture embraces employee empowerment, innovation, and diversity. Its employees work in an atmosphere where they can make full use of their abilities regardless of their race, color, religion, sex, age, national origin, marital status, disability, or Veteran status.



PERFORMANCE AT A GLANCE

Performance Requirements per SIP contract	MEETS	EXCEEDS	CORRECTION REQUIRED
Employment			
- Wages	✓		
- Benefits	✓		
- Hiring		✓	
- Transportation		✓	
Job Training			
- Training and Retention	✓		
- Mount Hood Community College	✓		
- Center for Advanced Learning	✓		
- Local High School	✓		
Local Procurement			
- Purchasing of Local Goods and Services	✓		
Environmental Protection			
- Identify Baseline Conditions	✓		
- Oregon Green Permit Program	✓		
- Violation Requirements	✓		

SIP PERFORMANCE REPORTING

Similar to prior SIP agreements, contractual performance standards and community benefits were established based on County goals for Employment, Job Training, Local Procurement, Environmental Management Plan and Cleanup.

Specific requirements and detail related to each subject can be found in the August 15, 2002 signed contract.

1. EMPLOYMENT

County Goal: to create long term jobs with family wages, benefits, and working conditions for County residents or creation of a full spectrum of jobs for residents of Multnomah County who are unemployed or

underemployed, with a clear career track from entry-level jobs to family wage jobs.

County Goal: to provide educational opportunities to enhance upward mobility for both technical and management roles.

County Goal: to minimize the number of contracted on-site jobs that pays low wages.

County Goal: to encourage employees to use transit, carpools, vanpools, alternative modes of transportation

Microchip has met the requirements relating to employment based on County goals and the SIP agreement. Although they



Date	Cumulative Total Employees Hired	SIP Requirement for Minimum Number of Jobs Created	Note
Through December 2003	154	204	Goal was met within 30 days of requirement
Through February 2004	204	204	
Through April 2004	242	228	Have exceeded 2004 reporting year goals
Through December 2004	276	228	Have exceeded 2004 reporting year goals

A new job is "created" when someone is hired as a regular full-time employee.



missed their 2003 start up hiring goal by one month, the fact they were able to ramp up operations by hiring displaced Fujitsu employees, exceeds County expectations.

Wages (overall salary performance for the year)

The average Microchip base wage in 2004 for all employees in Gresham was just over \$42,000 with the entry wage for Production Specialists ranging from just over \$10/hour to just over \$15/hour for employees hired outside the First Source Agreements.

The total taxable payroll at the Gresham Microchip plant for fiscal year from July 2003 until June 2004 was \$9,753,135. As of June 2004, the total number of employees was 259 with an average base salary of \$42,083.72 per year. This represents only base

salary and does not reflect any "built-in" overtime or shift differential that many employees at this facility receive.

Employee Benefits

Microchip provides a range of benefits to its employees and tailors these to meet the needs of its workforce. As of June 2004, benefits available to employees of the Gresham Microchip facility fell into six different categories: Health, Insurance, Financial, Education, Time Off, and Miscellaneous.

Hiring outside the First Source Agreement (employment of new hires not referred to Microchip by the County, see Table 1)

The SIP seeks to create career track jobs for un-employed and under-employed residents with a first year emphasis on hiring former Fujitsu employees.

TABLE 1

Microchip Hiring by Source and Type Position

<i>Category/Quarter</i>	<i>Quarter 1</i>		<i>Quarter 2</i>		<i>Quarter 3</i>		<i>Quarter 4</i>	
<i>Source</i>	<i>Fujitsu</i>	<i>Other</i>	<i>Fujitsu</i>	<i>Other</i>	<i>Fujitsu</i>	<i>Other</i>	<i>Fujitsu</i>	<i>Other</i>
Production Specialist	11	9	22	1	32	28	25	8
Other	2	3	5	5	5	5	5	7
Total	13	12	27	6	37	39	30	15

Microchip is required to provide employment information for new hires not referred by the County. A total of 108 former Fujitsu employees were hired and the majority of those were employed as production specialists. The remaining positions were hired for positions ranging from Training Instructor to Principle Engineer.

Transportation (encouraging employees to drive fewer miles to and from work)

The SIP Agreement for Microchip for transportation encourages employees to drive fewer single occupancy vehicle miles. The company offers the use of public transit,, and other alternative means of getting to and from work.

Microchip provides incentives including Trimet passes, carpooling, a compressed workweek, and emergency rides home for bicyclers. It purchases and distributes annual Trimet passes that are not limited to trips for work but are good throughout the Trimet system. Microchip also supports carpooling by offering preferred parking to employees and a ride-home service in case of an emergency.

2. JOB TRAINING (BUILDING ITS WORKFORCE)

County Goal: to build a world-class workforce that provides the full range of skills necessary to attract and sustain competitive, high performance companies.

