ANNOTATED MINUTES

Tuesday, August 6, 2002 - **9:30 AM**
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFINGS

Chair Diane Linn convened the meeting at 9:37 a.m., with Commissioners Serena Cruz and Maria Rojo de Steffey present, and Vice-Chair Lonnie Roberts and Commissioner Lisa Naito excused.

B-1 Mental Health System Redesign Quarterly Update. Presented by Peter Davidson and Invited Others.

JOHN BALL AND PETER DAVIDSON PRESENTATION AND RESPONSE TO BOARD QUESTIONS AND DISCUSSION ON ISSUES INCLUDING BUDGET; CRISIS SERVICES; INPATIENT AND OUTPATIENT MENTAL HEALTH CARE SERVICES; ADDICTIONS SERVICES; CHILDREN'S MENTAL HEALTH SERVICES; INDIGENT MEDS; ASSESSMENT SERVICES AND COSTS BASED ON STATE PROJECTIONS; STOP AND DRUG COURT PROGRAMS; NEED FOR ASSERTIVE COMMUNITY OUTREACH; PROBLEMS WITH DUAL DIAGNOSIS ACUTE CARE METHODOLOGY; SECURE TRANSPORT, SOBERING STATION; NEED FOR EARLY WARNING BEFORE 9-1-1 CALLS IN ORDER TO DIVERT HOSPITALIZATIONS IN FAVOR OF HOME-BASED STABLIZATION; AND THE NEED TO MAKE SURE EMERGENCY ROOM DECISIONS ARE ALWAYS MADE WITH MENTAL HEALTH STAFF WITH A REDUCTION IN THE AMOUNT OF LAW ENFORCEMENT INPUT. CHAIR LINN DIRECTED STAFF TO PROVIDE QUARTERLY REPORTS MORE FREQUENTLY IF NEEDED IN ORDER TO ALLOW THE BOARD TO CAREFULLY TRACK MENTAL HEALTH CARE SERVICES TRENDS AND FUNDING. AT THE SUGGESTION

OF COMMISSIONER CRUZ, STAFF TO PROVIDE QUARTERLY OUTPATIENT SERVICES INFORMATION/TRENDS FOR BOARD REVIEW AT NEXT QUARTERLY UPDATE. CHAIR LINN DIRECTED STAFF TO ADVISE WHEN THEY WILL BE READY FOR BOARD DISCUSSIONS WITH THE PUBLIC AND TO MAKE SURE THE PUBLIC, LAW ENFORCEMENT AND NEIGHBORHOOD ASSOCIATIONS HAVE ALL THE LATEST INFORMATION ON AVAILABLE MENTAL HEALTH SERVICES AND OPTIONS.

B-2 Natural Step. Presented by Amy Joslin, Duke Castle, Hank Ashforth, and Dennis Wilde.

COMMISSIONER ROJO WELCOME AND INTRODUCTIONS. BUSINESS COMMUNITY LEADERS, KENT SNYDER, DUKE CASTLE, HANK ASHFORTH AND DENNIS WILDE, COUNTY SUSTAINABILITY MANAGER AMY JOSLIN AND REGENA HAUSER, EXECUTIVE DIRECTOR OF THE OREGON NATURAL STEP NETWORK, PRESENTATIONS AND DISCUSSION IN SUPPORT OF PROMOTING OREGON NATURAL STEP NETWORK CONCEPT FOR ENVIRONMENTALLY SAFE, ECONOMIC, ENERGY EFFICIENT, NON-GLOBAL WARMING, SUSTAINABLE GREEN PRINCIPLES AND PRACTICES, AND RESPONSE TO BOARD COMMENTS IN SUPPORT. COMMISSIONER ROJO TO BRING ISSUE BACK TO BOARD IN THE NEXT FEW MONTHS.

There being no further business, the meeting was adjourned at 11:05 a.m.

Tuesday, August 6, 2002 - 6:30 PM
Gresham City Council Chambers, Public Safety and Schools Building
1333 NW Eastman Parkway, Gresham

PUBLIC HEARING

Mayor Charles Becker convened the hearing at 6:31 p.m., with Council President Chris Lassen and City Councilors Jack Horner, Jack Hanna, Cathy Butts, Larry Haverkamp and Vicki Thompson present; and County Chair Diane Linn, Vice-Chair Lonnie Roberts and Commissioner and Maria Rojo de Steffey present, Commissioner Lisa Naito excused, and Commissioner Serena Cruz arriving at 6:35 p.m.

PH-1 The Gresham City Council and Multnomah County Board of Commissioners will meet to conduct a joint hearing on the proposed Strategic Investment Program Agreement with Microchip Technology, Inc. The Council and Board request your input on this matter. Public testimony will commence immediately following a brief explanatory presentation by representatives on behalf of Multnomah County, the City of Gresham, and Microchip. Public testimony will be limited to three minutes per person. Multnomah Community Television will broadcast this hearing **live on cable channel 30**. For additional information, please contact Multnomah County Chair's Office Communications Director Becca Uherbelau at 503-988-5273.

MAYOR BECKER WELCOMED ALL AND INTRODUCED COUNCIL AND CITY STAFF MAX TALBOT AND TERRY MCCALL. MAYOR BECKER ADVISED CITY MANAGER ROB FUSSELL WAS UNABLE TO ATTEND THIS EVENING DUE TO A FAMILY EMERGENCY.

CHAIR DIANE LINN INTRODUCED COUNTY BOARD AND COUNTY STAFF JOHN RAKOWITZ, DUKE SHEPARD, DAVE BOYER AND SANDRA DUFFY. CHAIR LINN PRESENTATION ON STRATEGIC INVESTMENT PROGRAM HISTORY; FUJITSU AGREEMENT TERMINATION; NECESSITY FOR ACCELERATED NEGOTIATION WITH MICROCHIP TECHNOLOGY; AND SPECIFICS OF THE PROPOSED SEVEN YEAR AGREEMENT, WHICH INCLUDE PROPERTY TAXES LEVIED ON THE FIRST $100 MILLION

VALUE OF THE PROPERTY AND LIMITED COMPANY TAX BENEFIT; COMMUNITY SERVICE FEE FOR THE CITY AND COUNTY; SPECIFIC HIRING OF DISPLACED FUJITSU EMPLOYEES AND OTHERS; LOCAL EDUCATION AND TRAINING; ENVIRONMENTAL STEWARDSHIP; AND USE OF LOCAL SUPPLIERS AND CONTRACTING. CHAIR LINN OUTLINED THE PROCESS FOR PUBLIC TESTIMONY.

CHAIR LINN INTRODUCED BOB LLOYD, MICROCHIP TECHNOLOGY, INC. VICE-PRESIDENT OF FACILITY AND SITE SERVICES; AND MICROCHIP BOARD MEMBERS LB DAY AND MATT CHAPMAN

MR. LLOYD, ON BEHALF OF MICROCHIP TECHNOLOGY, INC., PRESENTATION, ADVISING MICROCHIP HOPES TO CLOSE THE DEAL SO THEY CAN BRING THEIR BUSINESS TO GRESHAM, MULTNOMAH COUNTY, OREGON, UTILIZING THE GOOD QUALITY, VIABLE FORMER FUJITSU FACILITY AS WELL AS THE WONDERFUL LOCAL WORK FORCE.

ROBERT SILVERMAN, ON BEHALF OF MOUNT HOOD COMMUNITY COLLEGE, TESTIMONY IN SUPPORT, ADVISING HE FEELS MICROCHIP WILL BE A GOOD PARTNER AND THAT THE COLLEGE IS COMMITTED TO TRAINING STUDENTS FOR THE MICROELECTRONICS INDUSTRY.

DAVE SHIELDS, ON BEHALF OF THE GRESHAM AREA CHAMBER OF COMMERCE, TESTIMONY IN SUPPORT OF AGREEMENT WITH MICROCHIP FOR REASONS INCLUDING BRINGING JOBS BACK TO DISPLACED WORKERS; EXPAND AND GROW THE LOCAL ECONOMIC BASE; AND REPLACE LOST TAX REVENUE.

DEANE FUNK, ON BEHALF OF PORTLAND GENERAL ELECTRIC, TESTIMONY IN SUPPORT

OF AGREEMENT WITH MICROCHIP, PROVIDING COMPARISONS OF THE FUJITSU FACILITY AS A WHITE ELEPHANT THAT HAS VALUE TO A NEW OWNER; AND MICROCHIP TO A WHITE KNIGHT.

CARPENTER ORGANIZER JERRY AUVIL TESTIMONY IN SUPPORT OF AGREEMENT WITH MICROCHIP; AND IN SUPPORT OF A 10% MINIMUM SET ASIDE FOR CONSTRUCTION WORK APPRENTICESHIP TRAINING. CHAIR LINN THANKED MY AUVIL FOR COMING AND ADVISED THE SET ASIDE IS BEING DISCUSSED.

PAUL MOLINO, REPRESENTING MOUNT HOOD COMMUNITY COLLEGE MICROELECTRONICS TRAINING CENTER, TESTIMONY IN SUPPORT. MR. MOLINO ADVISED 1,800 KIDS GRADE K TO 12 HAVE GONE THROUGH THE CENTER'S "CLEAN ROOM" AND OTHER PROGRAMS. MR. MOLINO ADVISED THAT DUKE SHEPARD IS WONDERFUL TO WORK WITH. MR. MOLINO CONCLUDED THAT HE FEELS MICROCHIP WILL BE A GREAT PARTNER IN THE CENTER'S SUCCESSFUL SEMICONDUCTOR TRAINING PROGRAM.

BILL LESH, DIRECTOR OF THE MOUNT HOOD REGIONAL EDUCATION CONSORTIUM, REPRESENTING THE CENTER FOR ADVANCED LEARNING, TESTIMONY IN SUPPORT; ADVISING THE STRATEGIC INVESTMENT PROGRAM CONTRIBUTES TO THE PROMOTION OF A WELL TRAINED LOCAL WORKFORCE AND THE CHANCE TO PROVIDE QUALITY TRAINING NEAR HOME. MR. LESH ADDED THAT HE APPLAUDS CITY AND COUNTY STAFF, INCLUDING DUKE SHEPARD, ON THEIR FAST TRACK EFFORTS TO PUT THIS TOGETHER.

JEFF HIPP, REPRESENTING PERFORMANCE CONTRACTING, TESTIMONY IN SUPPORT; ADVISING HE CONCURS WITH THE TESTIMONY OF JERRY AUVIL IN SUPPORT OF A 10%

MINIMUM SET ASIDE FOR CONSTRUCTION WORK APPRENTICESHIP TRAINING.

TIM POLSFOOT, FORMER FUJITSU EMPLOYEE, TESTIMONY IN SUPPORT OF STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP AS LONG AS MICROCHIP CONSIDERS HIRING FORMER FUJITSU EMPLOYEES BASED ON EXPERIENCE, NOT JUST COLLEGE DEGREES.

MICHAEL KLOENNE, ON BEHALF OF LOCAL SUPPLIERS AND VENDORS, TESTIMONY IN SUPPORT OF STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP AND CITY, COUNTY, COMPANY PARTNERSHIP.

GRESHAM RESTAURANT OWNER SHANE BEMIS, TESTIMONY IN SUPPORT, ADVISING THAT MICROCHIP MOVING INTO THE AREA WILL PROVIDE A STEP FORWARD FOR THE ECONOMY AND LIVING WAGE JOBS.

GRESHAM RESIDENT BILL WILLMES, TESTIMONY IN SUPPORT, ADVISING THAT THIS IS A NO BRAINER, SLAM DUNK, AND THAT HE IS GLAD FORMER FUJITSU EMPLOYEES WILL BE GOING BACK TO WORK SO THEY WON'T BE TAKING UP SEATS IN THE LOCAL CAFÉ. MR. WILLMES RECOGNIZED THE CONTRIBUTIONS OF MICROCHIP BOARD MEMBER LB DAY AND HIS FAMILY.

HIROSHI MORIHARA, ON BEHALF OF THE EAST METRO ECONOMIC ALLIANCE, TESTIMONY IN SUPPORT OF THE STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY.

MAURA CIOETA, ON BEHALF OF THE POLICE ACTIVITIES LEAGUE (PAL), TESTIMONY IN SUPPORT OF THE STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP

TECHNOLOGY, ADVISING SHE LOOKS FORWARD TO WORKING WITH MICROCHIP ON LOCAL ISSUES.

CHAIR LINN REPORTED THAT THE COUNCIL AND BOARD RECEIVED LETTERS IN SUPPORT OF THE STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY FROM FORMER MAYOR GUSSIE MCROBERT AND CENTER OAK PRPERTIES PRESIDENT FRED BRUNING. CHAIR LINN ACKNOWLEDGED MR. BRUNING IN THE AUDIENCE.

IN RESPONSE TO THE PUBLIC TESTIMONY, MICROCHIP TECHNOLOGY, INC. BOARD MEMBER MATT CHAPMAN ADVISED THAT THERE WILL BE FORMER FUJITSU EMPLOYEES COMING BACK TO WORK; THAT MICROCHIP SHARES THE TRAINING GOALS OF THE CITY AND COUNTY; THAT EVERYONE AT MICROCHIP, INCLUDING LB DAY, IS VERY PROUD TO BE ON BOARD; AND THAT EVERYONE IS A WINNER IN THIS SCENARIO.

IN RESPONSE TO A REQUEST OF COMMISSIONER ROBERTS, MICROCHIP VICE-PRESIDENT BOB LLOYD ADDRESSED THE ISSUE OF THE COMPANY HIRING PRACTICES BY STATING PEOPLE WILL BE CONSIDERED ON THEIR EXPERIENCE AND EDUCATION. MR. LLOYD ADDED THAT HE WAS HIRED BASED ON HIS EXPERIENCE.

CHAIR LINN ACKNOWLEDGED METRO COUNCILOR ROD PARK IN THE AUDIENCE. CHAIR LINN ACKNOWLEDGED AND THANKED THE COUNTY, CITY AND COMPANY REPRESENTATIVES FOR THEIR EFFORTS AND TEAM WORK ON THIS PARTNERSHIP. CHAIR LINN THANKED EVERYONE FOR COMING TO THE HEARING.

MAYOR BECKER ACKNOWLEDGED THE CITY, COUNTY AND COMPANY CONTRIBUTIONS ON NEGOTIATIONS FOR THIS AGREEMENT; AND ADVISED HE LOOKS FORWARD TO WORKING WITH THE COUNTY BOARD ON THIS AND FUTURE ISSUES.

There being no further business, the hearing was adjourned at 7:20 p.m.

Thursday, August 8, 2002 - 9:30 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

REGULAR MEETING

Chair Diane Linn convened the meeting at 9:35 a.m., with Commissioners Serena Cruz and Maria Rojo de Steffey present, Commissioner Lisa Naito participating via speakerphone, and Vice-Chair Lonnie Roberts arriving at 9:38 a.m.

CONSENT CALENDAR

UPON MOTION OF COMMISSIONER CRUZ, SECONDED BY COMMISSIONER ROJO, THE CONSENT CALENDAR (ITEMS C-1 THROUGH C-3) WAS APPROVED, WITH COMMISSIONERS NAITO, CRUZ, ROJO AND LINN VOTING AYE.

DEPARTMENT OF BUSINESS AND COMMUNITY SERVICES

C-1 RESOLUTION Authorizing Private Sale of Certain Tax Foreclosed Property to MATTHEW R SCHULTZ

RESOLUTION 02-110.

DEPARTMENT OF COUNTY HUMAN SERVICES

C-2 Budget Modification DCHS_01 Adjusting Staffing Levels in Mental Health and Addiction Services to Reflect the Current Operating Structure and Restores Some Previous Staffing Cuts with No Net Change to Revenue or Expenses, but a Net Increase of 2.40 FTE

SHERIFF'S OFFICE

C-3 Government Revenue Contract (190 Agreement) 0210292 with the Oregon State Marine Board for Patrolling Rivers in Multnomah County Jurisdiction

REGULAR AGENDA
PUBLIC COMMENT

Opportunity for Public Comment on Non-Agenda Matters. Testimony Limited to Three Minutes per Person.

NO ONE WISHED TO COMMENT.

DEPARTMENT OF HEALTH

R-1 PROCLAMATION Proclaiming the Week of August 18 through 24, 2002 to be "National Health Center Week" in Multnomah County, Oregon

COMMISSIONER CRUZ MOVED AND COMMISSIONER ROJO SECONDED, APPROVAL OF R-1. BILL HANCOCK, CHAIR OF THE MULTNOMAH COUNTY COMMUNITY HEALTH COUNCIL, READ PROCLAMATION.

Vice-Chair Lonnie Roberts arrived at 9:38 a.m.

CHAIR LINN ACKNOWLEDGED AND THANKED MR. HANCOCK FOR HIS SERVICE. PROVIDER MEMBER KATHY HAMMOCK, DIRECTOR OF WALLACE MEDICAL CONCERN, TESTIMONY IN SUPPORT. COMMISSIONER CRUZ COMMENTS IN SUPPORT AND APPRECIATION FOR OPPORTUNITY TO HONOR AND RECOGNIZE COMMUNITY HEALTH CARE PROVIDERS. PROCLAMATION 02-111 UNANIMOUSLY APPROVED.

DEPARTMENT OF BUSINESS AND COMMUNITY SERVICES

R-2 RESOLUTION Consenting to a Temporary Access Closure of NE 201st Avenue, a County Road, Between the Intersections of NE Sandy Boulevard and NE Thompson Street to Facilitate a City of Gresham Construction Project

COMMISSIONER CRUZ MOVED AND COMMISSIONER ROJO SECONDED, APPROVAL OF R-2. JOHN RIPLINGER, BIKRAM RAGHUBANSH AND TROY BOWERS EXPLANATION AND RESPONSE TO BOARD QUESTIONS ON ISSUES INCLUDING LOCATION OF DETOUR; NEED TO RESOLVE SANITARY SEWERS STORMWATER PROBLEM BEFORE THE RAINY WEATHER STARTS; AND PLANS TO GET TRAFFIC BACK ON STREET AND DELAY THE BYPASS FLOW REPAIR UNTIL NEXT SPRING IF PROBLEM CANNOT BE CORRECTED WITHIN THE NEXT THREE MONTHS. RESOLUTION 02-112 UNANIMOUSLY ADOPTED.

R-3 RESOLUTION Approving Reimbursement to the County for County Sponsored Projects from Title III Funding [National Forest Service and Bureau of Land Management Funding for Authorized Uses]

COMMISSIONER NAITO MOVED AND COMMISSIONER CRUZ SECONDED, APPROVAL OF R-3. DAVE BOYER EXPLANATION. IN RESPONSE TO A QUESTION OF COMMISSIONER NAITO, MR. BOYER ADVISED HE WILL LOOK INTO THE POSSIBLITY OF PROVIDING A SURPLUS COUNTY EQUIPMENT VEHICLE TO THE NORTHWEST OREGON SEARCH AND RESCUE EXPLORER POST 631. RESOLUTION 02-113 UNANIMOUSLY ADOPTED.

There being no further business, the regular meeting was adjourned and the briefing was convened at 9:50 a.m.

Thursday, August 8, 2002 - 10:00 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFING

B-3 Public Employee Retirement System Briefing. Presented by Dave Boyer.

DAVE BOYER PRESENTATION, UPDATES AND RESPONSE TO BOARD DISCUSSION ON ISSUES INCLUDING RETIREMENT FORMULAS; INTEREST EARNINGS; GUARANTEED 8% FOR TIER I EMPLOYEES NO MATTER WHAT THE MARKET DOES; PERS RATE OF RETURN GUARANTEE; MORTALITY TABLES; NEED FOR FAIRNESS TO EMPLOYEES AND EMPLOYER AS WELL AS COUNTY'S FISCAL RESPONSIBILITY; DISCUSSING TIER III OPTIONS WITH UNION REPRESENTATIVES; AND THE NEED TO TRACK LEGISLATIVE ACTION AND TO BE PRO-ACTIVE. MR. BOYER ADVISED HE AND STEPHANIE SODEN ARE ATTENDING ALL THE MEETINGS. BOARD COMMENTS IN APPRECIATION OF MR. BOYER'S WORK ON THIS MATTER.

COUNTY ATTORNEY TOM SPONSLER REPORTED ON A SUPREME COURT CASE DECISION.

There being no further business, the meeting was adjourned at 10:51 a.m.

BOARD CLERK FOR MULTNOMAH COUNTY, OREGON

Deborah L. Bogstad

Multnomah County Oregon

Board of Commissioners & Agenda

connecting citizens with information and services

BOARD OF COMMISSIONERS

Diane Linn, Chair
501 SE Hawthorne Boulevard, Suite 600
Portland, Or 97214
Phone: (503) 988-3308 FAX (503) 988-3093
Email: mult.chair@co.multnomah.or.us

Maria Rojo de Steffey, Commission Dist. 1
501 SE Hawthorne Boulevard, Suite 600
Portland, Or 97214
Phone: (503) 988-5220 FAX (503) 988-5440
Email: district1.@co.multnomah.or.us

Serena Cruz, Commission Dist. 2
501 SE Hawthorne Boulevard, Suite 600
Portland, Or 97214
Phone: (503) 988-5219 FAX (503) 988-5440
Email: serena@co.multnomah.or.us

Lisa Naito, Commission Dist. 3
501 SE Hawthorne Boulevard, Suite 600
Portland, Or 97214
Phone: (503) 988-5217 FAX (503) 988-5262
Email: lisa.h.naito@co.multnomah.or.us

Lonnie Roberts, Commission Dist. 4
501 SE Hawthorne Boulevard, Suite 600
Portland, Or 97214
Phone: (503) 988-5213 FAX (503) 988-5262
Email: lonnie.j.roberts@co.multnomah.or.us

Board Meetings Broadcast Live

Streaming Media!
http://www.co.multnomah.or.us/cc/board.html

Americans with Disabilities Act Notice: If you need this agenda in an alternate format, or wish to participate in a Board Meeting, please call the Board Clerk (503) 988-3277, or Multnomah County TDD Phone (503) 988-5040, for information on available services and accessibility.

AUGUST 6 & 8, 2002 BOARD MEETINGS

FASTLOOK AGENDA ITEMS OF INTEREST

Pg 2	9:30 a.m. Tuesday Mental Health System Quarterly Update
Pg 2	10:00 a.m. Tuesday Natural Step Briefing
Pg 2	6:30 p.m. Tuesday Multnomah County/City of Gresham Joint Public Hearing on Strategic Investment Program Proposal
Pg 3	9:30 a.m. Thursday Opportunity for Public Comment on Non-Agenda Items
Pg 3	9:30 a.m. Thursday Proclaiming National Health Center Week
Pg 3	9:45 a.m. Thursday Resolution Consenting to Temporary Road Access Closure
Pg 4	10:00 a.m. Thursday PERS Briefing

Thursday meetings of the Multnomah County Board of Commissioners are cable-cast live and taped and may be seen by Cable subscribers in Multnomah County at the following times:

Thursday, 9:30 AM, (LIVE) Channel 30
Friday, 11:00 PM, Channel 30
Saturday, 10:00 AM, Channel 30
Sunday, 11:00 AM, Channel 30
Produced through Multnomah Community Television
(503) 491-7636, ext. 333 for further info or: http://www.mctv.org

Tuesday, August 6, 2002 - **9:30 AM**
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFINGS

B-1 Mental Health System Redesign Quarterly Update. Presented by Peter Davidson and Invited Others. 30 MINUTES REQUESTED.

B-2 Natural Step. Presented by Amy Joslin, Duke Castle, Hank Ashforth, and Dennis Wilde. 1 HOUR REQUESTED.

Tuesday, August 6, 2002 - **6:30 PM**
Gresham City Council Chambers, Public Safety and Schools Building
1333 NW Eastman Parkway, Gresham

PUBLIC HEARING

PH-1 The Gresham City Council and Multnomah County Board of Commissioners will meet to conduct a joint hearing on the proposed Strategic Investment Program Agreement with Microchip Technology, Inc. The Council and Board request your input on this matter. Public testimony will commence immediately following a brief explanatory presentation by representatives on behalf of Multnomah County, the City of Gresham, and Microchip. Public testimony will be limited to three minutes per person. Multnomah Community Television will broadcast this hearing **live on cable channel 30**. For additional information, please contact Multnomah County Chair's Office Communications Director Becca Uherbelau at 503-988-5273.

Thursday, August 8, 2002 - 9:30 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

REGULAR MEETING

CONSENT CALENDAR - 9:30 AM
DEPARTMENT OF BUSINESS AND COMMUNITY SERVICES

C-1 RESOLUTION Authorizing Private Sale of Certain Tax Foreclosed Property to MATTHEW R SCHULTZ

DEPARTMENT OF COUNTY HUMAN SERVICES

C-2 Budget Modification DCHS_01 Adjusting Staffing Levels in Mental Health and Addiction Services to Reflect the Current Operating Structure and Restores Some Previous Staffing Cuts with No Net Change to Revenue or Expenses, but a Net Increase of 2.40 FTE

SHERIFF'S OFFICE

C-3 Government Revenue Contract (190 Agreement) 0210292 with the Oregon State Marine Board for Patrolling Rivers in Multnomah County Jurisdiction

REGULAR AGENDA - 9:30 AM
PUBLIC COMMENT - 9:30 AM

Opportunity for Public Comment on Non-Agenda Matters. Testimony Limited to Three Minutes per Person.

DEPARTMENT OF HEALTH - 9:30 AM

R-1 PROCLAMATION Proclaiming the Week of August 18 through 24, 2002 to be "National Health Center Week" in Multnomah County, Oregon

DEPARTMENT OF BUSINESS AND COMMUNITY SERVICES - 9:45 AM

R-2 RESOLUTION Consenting to a Temporary Access Closure of NE 201st Avenue, a County Road, Between the Intersections of NE Sandy Boulevard and NE Thompson Street to Facilitate a City of Gresham Construction Project

R-3 RESOLUTION Approving Reimbursement to the County for County Sponsored Projects from Title III Funding [National Forest Service and Bureau of Land Management Funding for Authorized Uses]

Thursday, August 8, 2002 - 10:00 AM
(OR IMMEDIATELY FOLLOWING REGULAR MEETING)
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFING

B-3 Public Employee Retirement System Briefing. Presented by Dave Boyer. 30 MINUTES REQUESTED.

MULTNOMAH COUNTY OREGON

BOARD OF COUNTY COMMISSIONERS
501 S.E. HAWTHORNE BLVD., Room 600
PORTLAND, OREGON 97204
(503) 988-5217

LISA NAITO ● DISTRICT 3 COMMISSIONER

MEMORANDUM

TO: Chair Diane Linn
Commissioner Maria Rojo de Steffey
Commissioner Serena Cruz
Commissioner Lonnie Roberts
Board Clerk Deb Bogstad

FROM: Carol Wessinger
Staff to Commissioner Lisa Naito

DATE: July 23, 2002

RE: Board Absence

Commissioner Naito will be unable to attend the August 1, 2002 and the August 6, 2002 Board of County Commissioners meetings. She will be in the hospital having back surgery.

At this time, she plans to participate via speaker phone on August 8, 2002 and August 15, 2002. Thank you.

MEETING DATE: August 6, 2002
AGENDA NO: PH-1
ESTIMATED START TIME: 6:30 PM
LOCATION: Gresham Council Chambers

(Above Space for Board Clerk's Use ONLY)

AGENDA PLACEMENT FORM

SUBJECT: Joint Hearing with City of Gresham to Hear Public Testimony on SIP Proposal

BOARD BRIEFING: DATE REQUESTED: _____
REQUESTED BY: _____
AMOUNT OF TIME NEEDED: _____

REGULAR MEETING: DATE REQUESTED: Tuesday, August 6, 2002

AMOUNT OF TIME NEEDED: 2 hours

DEPARTMENT: Non-Departmental DIVISION: Chair's Office

CONTACT: Duke Shepard TELEPHONE #: (503) 988-3308
BLDG/ROOM #: 503/600

PERSON(S) MAKING PRESENTATION: Duke Shepard and Invited Others

ACTION REQUESTED:

[x] INFORMATIONAL ONLY [ ] POLICY DIRECTION [ ] APPROVAL [ ] OTHER

SUGGESTED AGENDA TITLE:

Multnomah County, City of Gresham Joint Public Hearing on the Proposed Strategic Investment Program Agreement with Microchip Technology, Inc. [Gresham City Council Chambers, Public Safety and Schools Building, 1333 NW Eastman Parkway]

SIGNATURES REQUIRED:

ELECTED OFFICIAL: Diane M. Linn
(OR)
DEPARTMENT MANAGER: _____

ALL ACCOMPANYING DOCUMENTS MUST HAVE REQUIRED SIGNATURES

Any Questions: Call the Board Clerk @ (503) 988-3277 or email
deborah.l.bogstad@co.multnomah.or.us

BOGSTAD Deborah L

From: Edmonds, Peri
Sent: Monday, August 05, 2002 10:43 AM
To: BOGSTAD Deborah L
Subject: RE: August 6 2002 SIP Hearing

Thanks Deb -- Happy Monday!

-----Original Message-----
From: BOGSTAD Deborah L [mailto:deborah.l.bogstad@co.multnomah.or.us]
Sent: Monday, August 05, 2002 10:42 AM
To: Edmonds, Peri
Subject: August 6 2002 SIP Hearing
Importance: High

I have gotten a final head count for the pre-hearing meal with the City Council, County Board and staff. Here you go:

Chair Diane Linn
Chair's Office Chief of Staff John Rakowitz
Economic Development Director Duke Shepard
Communications Director Rebecca Uherbelau
Commissioner Maria Rojo de Steffey
Commissioner Rojo Executive Assistant Shelli Romero
Commissioner Lonnie Roberts
Commissioner Roberts Staff Assistant Bob Paine
Commissioner Lisa Naito Staff Assistant Terri Naito
Attorney Sandra Duffy
Finance Director Dave Boyer
Board Clerk Deb Bogstad

Deb Bogstad, Board Clerk
Multnomah County Chair's Office
501 SE Hawthorne Boulevard, Suite 600
Portland, Oregon 97214-3587
(503) 988-3277
http://www.co.multnomah.or.us/cc

BOGSTAD Deborah L

From: Bea Coulter [bea@mctv.org]
Sent: Thursday, August 01, 2002 2:36 PM
To: BOGSTAD Deborah L
Subject: Playback schedule for Gresham City Council

Sorry this information is late.

Following is the replay schedule for the Aug. 6th Gresham City Council meeting. The live time will go into Portland with thanks to Portland Cable Access for their assistance. The replays will reach East Multnomah County only. Please let me know if you have any additional questions.

Live - Aug. 6th at 6:30pm on channel 30

Replays (all on channel 30 and East Co. only) -
Aug. 9th at 1:30pm
Aug. 10th at 7:30pm
Aug. 16th at 1:30pm
Aug. 17th at 7:30pm

Thanks,
Bea Coulter
Programming Specialist
Multnomah Community Television
bea@mctv.org

BOGSTAD Deborah L

From: BOGSTAD Deborah L

Sent: Tuesday, July 23, 2002 4:26 PM

To: LINN Diane M; ROJO DE STEFFEY Maria; CRUZ Serena M; NAITO Lisa H; ROBERTS Lonnie J; DUFFY Sandra N; RAKOWITZ John A; FARRELL Delma D; SHEPARD Duke; ROMERO Shelli D; PAINE Robert E; BOYER Dave A; NAITO Terri W; COMITO Charlotte A

Subject: August 6, 2002 Hearing Message from Deb and City Recording Secretary

Importance: High

I am attaching the notice of hearing which will be published in connection with the Tuesday, August 6, 2002 joint hearing with the Gresham City Council. The City is providing a light meal for the Council, Board and staff as stated below:

Dinner will be available beginning at 5:15 p.m. at City Hall, Conference Room 3A, and will consist of assorted deli sandwiches, salads, and dessert. This will allow the Council, Commissioners, and staff to come in and eat as their time allows prior to the meeting beginning at 6:30 in the Chambers.

I have given the City Recording Secretary the following names of County attendees. If you have any questions, please feel free to contact her directly, Peri Edmonds @ (503) 618-2882. Thank you.

Chair Diane Linn
Commissioner Maria Rojo de Steffey
Commissioner Serena Cruz
Commissioner Lonnie Roberts
Attorney Sandra Duffy
Chair's Office Chief of Staff John Rakowitz
Economic Development Director Duke Shepard
Chair's Office Communications Director Becca Uherbelau
Finance Director Dave Boyer
Commissioner Rojo de Steffey Executive Assistant Shelli Romero
Commissioner Lisa Naito Staff Assistant Charlotte Comito or Terri Naito
Commissioner Lonnie Roberts Staff Assistant Bob Paine
Board Clerk Deb Bogstad

Deb Bogstad, Board Clerk
Multnomah County Chair's Office
501 SE Hawthorne Boulevard, Suite 600
Portland, Oregon 97214-3587
(503) 988-3277
http://www.co.multnomah.or.us/cc

CITY OF GRESHAM **AGENDA**

MAYOR CHARLES J. BECKER

COUNCIL PRESIDENT CHRIS LASSEN
COUNCILOR JACK HANNA
COUNCILOR LARRY HAVERKAMP
COUNCILOR JACK HORNER
COUNCILOR CATHY BUTTS
COUNCILOR VICKI THOMPSON

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND MULTNOMAH COUNTY BOARD OF COMMISSIONERS

COUNCIL CHAMBERS, PUBLIC SAFETY & SCHOOLS BUILDING
1333 NW Eastman Parkway, Gresham, OR 97030
TUESDAY, AUGUST 6, 2002
6:30 PM

		TIME ESTIMATE (Minutes)
1.	CONVENE MEETING - HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGIES, INC.	
2.	MAYOR BECKER OPENING - Introduce Council and City Staff	5
3.	CHAIR DIANE LINN - Introduce Commissioners and County Staff - Introduce Microchip Representatives	5
4.	CHAIR DIANE LINN - Purpose of Meeting - Outline Process for Testimony	5
5.	MICROCHIP - Company Background	5
6.	PUBLIC TESTIMONY	90
7.	GOOD OF THE ORDER	5
8.	ADJOURNMENT	

TOTAL ESTIMATED TIME: 115

Background on SIP

- We are here this evening to talk about the proposed Strategic Investment Program agreement among Multnomah County, the City of Gresham and Microchip Technologies, Inc.

- Let me give you a little background on the Strategic Investment Program.

- The Strategic Investment Program (SIP) was created by the Oregon legislature in 1993. The SIP was created because of the prohibitive 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 a global market.

- Essentially, local government has the authority and responsibility to level the playing field for this industry.

- Everybody knows that Fujitsu announced its closure. If you remember, Fujitsu had entered into a SIP agreement with the County and Gresham; however, they never realized the benefits and the agreement was mutually terminated – Fujitsu did not receive any tax relief. The only SIP in place in Multnomah County is with LSI logic.

Specifics on proposed Agreement

- The proposed agreement with Microchip was negotiated in an accelerated timeline because we had to take advantage of the fact the plant is now "closed but clean," however, it couldn't remain so for very long and once the facility were to shut down completely, it would no longer be attractive to potential buyers in the high tech industry.

- Additionally, we wanted to move fast in order to create much needed jobs immediately.

- Specifics of the proposed agreement:

  1. Property taxes capped at $100 million, growing 3% each year. The County, the City of Gresham and all local taxing districts will receive immediate revenue from the $100 million. Additionally, if the company continues to invest and the value of the property exceeds $490 million, any amount valued above $490 million will be fully taxed.

  2. Community Service Fee equal to 25% of the abated taxes not to exceed $2 million. In the past, we've used Community Service Fee revenue for programs such as career academies in East County high schools, grants for local job trainers and social service providers for better technology and new services.

  3. First Source Agreement to enhance and ensure local hiring. The County and Gresham specified the hiring of displaced Fujitsu employees. We will measure the company's performance by the efforts to hire former Fujitsu employees.

  4. Additional reasonable requirements negotiated among County, City, and Company. These are:

a) *Limited Company Tax Benefit*

There is a limit on the amount of property taxes eligible for abatement. Any value in excess $490 million will be fully taxed. No other SIP has ever had this feature.

Limited Duration

The term of the proposed SIP agreement is only 7 years, less than half the term of any other SIP agreement in Oregon.

County SIP Goals

As in prior Multnomah County SIP agreements, the proposed partnership with Microchip establishes performance standards and community benefits based on County goals for:

a) job creation, wages, benefits,
b) support for local education and training,
c) environmental stewardship,
d) and local procurement and contracting (for example; for installation, repair and construction projects, Microchip will be required to use contractors who meet a responsible standard)

Consultants Report:

- Multnomah County and the City of Gresham hired two outside consultants. The City and County were reimbursed by Microchip for cost of the appraisal and the economic analysis.

- The consultants' findings confirmed our own assessment of the agreement. It's a win all the way around.

- Our appraisers report found that the property is valued at $180 million – the state assessed the property at about $174 and the purchase price is $184 concluded that continuing.

- Our fiscal and economic analysis found that Microchip's fiscal condition is strong and holds a solid position in a volatile market.

- The report provided the tax revenue by district information that I mentioned earlier and outlined that even with the SIP agreement, Microchip will be paying between $4,000 - $8,000 in property taxes alone per employee – *over $10,000 per employee with the required Community Service Fee.* This is significantly higher than the average industry which pays about $615 per employee in property taxes.