County Goal: to graduate all children from high school with skills enabling them to succeed in the workforce and/or in post secondary education, including the fundamental ability to read, write, communicate and reason.

County Goal: to establish stronger educational programs beyond the secondary level to meet the region's needs for accessible education, expanded graduate programs, high quality research, technology transfer and economic development.

County Goal: to provide educational opportunities to enhance upward mobility for both technical and management roles.

Microchip has established programs to build a workforce with the skills necessary to attract and sustain long-term employees.

Forty hours of training is provided to all new operators through an in-house training program to





enhance job skills. A tuition reimbursement program to provides continuing education at low or no cost to the employee. This program provides up to \$5250 per year for job related classes and books.

Microchip has also worked with the education community to support curriculum and career path options in the semiconductor field through the following organizations:

Mount Hood Community College (MHCC)

Microchip established a partnership with its sister SIP entity, LSI to determine the effectiveness of the MHCC Electronics program.

Representatives of each company meet quarterly with the Chair of the Department and the Training Center Director to discuss program improvements.

Staff attends a College Preview Night for high school students to support the Microelectronics program.

Microchip has donated time and equipment to the Electronics and Science laboratories of the College.

A Microchip representative began serving a two-year term on the MHCC Foundation Board and support the Foundation's fundraisers.

Microchip serves on the Foundation Scholarship Committee, participating in establishing scholarship guidelines and selecting recipients. The company is a partner and has contributed to the Microelectronics Training Center (MTC), with company staff on the board of directors.

Center for Advance Learning (CAL)

The Center for Advanced Learning is a regional public secondary education facility focusing on specialty learning related to medical/health, information technology, engineering and manufacturing.

Kathy Clevenger, Microchip's Director of Manufacturing, in Gresham, serves on CAL's Governing Board.

Company staff have attended meetings to discuss how to ensure that CAL students succeed. The company has provided "documentation templates" for reviewing



curriculum development and have assisted with nearly 200 hours of instruction in several of CAL's programs.

Local High Schools

- Teleconferenced with an electronics instructor at David Douglas High School regarding an advisory board partnership.
- Worked with the Reynolds Learning Academy High School to explore student internship opportunities.
- Met with counseling staff at Reynolds regarding MHCC scholarship opportunities for graduating Reynolds seniors.

3. LOCAL PROCUREMENT

County Goal: to encourage the purchase of goods and services produced or sold by businesses in Multnomah County and the region.

Microchip's baseline for expenditures in Oregon in its first year of operation, fiscal year 2002-2003, was just over \$2.4 million statewide and slightly more than \$400,000 in the County. In contrast, the 2003-2004 year was more profitable for local suppliers

with procurement exceeding \$5.3 million statewide and \$3.9 million in the County. Purchases support operations at the facility from stocking chemicals and utilizing electrical contractor services, to paint for parking lots and printing services.

This level of purchasing is expected to fluctuate in coming years as first year operations require a higher volume of supplies to support the ramping up of operations.

4. ENVIRONMENTAL PROTECTION

Goal: to approve tax abatements only for firms that demonstrates a commitment to environmental protection.

This goal asks the company to demonstrate a commitment to environmental protection. Microchip has taken a two-pronged approach to meet this goal.

First, it agreed in the SIP contract to identify conditions associated with protection in five categories by June 30, 2004. These categories are: Toxic and hazardous materials; Water conservation,

reuse and wastewater discharge; Air quality; Waste reduction and recycling; and Energy conservation. These categories will be measured and reported in next year's annual report.

Second, Microchip agreed to evaluate participation in the Oregon Green Permit program. DEQ's Green Permits Program is a voluntary program that encourages and rewards facilities that go the extra mile to reduce environmental impacts.

The company has implemented an Environmental Management System and the first six-month audit of the Environmental Management System was complet-

ed in February 2005. This will be reported in next year's annual report. The company's application for a Green Permit was initiated in March of 2005.

Finally, Microchip is required to report all notices of violation received from an environmental authority. The City of Gresham issued only one minor Notice of Violation for Combined Effluent pH in June 2003. Because the violation was the company's first, it was issued a written notice.

Microchip initiated an investigation of the incident and began corrective action. These actions included short-term procedural changes, control logic changes, training/documentation, and system review. The City of Gresham has visited the facility, reviewed the investigation process and corrective action, and is satisfied with the actions.



CONCLUSION

Microchip Technology Inc. has proven to be a good partner for Multnomah County and the City of Gresham in carrying out its SIP agreement, since purchasing the facility in 2002.

They have met or exceeded all of the commitments per the SIP contract while ramping up first year operations as the Gresham plant. Microchip has been particularly successful and responsive in rehiring former Fujitsu employees exceeding County expectations for employment goals.

Microchip's business model and diversified customer base, together with their involvement in community events and activities helps to bring economic stability to east county.

The open communication between the company, Multnomah County and the City of Gresham will continue to keep this partnership productive as the agreement matures.





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COUNTY**

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