- The report also showed that not only will the 400+ direct company hires be positively affected. Our third party research finds that with Microchip continuing to use the facility, 800 additional jobs with be supported.

- Microchip will use local suppliers- supporting that industry and Microchip employees will be patronizing businesses in the area and using there pay checks locally, so the multiplier effect is significant.

- Both the appraisal and economic analysis found this to be the best use of the facility. In the hypothetical, if Microchip were not to purchase the facility, it's highly unlikely that another chip producing company would purchase the property.

- Therefore the facility would have to be demolished and the property would have to be completely redeveloped into, perhaps, an industrial park of some kind.

- The property would then be valued at less than $50 million whereas now its value is more than three times that amount. And there would be no guarantees that 400 new jobs would be generated and that an additional 800 would be supported.

Outline Public Testimony Process

- We're here this evening to your answer questions and to hear your opinion on the proposed agreement. I would like this to be a community dialogue and welcome all of your input.

- We'll be taking testimony from anyone who has signed up. If you haven't signed up and would like to, sign up sheets are available at ..... Please hand your sign up sheet to Deb Bogstad the County's Board Clerk.

- Testimony is limited to 3 minutes in order for everyone to have an opportunity to participate.

- Before beginning the public testimony piece, I would like to give an opportunity for Microchip to introduce themselves to the community publicly.

- Please welcome Bob Lloyd who is Microchip's vice-president of facility and site services.

Diane Linn, Multnomah County Chair

Suite 600, Multnomah Building
501 SE Hawthorne Boulevard
Portland, Oregon 97214-3587
Email: mult.chair@co.multnomah.or.us

Phone: (503) 988-8308
FAX: (503) 988-3093

STAFF REPORT

TO: Board of County Commissioners

FROM: John Rakowitz, Chief of Staff, Multnomah County Chair Diane Linn; Duke Shepard, Multnomah County Economic Development Director, Dave Boyer, Multnomah County Finance Director, Sandra Duffy, County Attorney

DATE: July 31, 2002

RE: Proposed Strategic Investment Program (SIP) Agreement between Multnomah County, City of Gresham, Microchip Technologies Inc.

1. Recommendation/Action Requested:

Joint public hearing with the Gresham City council for consideration of a proposed SIP Agreement between Multnomah County, City of Gresham, and Microchip Technologies, Inc.

2. Background/Analysis:

The Strategic Investment Program (SIP) was created by the Oregon legislature in 1993. The SIP was created because of the prohibitive 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 a global market. The following are the statutory elements of the SIP:

- Any company entering into a SIP agreement pays property taxes on the first $100 million of assessed property (growing 3% every year). Property taxes are exempt on assessed valuation of new investments above $100 million, unless otherwise agreed upon by the County, City, and company;

- A community service fee, equal to 25 percent of the abated taxes up to a maximum of $2 million per year, is paid to the county and distributed based upon an agreement between the County and the City in which an SIP project is located (in this case, Gresham).

- The participating county is allowed to negotiate other reasonable requirements or restrictions with the company.

- Any company entering into a SIP agreement is required to enter into a First Source Hiring Agreement with a publicly funded job training provider.

Multnomah County has established an "exemplary corporate citizen standard" for any SIP participating company that is designed to ensure measurable community benefits within the SIP agreement. This standard, represented through contractual goals and policy statements, provides the framework for consideration and negotiation of any SIP agreement, including Multnomah County's previous SIP agreements with LSI Logic and Fujitsu Microelectronics.

Multnomah County entered into a 15 year SIP Agreement with LSI Logic in 1995. This agreement is reviewed annually by the Board of County Commissioners and has been recognized locally and nationally as an exemplary partnership of local government and industry.

Also in 1995, Multnomah County and the City of Gresham entered into a 15 year SIP agreement with Fujitsu Microelectronics. This SIP Agreement with Fujitsu was mutually terminated in 1997 under terms negotiated between the County, the City, and Fujitsu. During the period in which that SIP agreement was in place, Fujitsu received no tax benefits, as the property value did not exceed $100 million.

Fujitsu Microelectronics continued to operate and expand in Gresham after the termination of the SIP, retooling during the semiconductor boom of 1999-2000. Fujitsu ultimately increased employment to over 900 at its Gresham location.

Beginning in mid- year 2001, the semiconductor entered what would prove to be the steepest and largest decline in its history. In February 2002, Fujitsu announced the permanent closure of its Gresham facility, dislocation of its workforce, and interest in selling the property.

Colliers international marketed the product on Fujitsu's behalf, and found a potential buyer in Microchip Technology.

Microchip Technology is a leading semiconductor manufacturer, supplying components which provide electronics intelligence in products used by consumers every day, such as garage door openers, electronic thermostats, automotive remote-keyless-entry system, battery-powered electronics and smart appliances. In many cases, the user simply does not know that a semiconductor provides the "smart" control of the product.

Microchip is an industry leader in providing embedded control solutions to its customers. Embedded control means that the circuitry is 'hidden' or built into an electronic system's operating board. Embedded applications include automotive, machine tools, cameras, consumer and office appliances, cellular phones, personal digital assistants (PDAs) and other handheld electronics, as well as robots and toys. Headquartered near Phoenix, Arizona, Microchip has more than 35,000 customers worldwide.

Representatives of Microchip and Fujitsu approached the City of Gresham and Multnomah County to explore the SIP standards, process, and possibilities for such an agreement related to the potential sale of the Fujitsu property to Microchip for continued use as a semiconductor manufacturing facility.

After several exploratory, informal conversations focusing on the potential sale and the County's SIP standards, Microchip entered into a tentative agreement to purchase the Fujitsu Property. Microchip made the approval of the SIP an explicit condition of the plant purchase. At this time, Multnomah County and the City of Gresham entered into negotiations with Microchip with the goal of producing a tentative SIP agreement in alignment with longstanding county policy related to such agreements.

On July 17, 2001, a tentative agreement was reached among the parties and announced publicly as a proposed agreement subject to City, County, and State review, consideration, and approval.

Key features of this agreement beyond those named in state SIP statute include:

Term: Seven year term (in contrast to 15 year term for all other SIP agreements in Oregon)

Value Cap: An annual cap of $490 million on the value of the property subject to tax relief under the SIP. Any assessed value in excess of this annual amount is taxed in full.

Due Diligence: Multnomah County contracted with two independent firms (ECONorthwest, Integra) for research and analysis of the proposed agreement's fiscal conditions and impacts. Microchip has agreed to compensate the County for these due diligence costs regardless of whether or not the proposed SIP agreement becomes a reality.

County Goals: As in prior Multnomah County SIP agreements, the proposed partnership with Microchip establishes performance standards and community benefits based on County goals for job creation, wages, benefits, support for local education and training, environmental stewardship, and local procurement and contracting.

3. Financial Impact:

a) Integra Realty Resources was contracted with to provide a summary report of a limited appraisal for the Fujitsu property. The following is a summary of the appraisal report:

1. The contracted sales price between Fujitsu and Microchip for the property and facility is $183.5 million.

2. The market value using a Sales Comparison Approach is $180 million.

3. Five other sales of similar plants throughout the United States were used for comparisons.

4. The Assessed Property Tax value for the 2002-03 tax year is $174.4 million.

5. The property use as a microchip facility is highest and best use.

6. Facility sits on about 199 acres and about 93 acres developable. The remaining acres are for setbacks, roads, utilities and wetlands.

7. An alternative facility could be built on the site and would take about 4 to five years to complete. The completed facility has a potential of supporting about 1,620,000 square feet of space ECONorthwest translates this into a facility with a market value of about $51 per square foot or $82.6 million and a property tax value of about $41.3 million.

b) Multnomah County hired ECONorthwest to conduct two related analyses of the proposed agreement: an economic analysis and a fiscal analysis.

In the *economic analysis*, the report estimates the direct number of jobs and employee compensation (i.e., salary and benefits) created by Microchip's on-going operations and projects how Microchip's activities will impact other sectors of the economy. In the *fiscal analysis*, property tax payments that would be made to Multnomah County, the City of Gresham, and other affected districts in three scenarios were forecasted. First, calculated taxes that would be paid by Microchip if they located in Gresham *without* the SIP agreement. Second, calculated taxes for Microchip assuming they locate in Gresham *with* the SIP agreement. Third, forecasted property tax and community service fee payments assuming Microchip does not purchase the plant, and the property is put to an alternative use. The third scenario is based on the work of Integra Realty Resources using the assumption that in the absence of the Microchip sale, the property would be developed as an industrial park. The following is a summary of the economic report:

1. Microchip's financial condition is strong.

2. Microchip has committed to hiring 204 employees in the first year of the SIP agreement and 401 employees in fiscal year 2010.

3. Direct Microchip employee compensation (salary and benefits) would average about $57,000 in fiscal 2004.

4. Microchip will purchase goods and services in the Portland area from local chemical supply companies, engineering firms, electricians, and others. Therefore, direct employment of Microchip employees at 204 translates into about 411 additional jobs in the Metro area bringing the total employment to 615. At 401 employees an additional 806 jobs are created in the metro area bringing the total employment to 1,207.

5. The net present value of the SIP agreement to Microchip is $17.3 million. This is a savings in tax payments that Microchip receives by paying property taxes on the first $100 million in assessed value and community service fee compared to paying property taxes on the entire assessed value. This is over the seven year SIP.

6. The value to local governments for property taxes would be $12.2 million over the life of the 7 year SIP and over a 15 year period the net present value to local governments would be estimated at $37.2 million. The present value amounts assume that a hypothetical industrial facility would be built on the site if Microchip did not purchase the facility and the benefit is the difference between what the hypothetical facility would pay and what Microchip would pay. The $37.2 figure is included because in year 8 Microchip property taxes go to the full amount of the assessed value.

7. Microchip would pay between $4,996 and $8,225 per worker per year in property taxes with the SIP compared to the typical County business that pays about $617 in property taxes per worker per year. Amounts fluctuate due to the plant and equipment investment cycles.

8. Microchips impacts on the local infrastructure, roads utilities, schools etc. would not exceed Fujitsu's impact.

4. Legal Issues:

The legal issues involved in this matter relate to the state statutory requirements for tax exemptions under the Strategic Investment Program. The tax exemption requirements are found in ORS 307.123. And there are eligibility requirements that companies must meet for the tax exemption, which are found in ORS 285B.383, as well as procedural requirements in ORS 285B.386. All requirements have been identified and have been met to this point in the process. All further requirements can be met.

5. Controversial Issues:

Controversial issues related to this agreement will be those typically associated with economic development incentives and will be of two types: Philosophical and Substantive.

Philosophical: Controversies in the area arise from a belief among some in the community that agreements such as this represent "corporate welfare", are inappropriate uses of government policy to intervene in the marketplace, and represent an unfair, unnecessary adjustment of tax policy to benefit industry.

Substantive: The global semiconductor industry is highly cyclical and frequently volatile; hence the fluctuations of the industry are unpredictable as are the ramifications of those fluctuations on local workers, communities, and the regional economy. Further substantive controversy may arise around the basic question of value for the county: do the elements of the proposed contract generate sufficient return on investment and include sufficient accountability to justify the use of the SIP. Additional controversy will arise due to confusion of information in the public at large regarding the mechanisms of the agreement (what taxes are abated, what fees are paid), and which companies have agreements in place (a recent letter to the editor in The Oregonian cited Fujitsu's SIP as being currently in effect, when in fact it was dissolved 7 years ago). Finally, controversy may arise from the fact that the number of jobs projected under the agreement are fewer than those previously employed by Fujitsu at the facility.

6. Link to Current County Policies:

Reduction in poverty, creation of family wage jobs, County living wage ordinance, longstanding SIP policy.

7. Citizen Participation:

Public Hearing August 6, 2002.

8. Other Government Participation:

The City of Gresham, through City Manager Rob Fussell and Economic Development Director Max Talbot, has negotiated on the City's behalf and have been equal members of the County/city negotiating team. The Oregon Economic and Community Development Department has also advised the parties in negotiations. Per state statute, the proposed SIP Agreement, if approved by the County and City, must then be approved by the Finance Committee of the Oregon Economic and Community Development Department before the agreement can go into effect.

Basic Elements of the proposed SIP partnership

SIP statutory elements

1. Property taxes capped at $100 million, growing 3% each year.
2. Community Service Fee equal to 25% of the abated taxes not to exceed $2 million
3. First Source Agreement to enhance and ensure local hiring
4. Additional reasonable requirements negotiated among County, City, and Company. These are:

Limited Company Tax Benefit

There is a limit on the amount of property taxes eligible for abatement. Any value in excess of this amount will be fully taxed. No other SIP has ever had this feature.

Limited Duration

The term of the proposed SIP agreement is only 7 years, less than half the term of any other SIP agreement in Oregon.

Due Diligence Costs

Multnomah County contracted with two independent firms (ECOnorthwest, Integra) for research and analysis of the proposed agreement's fiscal conditions and impacts. Microchip has agreed to compensate the County for these due diligence costs regardless of whether or not the proposed SIP agreement becomes a reality.

County SIP Goals

As in prior Multnomah County SIP agreements, the proposed partnership with Microchip establishes performance standards and community benefits based on County goals for job creation, wages, benefits, support for local education and training, environmental stewardship, and local procurement and contracting.

County SIP Goals

Jobs, Wages, Benefits (page 13-17)

- Measurable job creation during each of the seven proposed SIP years. These are minimum employment goals that are likely to be exceeded. Goals by Calendar year:

'03	'04	'05	'06	'07	'08	'09
204	228	256	286	321	360	401

- First Source Agreement explicitly targets former Fujitsu Employees

- 70% retention standard

- Promotion of 100% of the direct labor force during workers' first 3 years

- Limit on use of temporary employees
- Tuition reimbursement
- Wage and benefit standards
- Commitment of company to negotiate with local childcare providers to secure discounts for employees.
- Trip reduction program includes subsidized transit passes, car pool parking, bike racks, and guaranteed rides home.

Local Education and Training (page 19-21)

- Support of the Center for Advanced Learning
- Partnerships with east County high schools
- Serving on the Board of Directors for the Mount Hood Community College Foundation if a position becomes available.
- Financial support for the operations of the Mt. Hood Community College Microelectronics Training Center.
- Recognition of Fujitsu's proprietary microelectronics degree in hiring and compensation.

Environmental Stewardship (page 18)

- Microchip will establish by June 30, 2004 environmental baselines and evaluation tools.
- MCHP will consider making application to the DEQ Green Permits or EPA National Performance Track program. If it participates in neither, it must provide a specific alternative to meet the county goal.

Local Procurement and Contracting (page 21-22, 25)

- Commitment to procuring locally, and reporting amounts expended in Multnomah County, Oregon, and outside Oregon.
- Commitment to use "responsible contractors" for construction, installation, and maintenance.

Reporting and disclosure (pages 24-25)

- Quarterly reporting on jobs, wages, retention; annual reporting on all requirements in the agreement.

Multnomah County SIP General FAQ's:

Q) What is the Strategic Investment Program?

A) The Strategic Investment Program (SIP) was created by the Oregon legislature in 1993. The SIP was created because of the prohibitive 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 a global market. The following are the statutory elements of the SIP:

- Any company entering into a SIP agreement pays property taxes on the first $100 million of assessed property (growing 3% every year). Property taxes are exempt on assess valuation of new investments above $100 million, unless otherwise agreed upon by the County, City, and company;

- A community service fee, equal to 25 percent of the abated taxes up to a maximum of $2 million per year, is paid to the county and distributed based upon an agreement with between the County and the City in which an SIP project is located (in this case, Gresham).

- The participating county is allowed to negotiate other reasonable requirements or restrictions with the company.

- Any company entering into a SIP agreement is required to enter into a First Source Hiring Agreement with a publicly funded job training provider.

Q) Are there SIP agreements currently in place in Oregon?

A) Yes. There are currently five. Multnomah County, the City of Gresham, and LSI Logic entered into a 15 year SIP agreement in 1995. Washington County is a partner in four SIP agreements – 3 with Intel, 1 with IDT (Integrated Device Technologies).

Q) Did Fujitsu have a SIP agreement?

A) Only briefly. Fujitsu signed a SIP agreement with Multnomah County in 1995. This agreement was mutually terminated in 1997 under terms negotiated between the County, the City, and Fujitsu. During the period in which that SIP agreement was in place, Fujitsu received no tax benefits, as the property value did not exceed $100 million.

Q) Are these existing agreements all the same?

A) No. All SIP agreements have unique features based on a variety of factors including: local goals, standards, and priorities, and; specific factors unique to each company's investment schedule, market demands, and projected investment totals. This local customization is a key feature of the "other reasonable requirements" section of the SIP statute. Specifically, Multnomah County established an "exemplary corporate citizen standard" for any SIP participating company that is designed to ensure measurable community benefits within the SIP agreement.

Q) Is the proposed SIP partnership with Microchip identical to the LSI Logic SIP?

A) No. While the County's standards for community benefits are identical, the specific requirements and obligations of this proposed agreement reflect the specific features of the proposed investment. For example, LSI Logic's SIP agreement is a 15-year agreement that was designed to attract the construction and operation of a brand new, state-of-the art semiconductor manufacturing fab at a projected investment cost of $4 billion, with a goal of 2,000 employees. This proposed new SIP was designed to facilitate the re-start of the former Fujitsu facility for production and re-employ a portion of the local workforce displaced by Fujitsu's closure. This proposed SIP agreement is only 7 years in length, governing a projected $490 million, 400 employee investment. This agreement also features a cap on potential tax benefits to the company.

Q) Is this proposed SIP a done deal?

A) No. It is only a tentative proposal subject to an open, public deliberation process. Though it has been negotiated in good faith among representatives of Multnomah County, the City of Gresham, and Microchip, it is still subject to public review, and deliberation by both the Board of County Commissioners and the Gresham City Council. The agreement has not, and will not, be considered final or complete until approved by both governments and will not be signed until that time. Moreover, neither government will sign the agreement until the sale of the property has been finalized. However, all three parties have tentatively agreed on the elements of the potential contract for the deliberation and consideration of the County Board, Gresham City Council, and public at large.

Q) Why the SIP in this case?

A) Multnomah County's research indicates that once a fab is completely shut down, divested of "clean" status, and stripped of its chip manufacturing equipment, it is prohibitive in terms of cost and technology for any semiconductor manufacturer to invest in that facility. As a result the community is left with an enormous shell of a building that is virtually unusable for any other tenant. In such a scenario, the most viable economic option for a community or developer is to raze the entire facility and redevelop the property completely from the ground up. Such a scenario for the Fujitsu property would be a huge drain on local resources and would produce no private investment or jobs for at least 3-5 years. However, the SIP makes the continued operation of the Fujitsu facility for semiconductors possible by offsetting a portion of the costs, ensures some continued level of high tech employment at the site, and creates job opportunities for re-employment of local residents.

More questions?
Contact
John Rakowitz, Chief of Staff for Multnomah County Chair Diane Linn - 503.988.3308
Duke Shepard, Multnomah County Economic Development Director - 503.988.4216

FAQs on Microchip Technology

Does this announcement mean that Microchip has purchased the plant? If not, what happens next?

Microchip has signed a definitive agreement to acquire the facility. The Company's commitment to acquire the facility is subject to several closing conditions, including its due diligence review and the qualification of the facility under Oregon's Strategic Investment Program that caps the property taxes similar to the programs currently granted to Intel Corporation and LSI Logic.

The Company is currently in the due diligence process with an estimated closing date of Oct. 30, 2002. However, based on the terms of the agreement, Fujitsu has the option of accelerating the closing date to August 2002 upon completion of all closing conditions.

What is the planned production schedule and any milestones that must occur?

Microchip currently expects to:
-Close the transaction by the end of Oct. 30, 2002
-Begin ramp-up activities starting November, 2002
-Begin volume production starting July, 2003

What is Microchip's employment outlook for Gresham, OR?

Initial hiring is expected to reach approximately 60 people by the end of November 2002 during pre-production phases . Over the period covered by this agreement, Microchip believes that the facility could employ more than 360 people as the facility reaches its very high-volume manufacturing capacity.

The Company is attracted to the highly trained and productive employees in the area who worked for Fujistu. Microchip is looking forward to engaging with these individuals as specific positions become available. Anyone interested in working at the Gresham facility can submit their resume to Microchip by email at **resumes@microchip.com** or by fax at (480) 792-7790.

Microchip's anticipated staffing requirements are lower than the historical number of individuals employed at this facility by Fujitsu. Microchip runs highly efficient manufacturing processes and certain functional areas will be located at the Company's headquarters in Chandler, Arizona and other locations, reducing the number of positions required to support volume production.

What are the projected salary and benefits for future employees at Microchip?

Microchip offers a highly competitive salary and benefits package, including medical, dental, 401K, tuition reimbursement and much more.

Besides jobs and economic growth, what else will Microchip contribute to the local community?

Microchip is expected to be an active participant in supporting the local education community. The Company intends to serve of the Center for Advanced Learning's industry advisory committee; providing assistance and expertise with curriculum development, instructional assistance, and development of internships and mentoring opportunities with the C.A.L., and local high schools.

Who is Microchip Technology?

Microchip Technology is a leading semiconductor manufacturer, supplying components which provide electronics intelligence in products used by consumers every day, such as garage door openers, electronic thermostats, automotive remote-keyless-entry system, battery-powered electronics and smart appliances. In many cases, the user simply does not know that a semiconductor provides the "smart" control of the product.

Microchip is an industry leader in providing embedded control solutions to its customers. Embedded control means that the circuitry is 'hidden' or built into an electronic system's operating board. Embedded applications include automotive, machine tools, cameras, consumer and office appliances, cellular phones, personal digital assistants (PDAs) and other handheld electronics, as well as robots and toys. Headquartered near Phoenix, Arizona, Microchip has more than 35,000 customers worldwide.

Microchip's products are found in hundreds of Fortune 500 companies serving thousands of applications worldwide. Sample customer companies include: Genie, Sanyo, Toyota, Delphi, Johnson Controls, Lexus, Apple Computer, IBM, Ericsson, Nokia, General Electric and Whirlpool.

Overview on the Semiconductor Industry (Microchip and Fujitsu)

The semiconductor industry is highly cyclical, marked by volatile swings in technology and market demand. The companies hardest hit in the current downcycle were those, such as Fujitsu Microelectronics, who manufactured commodity memory devices, including DRAMs and Flash. The Flash memory market has experienced a sharp and prolonged decline in this industry downcycle.

Microchip's business model is different from that of Fujitsu's. Microchip does not manufacture stand-alone Flash memory devices, which tend to be more susceptible to market swings. Microchip has a highly diversified customer base that better insulates the Company from market downturns.

As a technicality (and to avoid confusion), Microchip does feature Flash memory on a portion of its microcontroller products. However, these products compete in completely different markets than commodity stand-alone Flash memory devices. Microchip's products are based on a proprietary architecture, making them less susceptible to market swings than commodity devices.

Microchip's Sales & Earnings Growth

Microchip is one of the best performing semiconductor companies in today's challenging business environment. The Company has announced it is seeing an upward trend in demand for its products, and has raised earnings guidance several times. Microchip was the best performing stock in the NASDAQ 100 index in May (up 91% year over year). The Company implemented a 3-for-2 stock split in May.

Microchip has more than 30,000 customers worldwide, with sales split evenly across the European, Asia/Pacific/Japan and the Americas regions. About 60% of sales are derived through the company's distribution partners with the remaining generated by a direct sales force. No one customer makes up more than 1.5% of total sales, and the top 10-customers represent no more than 10% of total sales.

Microchip's Employment Practices and Corporate Culture

At its inception in 1989, Microchip created a set of defining principles to produce a corporate culture that unleashes the potential of our substantial employee workforce. The diligent practice of these "Guiding Values" has been directly responsible for the company's innovative new products, world-class quality and manufacturing yields and strong employee talent base. Microchip's corporate culture embraces employee empowerment and a team environment.

Microchip's Environmental & Safety Record

Microchip is proud of its stellar record related to environmental and safety issues. Microchip's accident/injury rate is extremely low and our public environmental compliance track record is excellent. Microchip has a long history of meeting or exceeding local, state, federal and EPA guidelines. The Company makes every effort to integrate recycling into its manufacturing processes.

Microchip's Community Contributions

Microchip has an extensive track record of contributing to the communities in which the company operates in the USA. For example, the company supports many local community colleges through various programs.

Microchip has been a strong supporter of the FIRST Organization (For Inspiration and Recognition of Science and Technology), which inspires an appreciation of science and technology in high school students, their schools and their communities through a series of robotics competitions. With Microchip as the organizing sponsor, Phoenix, Arizona was recently selected for the FIRST Organization's 2003 Regional Robotics Competition, the first-ever event of its kind located in Arizona for high school students (www.usfirst.org).

Around the world, the Company's sales and manufacturing organizations regularly donate to many other social service organizations, and its employees have spent considerable time volunteering in the local community.

####

Public Timeline (Schedule of Activities)

Tuesday, August 6 **6:30 PM**	**Joint Meeting/Public Hearing (Gresham City Council, Multnomah County Commissioners)** at Gresham City Council Chambers, Public Safety and Schools Building, 1333 NW Eastman Parkway, Gresham
Tuesday, August 13 **6:30 PM**	**City of Gresham approval of the SIP application** at Gresham City Council Chambers, Public Safety and Schools Building, 1333 NW Eastman Parkway, Gresham
Thursday, August 15 **9:30 AM**	**County Board approval of the SIP application** at Boardroom, Multnomah Building 501 SE Hawthorne Blvd, Portland
Friday, August 23	**State/OECDD approval of the SIP application** Roseburg

Microchip Technology's SIP Application

An Economic and Fiscal Analysis Prepared for Multnomah County

Prepared by

ECONorthwest

ECONOMICS • FINANCE • PLANNING

John Tapogna, M.P.P.
Eric Fruits, Ph.D.
Alec Josephson, M.S.
Peter Graven

July 30, 2002

1

Section 1 Introduction and Summary

BACKGROUND

Late last year, the Fujitsu Company announced it would end production of flash memory chips at its Gresham, Oregon plant. The company laid off the majority of its 670± workers and placed its assets on the market. On July 17, 2002, Microchip Technology (Microchip) announced its intention to purchase buildings, land, and remaining machinery from Fujitsu. As a condition of that sale, Microchip has requested property tax relief under Oregon's Strategic Investment Program (SIP), which is authorized by state law but administered by counties. The program's goal is to attract to Oregon companies in capital-intensive industries, particularly those in the high technology sector, that would not consider locating here but for the program. The key feature of a SIP agreement is a cap on the assessed value of the subject property to $100 million—with annual inflation adjustments—for a specified period of time not to exceed 15 years. In exchange for the tax relief, participating companies typically pay special community service fees in lieu of portion a of the abated taxes, agree to specific job targets, and commit to hiring local residents whenever feasible.

Under the specific agreement under consideration, Microchip would pay property taxes on a capped level for seven years. Specifically, in fiscal year 2004, Microchip would pay property taxes on the standard SIP cap of $100 million. During the next six years, the cap in the assessed value would increase by 3 percent and would rise to $119 million in fiscal year 2010. During this period, Microchip would estimate its property tax savings and pay community service fees equal to 25 percent of those savings. The SIP agreement would end at the conclusion of fiscal year 2010, and from that point forward the company would pay property taxes under standard state and local rates and rules at that time. Microchip will pay regular property taxes on the assessed value in excess of $490 million.

Multnomah County hired ECONorthwest to conduct two related analyses of the proposed agreement: an economic analysis and a fiscal analysis. In the *economic analysis,* we report the direct number of jobs and employee compensation (i.e., salary and benefits) created by Microchip's on-going operations during the next 15 years. Using Microchip's payroll estimates, we then project how Microchip's activities will impact other sectors of the economy. For example, in addition to hiring people for their own operations, Microchip will purchase goods and services from local technology suppliers, engineers, electricians, and plumbers. Moreover, Microchip's own employees would spend portions of their salaries in the local economy on mortgage or rent payments, groceries, health care, transportation services, and entertainment. The local spending by Microchip and its employees would generate a so-called multiplier effect, supporting jobs and income in other

sectors of the regional economy. Our economic analysis estimates the size of that multiplier effect over time.

In the *fiscal analysis*, we forecast property tax payments that would be made to Multnomah County, the City of Gresham, and other affected districts in three scenarios. First, we consider taxes that would be paid by Microchip if they located in Gresham *without* the SIP agreement. Second, we calculate taxes for Microchip assuming they locate in Gresham *with* the SIP agreement. By comparing the streams of payments under these first two scenarios, we calculate the value of the SIP agreement to the firm. Under a third scenario, we forecast property tax and community service fee payments assuming Microchip does not purchase the plant, and the property is put to an alternative use. Based on the work of Integra Realty Resources—a local appraisal firm—we assume that in the absence of the Microchip sale, the property would develop as an industrial park. The difference between property tax and fee payments under the second and third scenarios represents the value of the agreement to local governments.

For the purposes of this report and our forecasts, we have assumed that *without* the SIP agreement Microchip would not purchase the Fujitsu plant. Given the state of the high-technology sector and uncertainty in the economy in general, such an assumption does not seem unreasonable. Moreover, Microchip officials made the approval of the SIP an explicit condition of the plant's sale. That said, ECONorthwest in not in the position to say with absolute certainly that the SIP agreement is necessary to attract the buyer to the region.

FINDINGS

Below, we outline our key findings:

- **Microchip's financial condition is strong and purchase would strengthen the company's production capacity.** Microchip has been a successful player in the 8-bit microcontroller market by adeptly acquiring plants and equipment from larger corporations. Microchip's financial condition is strong and they have reported rising sales. The company needs a plant they can open quickly with a trained labor supply and ready-to-go modern equipment that can efficiently handle 8-inch wafers at 0.25-micron or less architectures, which is precisely what the Fujitsu plant and Gresham-area labor force would provide.

- **Microchip has agreed to hire more than 400 direct employees at full implementation.** Microchip has committed to hiring 204 employees in the first year of the SIP agreement, increasing to 401 employees in fiscal year 2009. The company assumes employment would remain at that level thereafter. ECONorthwest estimates direct employee compensation (salary and benefits) would average roughly $63,000 in fiscal 2009.

- **Microchip's purchases of goods and services in the local economy, as well as the purchases of its employees, would support more than 800 full- and part-time jobs in other sectors of the economy**. Microchip will purchase goods and services in the Portland area and elsewhere in Oregon from local chemical supply companies, engineering firms, electricians, and others. We estimate that the 401 direct jobs at Microchip would support approximately 800 additional full and part-time jobs in the Portland area. Therefore, at full employment, more than 1,200 full and part time jobs would be supported, directly or indirectly, by Microchip's *on-going* operations. The associated jobs would not be paying as well as the direct Microchip jobs. Comparing personal incomes, each dollar earned by a direct Microchip employee would be associated with $1.34 in personal incomes earned by those indirectly affected by the plant's on-going operations. The company's periodic investments in machinery would add to those impacts as the company would hire local labor to install the equipment.

- **Value of the SIP agreement to Microchip would total $17.3 million.** Under the agreement, the property's assessed value would be capped at $100 million in the first year of the agreement rising to $119 million in the project's final year. The company would pay community service fees equal to 25 percent of their calculated property tax savings. Comparing property taxes and community service fees paid with and without the SIP agreement, we estimate the net present value of the agreement to Microchip to be $17.3 million.

- **Value of the SIP agreement to local taxing districts would total $12.2 million during 2004-2010.** By comparing property taxes and community service fees paid by Microchip to property taxes that would be paid by a hypothesized industrial park, we can calculate the benefits of the SIP agreement to local taxing districts. Specifically, we find the present value of the additional taxes and fees would total $12.2 million—if measured only over the agreement period. If we extend the forecast period to include the entire 2004-2018 period, we estimate a net present value to local governments of $37.2 million. Benefits to local taxing jurisdictions increase sharply at the conclusion of the agreement. Again, the benefits of the SIP to local taxing jurisdictions hinge on two key assumptions. First, and most importantly, we assume Microchip would not locate in Gresham without the agreement. Second, we assume that without the Microchip purchase—the property would redevelop as an industrial park.

- **Microchip's property taxes per worker, with the SIP agreement, would greatly exceed the countywide average.** Assuming the SIP is in place, Microchip would pay between $4,996 and $8,225 per worker annually in property taxes alone.

Considering property taxes and community service together, the company's total payments fluctuate between $8,511 and $11,119 per worker per year during the SIP agreement. By contrast, the typical Multnomah County business paid $617 per worker per year.

- **Microchip's impacts on local infrastructure is unlikely to exceed Fujitsu's.** Given that Microchip anticipates operating the plant with fewer employees than were employed by Fujitsu, we anticipate that the company's impact on local roadway, water, and sewer infrastructure would not exceed that of Fujitsu's. Conversations with City of Gresham planning staff confirm that planning staff do not anticipate significant system impacts should the purchase be finalized.

ORGANIZATION OF THIS REPORT

The balance of this report consists of four additional sections:

Section 2 Buyer Profile provides background on Microchip and discusses how the purchase of the Fujitsu plant relates to the company's market strategy.

Section 3 Economic Analysis reports the company's employment projections and details estimated impacts of Microchip's operations on the regional and state economies.

Section 4 Fiscal Analysis projects assessed property values and associated taxes assuming Microchip purchases the plant with or without the SIP agreement, as well as, under an assumed industrial park use. This section then reports the value of the SIP agreement to Microchip and local taxing jurisdictions.

Section 5 Infrastructure Considerations briefly summarizes the position of City of Gresham staff that Microchip's operations would place less demands on local infrastructure than did Fujitsu's operations.

2

Section 2 Company Profile

In this section, we provide background on Microchip and discuss how the proposed purchase of the Fujitsu plant works into the company's long-term strategy.

Microchip makes embedded control products or microcontrollers, which are chips used in a wide array of common commercial, industrial, and consumer products. The company is a niche player in the semiconductor industry. Although relatively small compared to firms such as Intel and National Semiconductor they have been quite successful because of their focused product offering and their low-cost manufacturing produces good margins. Financially, the company is doing very well. The company has a strong balance sheet. An examination of their cash flow statement indicates that there are no significant problems in evidence. The only major problem we see is that they may have to take a large write-down on their investment in a plant in Puyallup, Washington, which the firm has yet to open.

Microcontrollers are common semiconductor devices. They are found in such things as garage door openers, air conditioners, photocopiers, remote controls, slot machines, kitchen appliances, wind turbines, electric-powered carts, cell phones, factory equipment, and industrial ovens. They are designed for specific functions such as power conservation, optimizing efficiency, security controls, and maintaining temperatures.

Microcontrollers are high volume, low unit price (generally under $10) products. Years ago Microchip made a concerted effort to go after the 8-bit microcontrollers market, which is the low-end of the spectrum with unit prices typically between fifty cents and $3. Their strategy was to offer highly reliable products at competitive prices.

To succeed, company officials believe they need to control the chip fabrication plants (Fabs) rather than use third party producers. Doing so would allow them to shorten the design-to-delivery cycle and ensure product quality. However, there were drawbacks to this strategy, which are typical of niche players trying to do it all themselves. Larger companies (all their significant competitors are much larger than they are) and those using third party production have cost advantages. To offset this, Microchip decided to buy old plants and equipment at discounts, and to rely on older production technology while using advanced designs in its products. This had the effect of lessening capital costs while maximizing production yields and offering consumers good products. As a result, they have been able to compete on price and gain market share.

The company ranks in between Motorola and Mitshubishi in the world market for 8-bit microcontrollers. They do not currently sell 16- and 32-bit products—markets currently dominated by Intel, Hitachi, NEC, and Mitsubishi. However, some of Microchip's 8-bit microcontrollers can compete

with lower-end 16- and 32-bit products. While the bulk of the world microcontroller market consists of 8-bit products, the market is shifting towards 16-bit chips and Microchip does not make these. However, Microchip's Digital Signal Controller (DSC) division is focused on entering the 16-bit market. Also the company's plants are about 25 years old and it may become increasingly difficult for them to succeed against their more formidable competitors with their newer production technologies and improving yields. For instance, Microchip uses 0.5-micron geometry and has recently moved towards 0.35 microns whereas competitors, such as Motorola, are working at 0.25-micron geometry and moving towards the rapidly maturing 0.18-micron process technology.

Microchip got its start in 1989 when venture capitalists bought an old Fab plant in Chandler, Arizona from General Instruments. Initially 95 percent of their output was memory devices. The decision was soon made to switch production to microcontrollers, which had much higher profit margins. In 1993 Microchip added capacity and bought a Fab plant in Tempe from Digital Equipment.

In 2000 Microchip bought a large Fab plant from Matsushita Electric. The plant, located in Puyallup, Washington is about 20 years old and has never made money. Fairchild Camera & Instrument built the plant in 1981, sold it in 1987 to National Semiconductor who then sold it again in 1991 to Matsushita. In 1997, Matsushita built a new wafer fabrication building (called "Fab D" by Matushita), which it had never brought into production and closed in 1998. Fab D was the primary reason for Microchip acquiring the site, which Microchip now calls Fab 3. Microchip first said they would open the plant in August 2001, delayed the opening to December 2002, and now has it on stand-by status. Microchip's Fab 3 may need a significant investment in new equipment and since it was never operated, substantial worker training would be required. According to the company:

> *Fab 3 is currently being maintained at minimal operating cost until we expect to require its capacity for production. We currently plan to utilize Fab 3 for our future production requirements. However, as we begin to plan for the mobilization of Fab 3, we continue to explore other, potentially more cost-effective, alternatives that may become available to meet our future production requirements. When required for production, Fab 3 will produce 8-inch wafers. Upon commencement of operations at Fab 3, our operating margins could suffer as production is brought on-line and depreciation on the buildings and related equipment commences.*[1]

As noted before, Microchip has tended to follow rather than lead the industry in process technology. Microchip believes it is important to transition to larger wafers and more advanced process technologies.

---

[1] Microchip 10-K report. June 3, 2002.

> *We continue to transition products to smaller geometries and to larger wafer sizes to reduce future manufacturing costs. We also continue to increase our manufacturing capacity for 8-inch wafers and to transition products to our 0.7-micron process. Other companies in the industry have experienced difficulties in transitioning to larger wafers and to smaller geometries, resulting in reduced manufacturing yields or delays in product deliveries. We believe that our transition to smaller geometries and to larger wafers is important for us to remain competitive. Our future operating results could be reduced if the transition is substantially delayed or inefficiently implemented.*[2]

In conclusion, Microchip has been a successful player in the 8-bit microcontroller market by adeptly acquiring plants and equipment from larger corporations. The microcontroller market is a distinct subcategory of the semiconductor industry. Unlike PC, fiber-optic, and wireless communications dependent semiconductor plants, makers of microcontrollers sell to such a wide array of consumer and commercial product manufacturers that they have been able to avoid the recent huge decline in sales. Microchip's financial condition is strong and they have reported rising sales. However, this industry remain competitive and there are no signs of competition abating.

Microchip needs to modernize. Its attempt to do so with the acquired Puyallup plant has not yet come to fruition. That investment remains on the books of the corporation. If Microchip buys a better plant, the management would need to evaluate writing off the portion of its investment in Fab 3.

What they need is a plant they can open quickly with a trained labor supply and ready-to-go modern equipment that can *efficiently* handle 8-inch wafers at 0.25-micron or less architectures. This would help reduce the negative investor response that could surface because of the decision to replace Fab 3. Thus, the move to a new plant and decision to recognize a loss at the older plant need to be made at about the same time. Thus any delays in permitting or other bureaucratic roadblocks—for which, unfortunately, Oregon has developed a reputation, could prove disastrous.

---

[2] Microchip 10-K report. June 7, 2000.

3

Economic Analysis

Impacts from the proposed development by Microchip at the former Fujitsu site in Gresham stems from two sources.

1) The annual, ongoing operations of the manufacturing facility.

2) The capital investment in the property. Microchip plans to invest over $1.1 billion in capital improvements over time for equipment and modifications to the current facility, and employ 401 workers once this site is fully operational. These effects develop over time with most of the activity occurring after the estimated seven year ramp up period.

In order to trace the effects of the proposed development through the local and state economies, ECONorthwest developed two regional input-output models of the semi-conductor industry using IMPLAN modeling software.[1] This modeling framework enables us to estimate the total amount of economic activity attributable to Microchip's proposed manufacturing facility. This section of the report describes these impacts on both the Portland metropolitan and state economies.

DIRECT EMPLOYMENT

Microchip provided an annual employment schedule that included detailed compensation data for each class of employees. These compensation totals include salary and benefits for employees directly hired by the company. In Table 3-1, ECONorthwest assumed compensation would increase to keep pace with an estimated 3 percent annual rate of inflation. Lacking other detailed information about the company's compensation history, we assumed no increases in real wages.

Projected job growth ends in 2010 when the facility becomes fully operational and employs an estimated 401 workers. Microchip has revealed no plans for additional site development after this level is reached. Compensation reported in Table 3-1 summarizes the total compensation for employees in seven employment categories, including: Engineering, Engineering Technician, Manufacturing, Management/Administration, Facilities, Document Control, and Materials. The employment mix, however, will change as the phase-in period ends and the facility becomes fully operational.

---

[1] IMPLAN was developed by the Forest Service of the US Department of Agriculture in cooperation with the Federal Emergency Management Agency and the Bureau of Land Management of the US Department of the Interior to assist federal agencies in their land and resource management planning. Applications of IMPLAN by the US Government, public agencies and private firms span a wide range of projects, from broad, resource management strategies to individual projects, such as proposals for developing ski areas, coal mines, and transportation facilities, and harvesting timber or other resources. ECONorthwest has applied the model to a variety of public and private sector projects including, most recently, a major US/Canada gas pipeline project.

As such, the average real wage for direct hires will gradually decrease as the facility shifts towards lower-paid manufacturing labor.

Table 3-1: Microchip's Estimated Employment Schedule (in Current Year Dollars)

Calendar Year	Jobs	Compensation (in Millions of $)	Compensation Average (in $)
2003	204	11.22	54,988
2004	227	12.77	56,277
2005	256	14.76	57,640
2006	286	16.89	59,042
2007	322	19.43	60,340
2008	360	22.20	61,658
2009	401	25.24	62,939
2010	401	26.00	64,827
2011	401	26.78	66,772
2012	401	27.58	68,775
2013	401	28.41	70,839
2014	401	29.26	72,964
2015	401	30.14	75,153
2016	401	31.04	77,407
2017	401	31.97	79,729

SIP agreement ends 2010

Source: Microchip, Inc.

ONGOING OPERATIONS

Microchip's operations in Gresham will affect the local and state economies in three ways:

- **Direct economic impacts**. The company will *directly* purchase goods and services in the local economy. As just described, the majority of these direct impacts are associated with the hiring of those workers necessary to operate the manufacturing facility.

- **Indirect economic impacts**. Microchip also *indirectly* affects the local economy as the company purchases goods and services from local providers or vendors. These providers will, in turn, purchase materials and supplies themselves. These purchases of "intermediate" goods and services indirectly fuels additional economic activity.

- **Induced economic impacts**. The direct and indirect increases in employment and income enhance overall economy purchasing power, thereby *inducing* further consumption spending. For instance, manufacturing workers who use their income to buy groceries or take their family to the theater generate economic impacts for workers and businesses in those sectors. These individuals will, in turn, spend their income much like the manufacturing workers do. This cycle

continues until the spending eventually leaks out of the local economy as a result of taxes, savings, or purchases of non-locally produced goods and services or "imports."

Microchip estimates that they will directly employ between 204 and 401 workers annually during an estimated 15 year time horizon, from 2004 to 2018. In addition, according to the IMPLAN input-output models, spending by Microchip and other businesses on goods and services from local providers will indirectly generate between 168 and 329 jobs in the Portland metropolitan area, and between 171 and 337 jobs in Oregon, annually over this time frame.

Spending by the direct hires of the company, and workers and firms that are indirectly affected by Microchip's spending, will produce another 243 to 477 *induced* jobs in the local area and 254 to 500 jobs throughout Oregon (including Clark County). Tables 3-2 and 3-3 map out the nature and timing of job impacts over the 15 year time horizon for the Portland area and Oregon.

Table 3-2: Employment and Personal Income Impacts, Portland Metropolitan Area (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2003	204	168	243	615	11.52	7.54	8.01	27.07
2004	227	186	270	683	13.12	8.65	9.18	30.95
2005	256	210	305	771	15.16	10.04	10.67	35.86
2006	286	235	340	861	17.35	11.56	12.27	41.18
2007	322	264	383	970	19.96	13.36	14.19	47.51
2008	360	296	428	1,084	22.81	15.43	16.39	54.63
2009	401	329	477	1,207	25.94	17.71	18.80	62.45
2010	401	329	477	1,207	26.72	18.24	19.37	64.33
2011	401	329	477	1,207	27.52	18.79	19.95	66.26
2012	401	329	477	1,207	28.35	19.35	20.55	68.25
2013	401	329	477	1,207	29.20	19.93	21.16	70.29
2014	401	329	477	1,207	30.08	20.53	21.80	72.40
2015	401	329	477	1,207	30.98	21.14	22.45	74.57
2016	401	329	477	1,207	31.91	21.78	23.13	76.81
2017	401	329	477	1,207	32.86	22.43	23.82	79.12

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model

Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

Tables 3-2 and 3-3 additionally report personal income totals for each of the direct, indirect, and induced effects. Personal income consists of wages and salaries received by households (including benefits such as health and life insurance, and retirement payments) and the payments received by small-business owners or self-employed individuals. As can be seen in Table 3-2, once the facility becomes fully operational, approximately $62.5 million in personal income is generated in Portland in 2009.

As discussed previously, spending by Microchip has a multiplier effect[2] on the local and state economies. For instance, the estimated job multiplier for Portland of 3.01 suggests that each direct hire at Microchip would support roughly 2 additional jobs (*full time or part time*) elsewhere in the local economy. This job multiplier is higher than has been reported in past studies of the impacts of high-technology firms on the local economy. For example, in a 1998 analysis for Intel, ECONorthwest estimated a job multiplier of 2.59, which implies that every direct job supports 1.59 jobs elsewhere in the economy. We can offer two explanations for the higher multiplier. First, as time has passed, Portland's high-technology sector has matured, so firms like Microchip or Intel will find more of the goods and services they need in the Portland area. As the IMPLAN model is updated, it takes that maturation into account. Second, and perhaps more important, the IMPLAN metric for reporting jobs has changed in the last few years. In previous models, IMPLAN measured employment impacts in full-time equivalent jobs (FTEs). The current model estimates the total number full- and part-time jobs. Because the model does not aggregate the part-time jobs into full-time equivalents, the impacts will appear larger than they have in the past.

The personal income multiplier ranges from 2.34 to 2.41 for both state and local impacts. That is, for every dollar of personal income for employees at Microchip in fiscal year 2004, another $1.34 in personal income is generated for employees in various sectors of the local, Portland metropolitan economy.

[2] In this report, the economic multipliers are estimated by dividing the total job or personal income impacts by the direct job or personal income impacts.

Table 3-3: Employment and Personal Income Impacts, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2003	204	171	254	630	11.82	7.67	8.24	27.73
2004	228	192	284	704	13.47	8.83	9.49	31.79
2005	256	215	319	790	15.56	10.21	10.97	36.74
2006	286	240	357	883	17.81	11.75	12.62	42.19
2007	322	271	401	994	20.50	13.63	14.64	48.77
2008	360	303	449	1,112	23.43	15.69	16.86	55.98
2009	401	337	500	1,238	26.66	18.00	19.34	64.00
2010	401	337	500	1,238	27.46	18.54	19.92	65.92
2011	401	337	500	1,238	28.28	19.10	20.52	67.90
2012	401	337	500	1,238	29.13	19.67	21.13	69.94
2013	401	337	500	1,238	30.01	20.26	21.77	72.04
2014	401	337	500	1,238	30.91	20.87	22.42	74.20
2015	401	337	500	1,238	31.83	21.50	23.09	76.42
2016	401	337	500	1,238	32.79	22.14	23.79	78.72
2017	401	337	500	1,238	33.77	22.81	24.50	81.08

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model
Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

IMPLAN also provided estimates of the job and personal income impacts for the 528 different industry sectors contained in the input-output model. Table 3-4, below, shows the portion of total jobs going to the nine main industry categories. With 401 direct hires and additional 75 jobs generated from business or consumer spending, the manufacturing sector receives the bulk of the total employment impacts (39 percent). Workers and firms in the service and wholesale/retail trade sectors also benefit from spending by Microchip and their employees, with approximately 30 and 19 percent, respectively, of the total employment impacts.

Table 3-4: Employment Impacts in Sample Year 2010, By Sector

Sector	Metro	%	State	%
Agriculture, Forestry, and Fisheries	7	1%	10	1%
Mining	0	0%	0	0%
Construction	38	3%	39	3%
Manufacturing	476	39%	478	39%
Trans., Comm., & Utilities	34	3%	35	3%
Wholesale and Retail Trade	224	19%	237	19%
Finance, Insurance, & Real Estate	57	5%	60	5%
Services	362	30%	368	30%
Government	10	1%	10	1%
Total	1208	100%	1237	100%

Source: ECONorthwest IMPLAN Projections

CAPITAL INVESTMENT

Microchip plans on making substantial capital improvements in the facility. These improvements lead to contract work for businesses and workers in the local economy, which generate additional indirect and induced employment impacts.

The purchase of new chip-making equipment will compose a significant share of Microchip's capital investments. For the purposes of this impact analysis, we assume Microchip will purchase this specialized equipment outside the local and state economies. Accordingly, this component of Microchip's capital investment plan yields no local impacts. Microchip, however, will hire local labor, engineers, electricians, plumbers, and others to install and test this chip-making equipment. . Based on discussions with the company, we assume 15 percent of the machinery-related investments and 80 percent of other facility and site work would be associated with contracted installation services.

The schedule in Table 3-5 indicates a manufacturing equipment buildup beginning in calendar year 2006 and slowing down by 2010. More than 50 percent of the total investment will occur in these 4 years. After 2010, the schedule shows annual investments of $50 million toward manufacturing equipment.

Table 3-5: Microchip's Estimated Capital Investment Schedule (in Millions of Current Year Dollars)

Calender Year	Facilities/Site Work	Manufacturing Equipment	Totals	Total (real dollars)
2002	$5	$20	$25	$25
2003	3	38	$41	$40
2004	3	50	$53	$49
2005	0	207	$207	$189
2006	0	185	$185	$165
2007	0	115	$115	$99
2008	0	115	$115	$96
2009	0	50	$50	$41
2010	0	50	$50	$39
2011	0	50	$50	$38
2012	0	50	$50	$37
2013	0	50	$50	$36
2014	0	50	$50	$35
2015	0	50	$50	$34
2016	0	50	$50	$33
Total	$11	$1,129	$1,140	$957

SIP agreement ends 2010

Source: Microchip Inc.

In order to measure the effects from the proposed capital investments at the Gresham site, ECONorthwest created input-output models for Portland and the state that would trace the economic impacts associated with Microchip's proposed expenditures on contract work. These impacts are reported in Tables 3-6 and 3-7, below.

Table 3-6. Employment and Personal Income Impacts, Portland Metropolitan Area (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	103	42	144	-	4.13	1.19	5.33
2003	-	115	47	162	-	4.78	1.38	6.16
2004	-	136	55	191	-	5.80	1.67	7.48
2005	-	416	169	585	-	18.30	5.27	23.57
2006	-	422	171	592	-	19.08	5.50	24.58
2007	-	190	77	267	-	8.86	2.55	11.41
2008	-	184	75	259	-	8.86	2.55	11.41
2009	-	90	36	126	-	4.43	1.28	5.71
2010	-	87	35	122	-	4.43	1.28	5.71
2011	-	84	34	119	-	4.43	1.28	5.71
2012	-	82	33	115	-	4.43	1.28	5.71
2013	-	80	32	112	-	4.43	1.28	5.71
2014	-	77	31	109	-	4.43	1.28	5.71
2015	-	75	30	105	-	4.43	1.28	5.71
2016	-	73	29	102	-	4.43	1.28	5.71
2017		71	29	99		4.43	1.28	5.71

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model

Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

From an input-output perspective, spending by Microchip on contract work creates indirect jobs and incomes in the local and state economies. As a result, there are no direct employment and income impacts reported in tables 3-6 and 3-7. Spending by contract workers, however, will induce additional jobs and income in other sectors of the Portland and state economies. For instance, at year five of the capital investment schedule, Microchip will hire approximately 397 contract workers, whose spending will generate almost 150 more jobs in the Portland area.

Table 3-7: Employment and Personal Income Impacts, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	98	41	139	-	4.17	1.57	5.74
2003	-	110	46	156	-	4.82	1.82	6.64
2004	-	130	54	184	-	5.85	2.21	8.06
2005	-	398	165	563	-	18.43	6.96	25.40
2006	-	403	167	570	-	19.23	7.26	26.49
2007	-	181	75	257	-	8.93	3.37	12.30
2008	-	176	73	249	-	8.93	3.37	12.30
2009	-	86	36	121	-	4.46	1.69	6.15
2010	-	83	34	118	-	4.46	1.69	6.15
2011	-	81	33	114	-	4.46	1.69	6.15
2012	-	78	33	111	-	4.46	1.69	6.15
2013	-	76	32	108	-	4.46	1.69	6.15
2014	-	74	31	104	-	4.46	1.69	6.15
2015	-	72	30	101	-	4.46	1.69	6.15
2016	-	70	29	98	-	4.46	1.69	6.15
2017	-	68	28	96	-	4.46	1.69	6.15

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model

Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

COMBINED ECONOMIC IMPACTS

The combined, economic impacts include those from ongoing manufacturing operations and those associated with the proposed capital investments at this site. Tables 3-8 and 3-9 report the combined economic impacts over time for Portland and the state.

The noticeable peak in associated jobs resulting from the manufacturing build-up is moderated by the impact from regular operations creating a more consistent stream of benefits to the region.

Table 3-8: Combined Economic Impacts of Microchip's Ongoing Operations and Investment-Related Expenditures, Portland Metro (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	103	42	144	-	4.13	1.19	5.33
2003	204	283	290	777	11.52	12.33	9.39	33.24
2004	227	322	325	874	13.12	14.45	10.85	38.42
2005	256	626	474	1,356	15.16	28.34	15.94	59.43
2006	286	657	511	1,453	17.35	30.64	17.77	65.76
2007	322	486	460	1,268	19.96	22.22	16.74	58.92
2008	360	480	503	1,343	22.81	24.29	18.94	66.05
2009	401	419	513	1,333	25.94	22.14	20.08	68.16
2010	401	416	512	1,329	26.72	22.67	20.64	70.03
2011	401	413	511	1,326	27.52	23.22	21.23	71.96
2012	401	411	510	1,322	28.35	23.78	21.82	73.95
2013	401	409	509	1,319	29.20	24.36	22.44	76.00
2014	401	406	508	1,316	30.08	24.96	23.07	78.11
2015	401	404	507	1,312	30.98	25.57	23.73	80.28
2016	401	402	506	1,309	31.91	26.21	24.40	82.52
2017	401	400	506	1,306	32.86	26.86	25.10	84.82

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model
Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

Table 3-9: Combined Economic Impacts of Microchip's Ongoing Operations and Investment-Related Expenditures, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	98	41	139	-	4.17	1.57	5.74
2003	204	282	300	786	11.82	12.49	10.06	34.37
2004	228	321	338	888	13.47	14.68	11.69	39.84
2005	256	613	484	1353	15.56	28.65	17.93	62.14
2006	286	643	524	1453	17.81	30.98	19.89	68.68
2007	322	452	477	1251	20.50	22.55	18.01	61.07
2008	360	479	522	1361	23.43	24.62	20.23	68.28
2009	401	423	535	1359	26.66	22.47	21.03	70.15
2010	401	420	534	1356	27.46	23.01	21.61	72.07
2011	401	418	533	1352	28.28	23.56	22.20	74.05
2012	401	415	532	1349	29.13	24.14	22.82	76.09
2013	401	413	532	1346	30.01	24.73	23.45	78.19
2014	401	411	531	1343	30.91	25.33	24.11	80.35
2015	401	409	530	1340	31.83	25.96	24.78	82.57
2016	401	407	529	1337	32.79	26.60	25.47	84.86
2017	401	405	528	1334	33.77	27.27	26.19	87.23

SIP agreement ends 2010

Source: ECONorthwest IMPLAN Model
Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

4

Fiscal Impacts

INTRODUCTION

In this section, we estimate the impacts of the proposed agreement from the perspectives of the company, as well as, the local taxing jurisdictions that levy property taxes in the area. For the fiscal analysis, we have estimated property taxes and community service fees that would be paid to affected local governments under the following three scenarios:

- **Scenario 1: Microchip purchases and operates the plant without the SIP agreement.** In the first scenario (hereafter W/O SIP), we assume Microchip purchases and occupies the Gresham plant *without* the SIP agreement. While Microchip officials firmly state that this scenario will never come to pass, we need to consider it in order to estimate a value of the SIP agreement to the company.

- **Scenario 2: Microchip purchases and operates the plant with the SIP agreement.** Under a second scenario, we evaluate taxes and fees under the assumption that Microchip purchases the plant and receives the SIP agreement (hereafter W/ SIP). In the two scenarios with Microchip ownership, we assume the company would not expand its operations beyond the current buildings. Moreover, we further assume Microchip would *not* sell or develop the remaining—currently undeveloped—land on the property because vibrations from construction activities or alternative activities could disrupt the chip-making process and generate property security problems.

- **Scenario 3: Microchip does not purchase the plant and the property reverts to the next best use.** Under a third scenario, we consider an alternative that assumes the Microchip sale does not take place. In this event, we assume that Fujitsu would cease maintaining the plant in its "near ready" condition and would begin dismantling and selling the plant's remaining machinery and tools. At this point, the property's remaining value would be the land and the building shell. To predict the likely course of events, we rely on the expertise of a local real estate appraiser—Integra Reality Resources.

In the remainder of this section, we review Microchip's proposed investment schedule and then forecast assessed values, property taxes, and community service fees that Microchip would pay with and without the SIP agreement. We similarly calculate assessed values and taxes under an alternate use. By comparing taxes and fees under these scenarios, we then calculate the value of the agreement to Microchip and local taxing districts.

ASSESSED VALUES

In order to forecast the property's assessed values under the three scenarios, we first need to characterize the property's worth assuming Microchip ownership (for Scenario 1 and 2) and then under the alternative non-chip making use. In this section, we detail the assumptions.

MICROCHIP OWNERSHIP (SCENARIOS 1 AND 2)

Assuming Microchip's ownership, the property's value would be determined in large part by the value of the investments, in buildings and equipment that the company makes there. Microchip's investment schedule, Table 4-1, proposes investment falling into three categories: the initial purchase price of the site, facilities and site work and, manufacturing equipment. The $184 million initial purchase of land and facilities leads to a total investment of $1.1 billion. A substantial share of this investment occurs during a manufacturing equipment build-up in 2005 through 2008. The remainder of the investment schedule depicts consistent purchases of $50 million coming solely from the manufacturing equipment category.

The investment schedule does not signal clear plans for growth after the build-up ending in 2008, although the company clearly has difficulty predicting precise investment amounts so far in the future.

Table 4-1. Investment Schedule (in millions of current and constant 2002 dollars)

Calender Year	Initial Purchase Price	Facilities/Site Work	Manufacturing Equipment	Totals	Total (real dollars)
2002	$184	$5	$20	$209	$209
2003	0	3	38	41	40
2004	0	3	50	53	49
2005	0	0	207	207	189
2006	0	0	215	215	191
2007	0	0	100	100	86
2008	0	0	100	100	84
2009	0	0	50	50	41
2010	0	0	50	50	39
2011	0	0	50	50	38
2012	0	0	50	50	37
2013	0	0	50	50	36
2014	0	0	50	50	35
2015	0	0	50	50	34
2016	0	0	50	50	33
Total	$184	$11	$1,129	$1,324	$1,142

SIP agreement ends 2010

Source: Microchip Technology Incorporated

The next step is calculating property taxes and translating the investment schedule into annual property values that would be subject to taxation. Oregon property tax rules establish two types of value: *real market*

value and *assessed value*. Real market value, as the name suggests, is the tax assessor's best estimate of the value of a property in the real estate marketplace at the time of assessment. Assessed value, on the other hand, is a calculated percentage of real market value and is used in the property tax calculation. The relationship between real market value and assessed value differs by property class. For capital-intensive properties like chip-making plants, real market value and assessed value are typically equal.

To calculate real market and assessed values under Scenario 1, we consider the property's two key components. First is the existing building and remaining machinery and tools for which Microchip has paid approximately $184 million. Assuming the sale goes through, the Oregon Department of Revenue (DOR), which formally assesses the value of properties with high-technology uses, would review the sales agreement and assign a value to the property. The review process is both thorough and complex, but generally if DOR concludes that Microchip paid a fair price for the property, the sales price will become the property's real market value and—given this type of property—its assessed value as well. Going forward, it is not absolutely clear how the assessed value of the existing building and property would change over time, and trends in values would vary by the property's constituent parts (i.e., land, building, existing machinery). However, a DOR official said it would not be unreasonable to assume the property's assessed value—associated with the initial investment—would remain roughly constant at about $184 million[1].

As described above, Microchip intends to invest in the property over time, adding equipment and completing other site and facility work. To estimate the assessed values associated with those investments, we started with Microchip's investment schedule (Table 4-1) and depreciated each year's investment using schedules provided by the Oregon Department of Revenue.

Combining the values of the existing facilities and Microchip's projected investments in new equipment, we estimate that the property's assessed value under Scenario 1 would begin at $205 million in fiscal year 2004, rise to $516 million in fiscal year 2008, and then decline gradually to $376 million by fiscal year 2018 (see Table 4-2 following the discussion of the alternate use).

Under Scenario 2, assessed values are subject to an SIP cap during fiscal years 2004-2010. The agreement limits the property's assessed value to $100 million in the first year, and the cap increases by 3 percent each year thereafter. In the final year of the agreement, the SIP cap reaches $119 million. Beginning in fiscal 2011, Microchip would be subject to standard property tax rules and assessed values would equal those described above in Scenario 1.

---

[1] This assumes that most of the remaining machinery has already depreciated to their minimum levels (i.e., 10 percent of their original value).

ALTERNATE USE (SCENARIO 3)

As discussed previously, Multnomah County retained an appraiser to review and critique a variety of assumptions associated with SIP agreement. A key aspect of the appraiser's assignment was to determine the property's highest and best use if it no longer served as a chip-making facility.

The appraiser has concluded that because of the highly specialized design of the building, the existing building shell could *not* be put to an alternative use. Fujitsu designed low ceiling heights on several levels to hold specialized utilities. Moreover, floors directly below the buildings clean rooms are filled with a complex network of support beams that protect the clean rooms from seismic and man-made vibrations. Finally, the building has no regular HVAC system but rather employs a highly sophisticated air intake and cleaning system that would not be useful to a conventional office or industrial use.

Given the building's unique design, the appraiser predicts that—if not used in a chip-making function—the building's shell would be removed from the property and new development would start from scratch. The appraiser sees the next best use as an industrial park, which would combine a mix of warehousing, transportation, logistics, and industrial office uses. An industrial park could make use of more of the available land than does the current facility. Specifically, the appraiser estimates that 93 of the site's 199 acres are developable and could support 1.6 million square feet of building space. For the purposes of the estimate, we assume the construction of space would be phased-in during 2004-2007.

Finally, for Scenario 3, we assume that the first phase of the industrial park would be completed and join the tax rolls in fiscal year 2004. Space would lease for $51 per square foot in that year, which allows us to calculate a real market value for the property. Under Oregon property tax rules, however, the assessed value for this type of use would be roughly one-half of the real market value. Once the County determines the assessed value, the amount would increase by 3 percent annually. Given our assumption that the development would be phased in during 2004-2009, the assessed values would increase more rapidly in the early years.

Table 4-2. Assessed Values Comparison (in Millions of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	205.05	100.00	26.73
2005	233.87	103.00	35.84
2006	263.46	106.09	45.48
2007	410.69	109.27	55.67
2008	515.89	112.55	57.34
2009	488.43	115.93	59.06
2010	455.46	119.41	60.83
2011	391.10	391.10	62.66
2012	365.18	365.18	64.53
2013	355.71	355.71	66.47
2014	357.32	357.32	68.46
2015	361.96	361.96	70.52
2016	366.63	366.63	72.63
2017	371.35	371.35	74.81
2018	376.20	376.20	77.06

SIP agreement ends 2010

Source: Microchip Technology Inc.'s Investment schedule and ECONorthwest's Alternate Use Model

PROPERTY TAXES

TAX RATES

In the most recent tax year, Fujitsu paid $16.79 in property taxes per $1,000 of assessed value. The $16.79 was composed of $13.12 associated with permanent tax rates for seven local taxing districts (see Table 4-3). The remaining $3.66 per $1,000 assessed value was associated with a variety of bond levies and a local option tax for the Multnomah County Library.

While the permanent rates are likely to be stable in the future, the requests of local governments for additional bond or local options, and the voters' willingness to approve them will cause the property's overall property tax rate to vary from year to year. For the purposes of estimating property taxes under Scenarios 1 and 2, we have assumed the overall tax rate would remain at $16.79 per $1,000 assessed value throughout the forecast period.

For Scenario 3, the property's owner would pay taxes at a slightly higher rate: $17.26 because the tax rates for the education districts would not be compressed under Measure 50 rules, as they would be under the chip-making use[2].

---

[2] Measure 50 rules limit property tax rates to $5.00 per $1,000 of *real market value*. On the existing Fujitsu site, three education districts have a combined permanent tax rate of $5.48. If Microchip locates on the property, real market value and assessed value are identical, so education-related taxes would be $5.48 per $1,000 of real market value, which triggers

Table 4-3. Assumed Property Tax Rates (per $1,000 of Assessed Value)

Tax District	Microchip Use	Alternate Use
Multnomah County	4.34	4.34
City of Gresham	3.61	3.61
Port of Portland	.07	.07
Metro	.10	.10
Gresham-Barlow 26J	4.13	4.53
Multnomah County ESD	.42	.46
Mt. Hood CC	.45	.49
Total District Rate	13.12	13.60
Bonds	3.66	3.66
Total Property Tax Rate	16.79	17.26

Source: Multnomah County Tax Assessor

TOTAL PROPERTY TAXES AND FEES

Having estimated the assessed values and property tax rates under each of the three scenarios, we turn to a calculation of property taxes. Table 4-4 shows that if Microchip were to locate in Gresham without the SIP agreement (Scenario 1), the company would pay $3.4 million in property taxes in fiscal year 2004. Given the company's anticipated investments in machinery during the upcoming years, property taxes would reach a high of $8.2 million in fiscal 2009 and then decline gradually thereafter.

With the SIP agreement in place (Scenario 2), Microchip's property tax payments would be capped at $1.7 million in fiscal 2004 and would remain at or below $2.0 million throughout the life of the agreement. In fiscal 2011 and thereafter, the company's property tax payments would be subject to standard rules and would be identical to those estimated in Scenario 1. The SIP agreement additionally calls on Microchip to pay community service fee equal to 25 percent of their calculated property tax savings. Community service fees would start at $0.4 million in fiscal 2004, rise to $1.7 million in 2008, and then drop to $1.4 million in the last year of the agreement. The company would pay no community service fees after fiscal 2010.

Under the alternate use, we estimate the property would generate $0.5 million in property taxes in fiscal year 2004. Assuming the gradual phase in of the new property use, property tax receipts would double, reaching $1.0

compression under the Measure 50 rules. Under those rules, each districts rate is reduced proportionately so that the total equals $5.00 per $1,000. By contrast, assuming the alternate use, the property's assessed value would be equal to only 54 percent of its real market value. Therefore, the property owner would essentially pay $2.96 per $1,000 of real market value (that is, the $5.48 combined permanent rates multiplied by 54 percent), which is well below the $5.00 limit.

million in fiscal year 2007. Thereafter, we assume the property's assessed value, and property taxes, would increase 3 percent annually.

Table 4-4: Property Taxes and Fees Paid under Alternative Scenarios (in Millions of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP			Alternate Use
	Property taxes	Property taxes	Community Service Fees	Total	Property taxes
2004	3.4	1.7	0.4	2.1	0.5
2005	3.9	1.7	0.5	2.3	0.6
2006	4.4	1.8	0.7	2.4	0.8
2007	6.9	1.8	1.3	3.1	1.0
2008	8.7	1.9	1.7	3.6	1.0
2009	8.2	1.9	1.6	3.5	1.0
2010	7.6	2.0	1.4	3.4	1.0
2011	6.6	6.6	0.0	6.6	1.1
2012	6.1	6.1	0.0	6.1	1.1
2013	6.0	6.0	0.0	6.0	1.1
2014	6.0	6.0	0.0	6.0	1.2
2015	6.1	6.1	0.0	6.1	1.2
2016	6.2	6.2	0.0	6.2	1.3
2017	6.2	6.2	0.0	6.2	1.3
2018	6.3	6.3	0.0	6.3	1.3

SIP agreement ends 2010

Source: ECONorthwest

By comparing the property tax and fee payments under the alternative scenarios, we can calculate the value of the agreement to Microchip and local taxing districts. The difference between taxes and fees paid with and without the SIP agreement represent the savings or benefit to the company (Scenario 1 minus Scenario 2). Tax savings start at $1.3 million in fiscal year 2004, increase to $5.1 million in fiscal year 2008, and then decline to $4.2 million in the agreement's final year. Assuming a 6.1 percent corporate bond rate to discount the stream of payments, we estimate the net present value of the agreement to Microchip is $17.3 million. The agreement produces no tax savings for the company after fiscal year 2010.

To calculate the benefit of the agreement to local taxing districts, we compare tax and fee payments under the SIP agreement to those that would be paid under the alternate use (Scenario 2 minus Scenario 3). With the SIP agreement in place, we estimate Microchip would pay $1.7 million more in property taxes and fees than the alternate use would pay in property taxes. The difference in property taxes and fees under the two scenarios reaches a high of $2.6 million in fiscal year 2008, which is a function of Microchip's investment schedule.

The benefit to local taxing districts increases sharply after the agreement ends. Beginning in 2011, the difference in property taxes paid under

Scenarios 2 and 3 jumps to $5.5 million and remains between $4.8 million and $5.0 million each year thereafter.

By discounting the stream of benefits by a 4.2 percent municipal bond rate, we calculate the net present value of the agreement to local taxing districts. Over the seven-year life of the agreement, the net present value of the increased taxes and fees is $12.2 million. If we assume Microchip remains in Gresham through 2018, the net present value of benefits total $37.2 million.

Table 4-5: Value of the SIP Agreement to Microchip and Local Taxing Districts (in Millions of Current Year Dollars)

Fiscal Year	Value of Agreement to Microchip	Value of Agreement to Local Taxing Districts
2004	1.3	1.7
2005	1.6	1.7
2006	2.0	1.7
2007	3.8	2.1
2008	5.1	2.6
2009	4.7	2.5
2010	4.2	2.4
2011	0.0	5.5
2012	0.0	5.0
2013	0.0	4.8
2014	0.0	4.8
2015	0.0	4.9
2016	0.0	4.9
2017	0.0	4.9
2018	0.0	5.0
Net Present Value (2004-2018)	17.3	37.2
Net Present Value (2004-2010)	17.3	12.2
Assumed Discount Rate	6.1%	4.2%

SIP agreement ends 2010

Source: ECONorthwest

In considering a tax abatement, policymakers want to know whether the benefiting company will pay taxes sufficient to cover the demands that the company and its employees will make on local governments. The company itself will use City and County police, fire, and emergency services and will turn to local institutions of education for skilled workers. Although many of Microchips employees will be individuals who lost their jobs at Fujitsu, additional workers locating here will place increased demands on schools, parks, and roadways.

One way to roughly assess how Microchip's entry into the community would affect the fiscal positions of local governments is to estimate the amount of *property taxes and fees that would be paid per worker* and compare the amount to the existing area average.

Table 4-6 divides the amount of property taxes and fees (reported in Table 4-4) by the number of direct Microchip jobs (reported in Table 3-2 from the previous section). Recall Microchip's projected employment starts at 204 in fiscal year 2004 and reaches a plateau at 401 in 2009. Given those job projections, Microchip's property taxes per worker would total $16,865 in fiscal year 2004, assuming Microchip did not receive the SIP. Under the no-SIP scenario, property taxes per worker would increase to $26,882 in fiscal year 2008 and would fall thereafter as the company's employment increased and assessed value gradually declined.

With the SIP, total property taxes and community service fees would fluctuate between $8,511 and $11,119 during the life of the agreement. Considering property taxes alone, Microchip would pay between $4,996 and $8,225 per worker during 2004-2010.

Table 4-6: Property Taxes and Community Service Fees per Worker

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP
2004	16,865	10,385
2005	17,211	9,987
2006	17,267	9,532
2007	24,093	10,831
2008	26,882	11,119
2009	22,764	9,743
2010	19,057	8,511
2011	16,364	16,364
2012	15,280	15,280
2013	14,884	14,884
2014	14,951	14,951
2015	15,145	15,145
2016	15,340	15,340
2017	15,538	15,538
2018	15,741	15,741

SIP agreement ends 2010

Source: ECONorthwest

Looking across Multnomah County, we estimate that commercial, industrial, and utility properties paid a total $279.8 million in property taxes in calendar year 2000. Covered employment for the same period totaled 453,254, so we estimate businesses on average paid $617 per worker, which is considerably lower than would be paid by Microchip. In short, this simple calculation suggests that, with or without the SIP, Microchip's entry into the community would likely have a positive effect on the fiscal position of local governments.

PROPERTY TAXES BY DISTRICT

For the local district analysis, we report property taxes that would be received by each local tax district. We estimate tax receipt by applying the permanent tax rates reported in Table 4-3. For the tables listed below, we

have chosen selected years that exhibit property tax receipts for each of the seven affected districts.

Table 4-7. Estimated Property Tax Receipts for Multnomah County (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	891	434	76
2010	1978	519	249
2018	1634	1634	315

SIP agreement ends 2010

Source: ECONorthwest

Table 4-8. Estimated Property Tax Receipts for City of Gresham (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	741	361	64
2010	1646	431	207
2018	1359	1359	262

SIP agreement ends 2010

Source: ECONorthwest

Table 4-9. Estimated Property Tax Receipts for Metro (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	20	10	2
2010	44	12	6
2018	36	36	7

SIP agreement ends 2010

Source: ECONorthwest

Table 4-10. Estimated Property Tax Receipts for Port of Portland (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	14	7	1
2010	32	8	4
2018	26	26	5

SIP agreement ends 2010

Source: ECONorthwest

Table 4-11. Estimated Property Tax Receipts for Gresham-Barlow 26J (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	848	413	80
2010	1883	494	260
2018	1555	1555	329

SIP agreement ends 2010

Source: ECONorthwest

Table 4-12. Estimated Property Tax Receipts for Multnomah County ESD (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	86	42	8
2010	190	50	26
2018	157	157	33

SIP agreement ends 2010

Source: ECONorthwest

Table 4-13. Estimated Property Tax Receipts Mt. Hood Community College (in thousands of current year dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	92	45	9
2010	204	54	28
2018	169	169	36

SIP agreement ends 2010

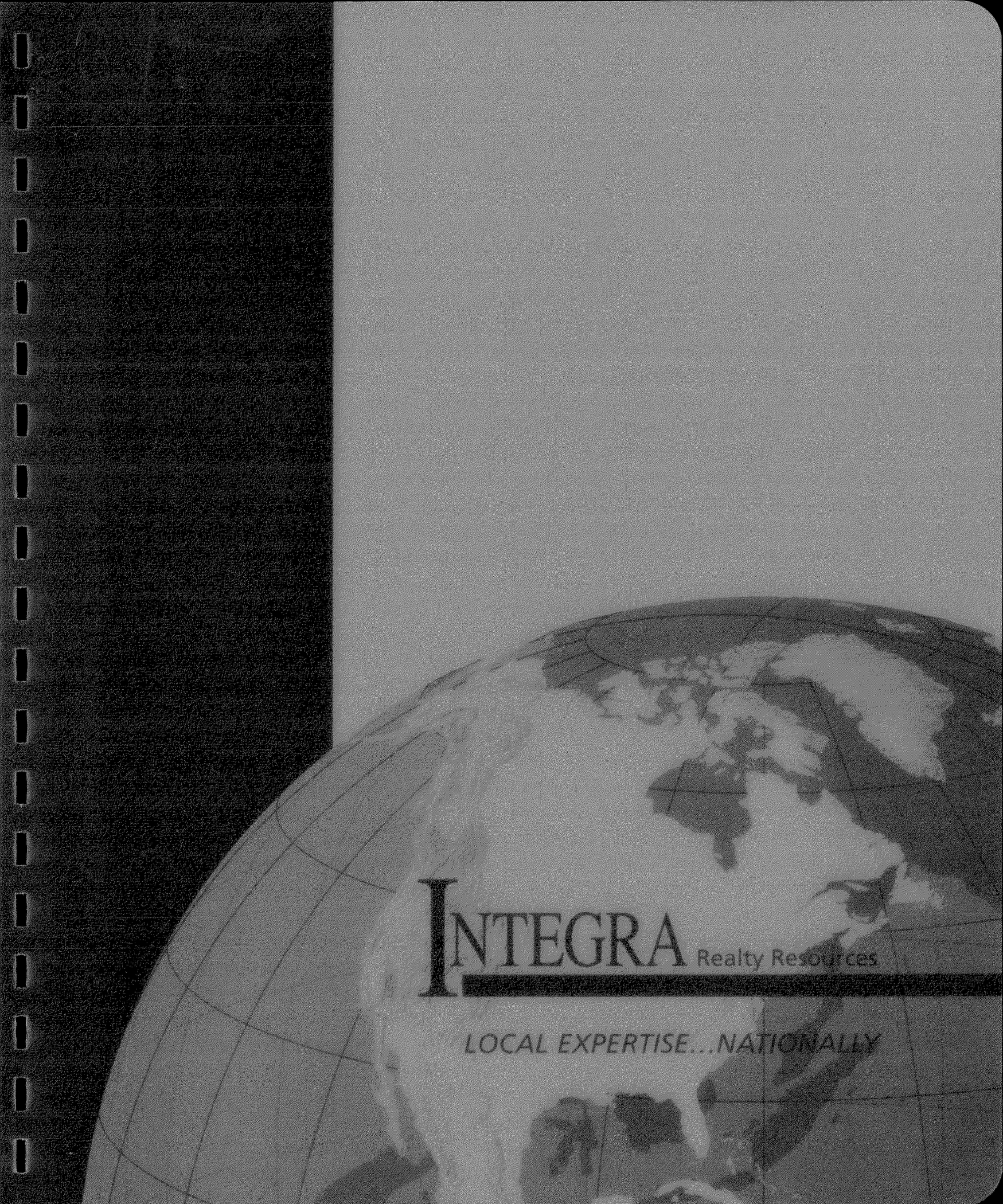
Source: ECONorthwest

Section 5 Infrastructure Considerations

The planned use by Microchip of the former Fujitsu Fab will have minimal infrastructure costs for the City of Gresham. The City of Gresham issues land use permits based on their ability to accommodate the use of the land. These uses include traffic and sewer needs. The Fujitsu fabrication plant received a land use permit in 1984 and was approved again in 1995. The land use permit takes into consideration proposed impacts on traffic and sewer infrastructure. Traffic studies and water capacity estimates are required for sites with new development or a change in use. The current permit would be transferable to new occupants given similar use. The land use permits are re-approved after 10 years. With the last permit approved in 1995 the next permit will need to re-approved in 2005.

The director of the City of Gresham's Community and Economic Development department, Max Talbot, confirmed, that the land use permit will be transferable for semi-conductor use and that no additional traffic study was necessary for the site. The immediate intersections have center turn lanes. There is access to I-84 from the 207th Avenue interchange via 223rd Avenue from Stark. Given that Microchip anticipates hiring fewer employees than were employed by Fujitsu, traffic impacts should be lower as well.

With respect to sewer connections, according to Talbot, the site currently contains twice as much capacity as was used by Fujitsu. Fujitsu had previously purchased the excess sewer capacity. Talbot did not expect new semi-conductor use to put strains on this infrastructure.


INTEGRA Realty Resources
LOCAL EXPERTISE...NATIONALLY

INTEGRA Realty Resources
CURTIS SLOCOM • PORTLAND, OR

LOCAL EXPERTISE...NATIONALLY

LIMITED APPRAISAL IN A SUMMARY APPRAISAL REPORT
INDUSTRIAL PROPERTY

Fujitsu - Gresham
21005-21015 SE Stark Street
Gresham, Multnomah County, Oregon 97030

PREPARED FOR:
Mr. David Boyer
Finance Director
Multnomah County
501 SE Hawthorne Blvd., Fourth Floor
Portland, Oregon 97293

EFFECTIVE DATE OF THE APPRAISAL:
July 1, 2002

INTEGRA REALTY RESOURCES - PORTLAND
File Number: 134-2002-0099

Fujitsu - Gresham
Gresham, Oregon

INTEGRA Realty Resources
PORTLAND, OREGON

July 30, 2002

Mr. David Boyer
Finance Director
Multnomah County
501 SE Hawthorne Blvd., Fourth Floor
Portland, Oregon 97293

SUBJECT: Market Value Appraisal
Fujitsu - Gresham
21005-21015 SE Stark Street
Gresham, Multnomah County, Oregon 97030
Integra Portland File No. 134-2002-0099

Dear Mr. Boyer:

Integra Realty Resources - Portland is pleased to submit a summary report of a limited appraisal that was prepared on the above referenced property. The purpose of this appraisal is to develop an opinion of the market value of the fee simple estate of the property as of July 1, 2002, the effective date of the appraisal. The attached report sets forth the data, research, analyses, and conclusions for this appraisal.

The report has been prepared in conformity with the *Uniform Standards of Professional Appraisal Practice (USPAP)* and the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute. Our opinion of market value is premised upon the Assumptions and Limiting Conditions contained within this report. The definition of market value is in Addendum B.

This report is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a limited summary appraisal report. As such, portions of the report are presented in an abbreviated, summary format. At the client's request, only one approach has been completed in this report, and we selected the sale comparison approach as the most reliable. As a result, this report is limited and the value conclusion may be less reliable than if all three approaches had been completed. The depth of discussion contained in this report is specific to the needs of the client and for the intended use as noted herein.

812 SW Washington Street • Suite 850 • Portland, OR 97205 • Phone: 503-222-7066 • Fax: 503-274-8630 • Email: portland@irr.com

The site has an area of approximately 199.39 acres; it is improved with a microelectronics manufacturing facility that is comprised of four buildings constructed between 1988 and 1997, and upgraded in 2000, which contain approximately 826,600 square feet of gross building area. As of the effective date of the appraisal, the property is vacant.

Based on the analyses and conclusions in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed in this report, it is our opinion that the market value of the fee simple estate of the property, as of July 1, 2002, is

ONE HUNDRED EIGHTY MILLION DOLLARS
$180,000,000

If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

INTEGRA REALTY RESOURCES - PORTLAND

Donald L. Singer, MAI
Certified General Real Estate Appraiser
Oregon Certificate #C000055

TABLE OF CONTENTS

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property	Fujitsu - Gresham 21005-21015 SE Stark Street Gresham, Multnomah County, Oregon 97030
Property Tax Identification Numbers	Tax Lots 1300, and 1301 of Map 1N3E33. There are also three improvement only tax accounts associated with the property; R321941, R321942, and R505531.
Owner of Record	Fujitsu Microelectronics, Ibjtc Leasing, and BOC Group
Date of the Report	July 30, 2002
Effective Date of the Appraisal	July 1, 2002
Land Area	Total site area is 199.39 acres; 8,685,428 square feet. Approximately 68 acres used to support the subject microelectronics facility; 2.54 acres is occupied by a ring bus type substation; approximately 75.4 acres are estimated to be unusable due to ponds, wetlands, creeks, and/or isolation due to these features; and, 53.45 acres is not utilized in the current configuration. 124 acres are estimated to be useable.
Gross Building Area (GBA)	826,600 square feet
Current Occupancy	Vacant
Year Built	Fab 1 and Utility Building 1 were constructed in 1988. Fab 2 and Utility Building 2 were constructed in 1997. Fab 1 was completely updated in 2000.
Zoning Designation	LI, Light Industrial (Primarily intended to provide for a wide range of manufacturing uses, as well as limited office, commercial services and retail trade when icluded as a mixed use development.)
Floodplain Map Panel Number and Date	41081 0003 E; 9/28/90

Floodplain Designation	The site includes areas within the 100-year flood plain. The applicable zone designations are Zone X, Zone AE, Zone AH, and Zone AO. For more detail please refer to the Site Description section of this report.
Assessed Value 2002-03 Tax Year	$174,430,000 (per the results of a settlement with the State of Oregon and Multnomah County for the real property and personalty, plus an estimate of the real market value for the land for the upcoming tax year).
Highest and Best Use as Improved	Continued manufacturing use
Property Rights Appraised	Fee simple estate
Estimated Exposure Time and Marketing Period	12-18 months/12-18 months
Market Value Indications	
Cost Approach	Not Used
Sales Comparison Approach	$180,000,000
Income Capitalization Approach	Not Used
Market Value Conclusion	**$180,000,000**

GENERAL INFORMATION

IDENTIFICATION OF SUBJECT

The property is a microelectronics fabrication facility comprised of four buildings with a gross building area of 826,600 square feet. The street address is 21005-21015 SE Stark Street, Gresham, Oregon 97030.

The site has an area of 199.39 acres, or 8,685,428 square feet, more or less. Approximately 70.54 acres of land is utilized in support of the fabrication plant, including a 2.54 acre electrical substation; approximately 75.4 acres of land is located in ponds, wetlands, creeks, or inaccessible due to the natural features; and, approximately 53.45 acres is not utilized in the current development. Please refer to the Site Description section of this report for a full discussion of the usable and unusable land areas.

The Multnomah County Assessor's Office identifies five tax accounts associated with the property. Tax Lots 1300, and 1301 of Map 1N3E33 (aka R321939 and R321947) are the land parcels. The three remaining tax accounts are improvement only accounts. They are R321942, R321941, and R505531. Photographs of the subject are in Addendum C.

CURRENT OWNERSHIP, SALES HISTORY, STATUS

The property is currently owned by Fujitsu Microelectronics, Ibjtc Leasing Corp., and BOC Group. To the best of our knowledge, no sale or transfer of ownership has occurred within the past three years, and as of the effective date of this appraisal. The property is currently subject to an agreement of sale for $183,500,000, as configured and described in the Site and Improvement Descriptions of this report.

PURPOSE, PROPERTY RIGHTS AND EFFECTIVE DATE

The purpose of the appraisal is to develop an opinion of the market value of the fee simple interest in the property as of the effective date of the appraisal, July 1, 2002. Unless otherwise stated, all factors pertinent to a determination of value have been considered as of this date.

INTENDED USE AND INTENDED USER

This appraisal report has been prepared for Mr. David Boyer, Finance Director, Multnomah County, 501 SE Hawthorne Blvd., Fourth Floor, Portland, Oregon, for use in due diligence research to assist in establishing the impact of the pending sale on Multnomah County finances. It is not intended for any other use or user.

SCOPE OF APPRAISAL

As part of this appraisal, we have taken the following steps to gather, confirm, and analyze relevant data.

- Physically inspected the property and the surrounding market area. An interior and exterior inspection of the property was conducted by Donald L. Singer, MAI and Kathleen E. Buono on July 1, 2002.

- Collected factual information about the property and the surrounding market and confirmed that information with various sources.
- Prepared a highest and best use analysis of the subject site as though vacant and of the property as improved.
- Collected, confirmed and analyzed market information.
- Prepared an appraisal report setting forth the conclusions developed in this analysis as well as the information upon which the conclusions are based.

This is a Limited Appraisal in a Summary report that conforms with the requirements of the *Uniform Standards of Professional Appraisal Practice (USPAP)*, the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute, and the appraisal regulations issued in connection with the *Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)*.

The cost approach and income approach to value have not been used in the completion of this appraisal.

Given current market conditions for fabs, the cost approach is not appropriate in the valuation of a facility such as the subject. First, due to the intricate design of the facility, it would be extremely difficult to estimate it's depreciated value, inclusive of the toolsets which are included in the sale. Second, and by extension, based on our research, buyers and sellers of fabrication facilities do not base price on depreciated book value, because depreciated book does not capture the impact of market forces such as supply and demand, limited number of potential buyers with sufficient capitalization, rapid changes in technology. As such, the Cost Approach was not applied in this analysis.

The income approach is also not appropriate in the valuation of this microelectronics fabrication facility, because these types of properties are rarely, if ever leased. In our research we found few leases, and those found were synthetic leases. Synthetic leases are not a reflection of real estate markets, but are off balance sheet forms of debt financing.

Pertinent definitions, including the definitions of market value and property rights appraised, are in Addendum B.

ECONOMIC ANALYSIS

PORTLAND MSA ANALYSIS

INTRODUCTION

The Portland-Vancouver Metropolitan Area is located in northwest Oregon and southwest Washington. It comprises Washington, Clackamas, Multnomah, Yamhill and Columbia counties in Oregon, and Clark County in Washington State.

Portland's good transportation system and infrastructure, access to West Coast and Asian markets, relatively low cost of energy, and abundant clean water makes it the region's financial center, and the national and international headquarters for a number of major corporations.

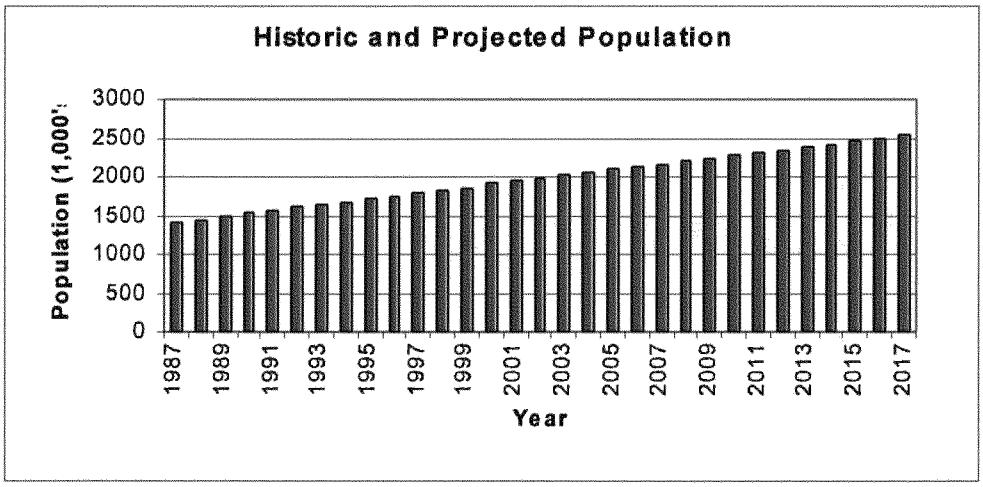
According to the National Bureau of Economic Research, the country is officially in a recession. First signs of a recession date back to March 2001, but it didn't become clear until October whether or not the economic slowdown would actually result in a full-fledged recession.

Oregon is no exception; it has been in a state of economic decline since the third quarter of 2000, and it was officially proclaimed to be in a recession as of October 2001.

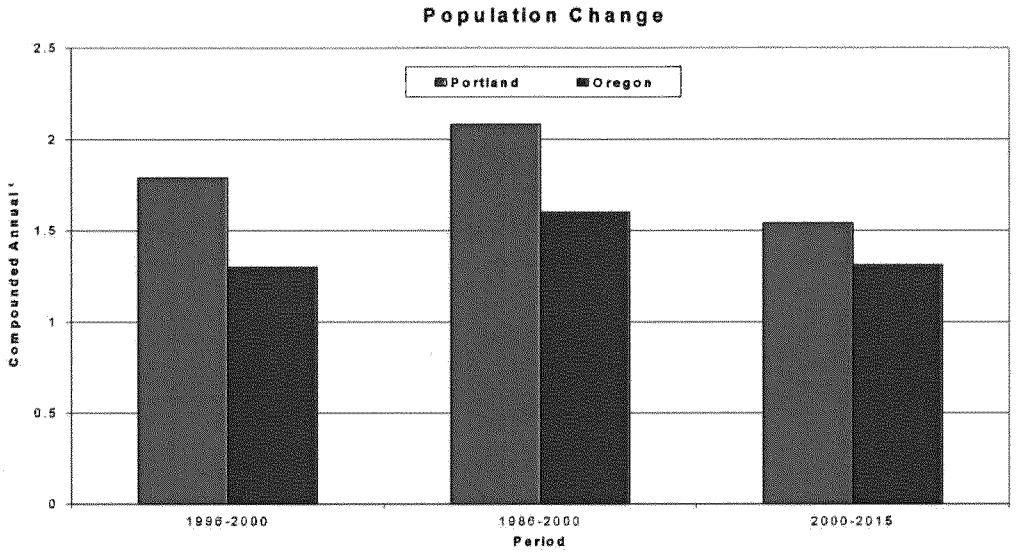
Economic analysts expect to see signs of recovery in the second half of 2002, but speculate that Oregon's recovery may be delayed by its reliance on capital goods industries.

POPULATION

Historic and projected population trends for the Portland MSA are depicted in the following chart.



The population of Portland MSA increased at a compounded annual rate of 2.15% from 1997 to 2001, outpacing the State of Oregon (1.67%). Looking ahead over the next 15 years, both Portland MSA and the State of Oregon are expected to increase in population, as evidenced by the following graph.



EMPLOYMENT

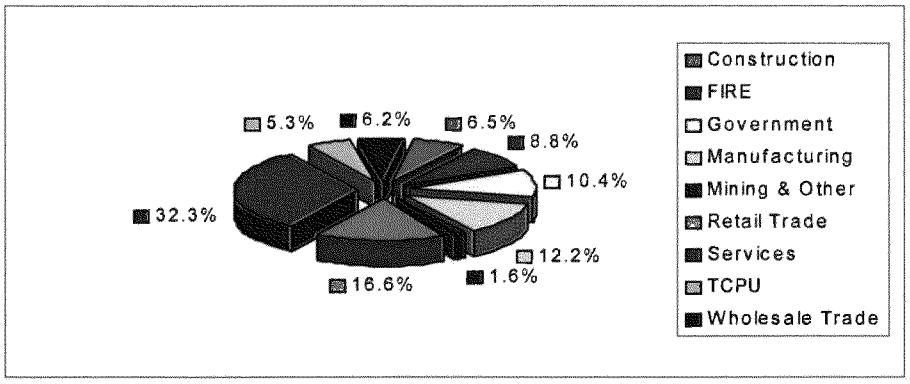
The Portland metropolitan area accounts for almost one fifth of the state's manufacturing employment, and approximately 59.7% of the State of Oregon's employment. Portland MSA surpassed the State of Oregon in employment growth over the last five years. Estimates for the next five and fifteen year periods reflect rates of employment growth for the Portland MSA to be above those of the State of Oregon.

Throughout the 90's, the Portland area's unemployment rate remained well below that of the rest of the state. However, due to job loss in the high tech sector and transportation-equipment manufacturing, important components of the Portland MSA's employment, this trend was reversed in September 2001.

Oregon and the Portland MSA has a relatively high percentage of employment in manufacturing industries, which have been hit the hardest. Many jobs have been lost in the high-tech industry, which, in turn, caused a decline in other employment sectors.

In November 2001 Oregon had the highest unemployment rate in the country, 7.4%, closely followed by Washington State, which ranked second with 7.0%.

An analysis of employment mix will further establish an understanding of the economies of the Portland MSA and the State of Oregon. The following chart depicts the current distribution of employment by industry.



The preceding chart shows that in 2001, the largest employment sectors in Portland MSA were Services, Retail Trade, Manufacturing, and Government, similar to the State of Oregon.

Fifteen year projections for the Portland MSA indicate that, on a weighted basis, the increases in the Services and Retail Trade sectors will have the most significant impact on employment in the Portland MSA as well as for the State of Oregon.

INCOME

Personal income is a significant factor in determining the real estimate of demand in a given market. In 2001, the projected income per capita was $27,877 for the State, and $31,314 for the Portland MSA. The 2001 projected household income was $69,640 for Oregon the State, and $78,687 for the Portland MESA.

The Portland MSA's per capita income has historically achieved a growth rate similar to the State as a whole. Average annual compound change in the past 15 years was 3.11% for Oregon and 3.20 for the Portland MSA; this trend is expected to continue in the next five and fifteen year periods.

Portland is the most significant high-tech employment center in Oregon, and it is worth noting that the average high-tech wage is nearly twice as much as the statewide average private sector wage.

CONCLUSION

The Portland MSA, and the State of Oregon, has been impacted by a gradual economic decline over a period of a year. It is in a recession, and economic rebound is not expected until mid to late 2002. Despite the current state of the economy, the total population for both areas is projected to increase at moderate rates thereafter. More importantly, both areas are projected to experience employment growth as soon as the recovery begins.

Oregon remains a desirable place to live because of its affordability, good transportation system, education, culture, healthy environment, and low crime rate.

Based on our analysis, it is anticipated that over the long term the State of Oregon and the Portland MSA will continue to grow and prosper. The expected growth should provide an economic base that supports demand for real estate in the subject neighborhood and for the region.

MARKET AREA ANALYSIS

The subject is located near the northeastern boundary of the city of Gresham, a community located approximately 16 miles east of the Portland City Center. Gresham is the second largest city within the Portland Metropolitan area. It is located near the I-84 and I-205 freeway systems. Most residents are employed outside Gresham, commuting to Portland or other communities in the metro area.

Transportation between Gresham and Portland is heavy, due to the nature of Gresham as a "bedroom" community, and because of its location between Portland (and communities to the west and south) and the recreational opportunities in the Mt. Hood National Forest and the Columbia River Gorge. For commuters, as well as travelers heading to recreational activities east of Gresham, the primary arterials are I-84, Burnside Road, Division Street, and Powell Boulevard (US Highway 26). In addition to these major arterials, Gresham is served by the MAX light rail line. This line connects Gresham with Portland, and the communities of Beaverton and Hillsboro to the west. In 2001 the MAX light rail line was extended to provide service to the Portland International Airport. These transportation systems facilitate easy travel to the Portland area.

Approximately 70% of the land area in Gresham is zoned for residential use with approximately 9.3% vacant and available for development. Single-family detached homes comprise the bulk of the developed housing; however, in recent years, more multi-family and shared wall single-family construction has been built than in the past. Commercial uses are located in the relatively small downtown area, or central business district (CBD), and along the major arterials. The boundaries of the CBD are loosely defined as NW Eastman Parkway on the west, East Burnside on the north, NE Cleveland Avenue on the east, and E Powell Valley Boulevard to the south.

Over the past ten years, Gresham has begun to change from a bedroom community of Portland to include a larger employment base than in the past. This has been effected by several large corporations having located in the Gresham area. These include Albertson's, Boeing, Fujitsu Micro-Electronics, LSI logic Corporation, and US Bancorp. The recent economic slowdown has had a negative impact on Gresham employment. Boeing laid off employees at its Gresham plant, and Fujitsu Micro-Electronics recently closed its manufacturing plant (subject of this appraisal). The Fujitsu closure represents the loss of 670+/- jobs in the Gresham market, and a loss of nearly 10% of the city's property tax revenues.

Industrially zoned land accounts for about 18% of the land area in Gresham, a majority of which is located in the South Shore area of the Columbia Corridor. The rough boundaries of the South Shore area are I-205 to the west, the Columbia River on the north, I-84 to the south, and 181st Avenue to the east. The pace of development of this area has increased over the past few years after sewer services and Airport Way were extended to it's terminus at 181st.

A City of Gresham survey done in 1991 indicated a supply of 1,620 vacant acres of industrially zoned land. In 2000, the City made a second survey and found only 853 vacant acres remained - less than half of the 1991 figures. Additionally, the survey indicated that only 127 acres of the remaining vacant industrial land is free of environmental, ownership or infrastructure constraints. Parcel size is another issue - only six parcels are larger than 40

acres, 102 are less than four acres and, all of the largest parcels are constrained in some way. Gresham is not alone in its shortage of ready to build industrial sites. Recent studies have indicated there is a region wide shortage that may be as high as 3,900 acres [1].

The subject property is located between SE Stark Street and NE Glisan, and between SE 205th and SE 214th Avenues. It is situated near the northeast boundary of the city of Gresham, as well as the southern boundaries of Fairview, Wood Village, and Troutdale. The area is primarily characterized by residential uses, an abundance of available land, and newer retail and mixed use developments, such as Wood Village Town Center and Fairview Village.

Fairview, Wood Village and Troutdale are suburban Portland communities that straddle the I-84 corridor. Until recently, all three were small semi-rural towns located between Portland and the recreational activities of Columbia Gorge. In recent years, these three cities have witnessed significant population growth, and are now considered extensions of the Portland metro area.

Fairview and Troutdale have realized the most growth. According to the 2000 Census, Fairview has experienced a population increase of over 330% since 1980, which equates to an average annual increase of 16.6%. Troutdale increased from 5,908 residents in 1980 to 13,777 in 2000. This equals an increase of approximately 133%, or 4.32% average annual growth.

Troutdale, located northeast of the subject, has been dubbed "the gateway to the Columbia River Gorge", and marks the western most boundary of the Columbia River Gorge Scenic Area. Major attractions in Troutdale include an historic downtown area; the Columbia Gorge Factory Stores - an outlet mall featuring 45 retailers including Adidas, Gap, Bass, and Calvin Klein; and McMenamin's Edgefield Manor – the former Multnomah County Poor Farm that is now on the National Historic Registry – which is a 38 acre facility that includes a bed and breakfast, brewery, winery, movie theater, 18 hole golf course and several pubs and restaurants.

Development patterns surrounding the subject are primarily residential with supporting commercial uses. The SE Stark Street Corridor is primarily developed with older, single-tenant commercial uses, and includes a significant amount of vacant land. However, there are two new developments of note - Fairview Village and Wood Village Town Center. Fairview Village, is located immediately northeast, across NE Glisan, from the subject. It is a master planned community with a mix of single-family residential, row houses, apartments, retail uses, office, and civic amenities. In addition to a significant amount of single-family and multi-family developments, Fairview Village currently includes Fairview City Hall, a public library, post office, Woodland Elementary (located immediately northeast and across Glisan from the subject), as well as several retail developments (including Target and a small "main street"). Village Commercial Area, which will include both Class A office and retail, is planned for development in the near future.

The Wood Village Town Center is located at the northeast corner of NE Glisan and NE 223rd Avenues. Until recently this property was developed with the Multnomah County Greyhound Race Facility and surrounded by farm land. A recent development/expansion of the

[1] **Trends**, City of Gresham, Long Range Planning Section, Winter/Spring 2002.

commercial uses at this property include the construction of a Fred Meyer, and a Lowes Home Improvement Center.

As previously mentioned, the immediate area includes a large amount of vacant land. More than 15 acres of vacant land between 202nd and 223rd Avenues are posted "for sale". At least another 15 acres is vacant, but not actively marketed at this time. With the exception of Wood Village Town Center, Fujitsu, a light industrial development, and the LSI campus, NE Glisan, between 181st and 223rd Avenues, is primarily developed with residential uses. A large tract of vacant land located at the Northwest corner of NE Glisan and 207th is currently in the application phase for development of an apartment community.

In summary, the subject is located in Gresham, a bedroom community of Portland. Commercial, residential, and industrial growth in the greater Gresham area has shown a steady increase in recent years. Furthermore, it is located at the northeastern boundary of Gresham, adjacent to the cities of Fairview, Troutdale, and Wood Village. The area has historically been rural, but in recent years has grown to become a suburban extension of the Portland metro area. Primary development patterns have been residential, with a moderate amount of supporting commercial and industrial located along the major arterials.

PROPERTY ANALYSIS

DESCRIPTION AND ANALYSIS OF THE LAND

The following description is based on our inspection of the property as well as information provided by Colliers International, the City of Gresham, and Multnomah County.

PHYSICAL FEATURES

Land Area	The site totals approximately 199.39 acres, or 8,685,428 square feet. It is irregularly shaped, but could roughly be described as "T" shaped. The northwest quadrant is encumbered by Fairview Creek, wetlands, and two ponds. Additional wetlands extend along the north boundary with NE Glisan from the east boundary of the ponds/wetlands to the west site boundary. An unnamed tributary extends south from the northwest corner of the property in an arcing "Y" shape. The southern quadrant (stem of the "T") is currently utilized in support of the improvements. We were not provided a survey that delineates between usable and unusable acreage. However, a full discussion of usable vs. unusable land area follows this table.
Configuration	Irregular, refer to Addendum D.
Topography	Generally level with some areas of slope
Drainage	Adequate

Floodplain, Wetlands, and Natural Resource Areas

The subject is encumbered by Fairview Creek, two ponds, wetlands, and an unnamed tributary of Fairview Creek. For this reason, portions of the subject are affected by the 100-year flood plain, are included in the National Wetlands Inventory (NWI), and identified by the City of Gresham as a Natural Resource Zone.

The flood plain, wetlands, and natural resource areas are primarily concentrated in the northwestern quadrant of the site; however, a portion extends along the northern site boundary fronting NE Glisan and then south, along the east site boundary.

Floodplain, Wetlands, and Natural Resource Areas (Cont'd)

FEMA Panel # 410181 0003 E, dated September 28, 1990

Flood Zone Portions of the subject are within the 100-year flood plain. The flood plain zones are situated in a north-south alignment in the western quadrant of the site, and then extend east along the north boundary fronting NE Glisan. The zone designations within the 100-year flood plain are Zone X (areas of 500-year flood and/or in 100-year flood with average depths less than one foot); Zone AE (flood elevations determined); Zone AH (flood areas between one and three feet depth, typically ponding); and Zone AO (flood areas between one and three feet depth, typically sheet flow in sloping terrain).

Fairview Creek traverses a portion of the property and is within the flood plain. It enters the subject at the approximate west boundary, and extends northward where it drains into two un-named ponds (created by historic gravel mining activity) and then culverted underneath NE Glisan.

Wetlands/Creeks The subject also includes areas that have been mapped as wetlands in the National Wetlands Inventory (NWI), as well as by Shapiro & Associates (commissioned by City of Gresham).

The NWI map identifies the two ponds, and a small portion of land surrounding the ponds, as wetlands. According to John Pettis, City of Gresham, the Shapiro & Associates report (still in draft form) estimates a total of 28.7 acres located in ponds and wetlands (24.3 acres in the ponds and their immediate wetlands, and 4.4 acres in wetlands along NE Glisan).

The Shapiro & Associates estimates do not include any acreage attributable to Fairview Creek, acreage attributable to an unnamed tributary, or acreage that is unusable due to its isolated location relative to the water features.

Floodplain, Wetlands, and Natural Resource Areas (Cont'd)

Natural Resource Area

A portion of the subject has been included by the City of Gresham in their Natural Resource Zone. According to John Pettis, the City of Gresham GIS map has erroneously identified the Natural Resource Zone. As is, the map shows the Natural Resource Zone as an irregularly shaped square that includes the upland area between the ponds, and extends east from the ponds and wetlands to include the electrical substation. In reality, the Natural Resource Zone only includes the two ponds and the immediately adjacent wetlands.

Finally, the City of Gresham has recently completed but has not yet adopted, the Water Quality Resource Area Overlay (WQRA Overlay). The WQRA Overlay has redefined the city's natural resource areas, and will increase setback requirements. The overlay will be adopted if the repeal of Measure 7 is upheld. If, adopted, the unnamed Fairview Creek tributary located in the northeast quadrant of the site, will become a protected waterway and will require between 15 foot and 50 foot buffers. It will also increase the current buffer requirements surrounding the ponds and Fairview Creek from 25 feet to 50 feet. However, John Pettis has indicated the buffer zones can be used toward landscape requirements, if planted with native vegetation.

Environmental Hazards

Environmental evaluation is beyond our scope of expertise. A qualified engineer should be consulted on this matter. No obvious hazardous materials or conditions were observed during our inspection.

Ground Stability

We were not furnished a soil analysis to review but assume that the soil's load bearing capacity is sufficient to support the existing structure. We did not observe any evidence to the contrary during our inspection of the property.

In summary, the site is roughly "T" shaped and the northwest quadrant is encumbered by Fairview Creek, wetlands, and two ponds. Additional wetlands extend along the north boundary from the ponds to the northeast corner of the site. An unnamed tributary extends south from the northeast corner of the property in an arcing "Y" shape. The improved portion of the site is located in the southern quadrant, and extends north from the southern site boundary fronting SE Stark, through the center of the property.

In order to make rough estimates of the usable vs. unusable land areas, we relied on various sources, including an ALTA/ACSM Land Title Survey, produced by Ming Consultants, dated July 3, 2002; information from the National Wetland Inventory (NWI) – provided by Chuck Beasley with Multnomah County Land Use; City of Gresham GIS maps; Multnomah County GIS maps; information regarding wetlands from a Shapiro & Associates Wetlands Survey - provided by John Pettis with the City of Gresham; and, Metroscan.

It should be emphasized that these are rough land area estimates provided for purposes of analysis necessary to the appraisal of the subject property. It is our recommendation that a qualified engineer and/or land surveyor be engaged in order to accurately quantify the usable and unusable acreage.

Ponds and Wetlands – Essentially, there are three separate areas of the site affected by ponds, wetlands and creeks. The first and largest region is located in the northwest quadrant of the site. This area includes Fairview Creek, two unnamed ponds, wetlands, and upland land areas that are considered unusable due to their location relative to the water features. The second is a stretch of wetlands that extends east from the ponds, along the north boundary abutting NE Glisan. The third area is located along in the northeast quadrant of the site and includes an unnamed tributary of Fairview Creek, as well as land area that is unusable due to its location relative to the water feature.

We have relied primarily upon the Metroscan map measuring tool and various maps available to us, including ALTA/ACSM Land Title Survey, to make a rough estimate of the unusable land attributable to ponds, wetlands, creeks, and/or isolation due to the water features. Based on our analysis, there is approximately 65 acres of unusable land area in the northwest quadrant of the site, and approximately 6 acres of unusable land along the east boundary. According to the Shapiro & Associates Wetlands Survey, there is 4.4 acres of wetlands along the north boundary fronting NE Glisan. Adding these three figures together results in a total of 75.4 acres that are unusable.

The subject site is 199.39 acres. The previous discussion has the estimated unusable land area at 75.4 acres. Subtracting the unusable land estimate from the total site indicates the subject property (if vacant) has 124+/- acres of usable land.

Utilized land Area – As previously discussed, the improved portion of the site extends north from the southern boundary through the approximate center of the property. Using the Metroscan map measuring tool, we have estimated the land area currently utilized by the fabrication facility at 68 acres. We based our boundaries for the utilized land area on the ALTA/ACSM survey, and Multnomah County GIS aerial photographs. An additional 2.54 acres is improved with an electrical substation, which brings the total land area in use to 70.54 acres.

Un-utilized Land – In the previous discussion we estimated there is 70.54 acres supporting the existing microelectronics fabrication facility, and 75.4 acres that are unusable due to wetlands, ponds, creeks, and/or isolation. Subtracting these two estimates from the total land area reveals the site includes 53.45 acres of land not utilized in the current configuration. The un-utilized land is irregular in shape, and located primarily in the northeast quadrant of the site.

The following chart summarizes our usable vs. unusable land analysis.

Fujitsu Usable vs. Unusable Land Estimates	
Wetlands/Ponds (NW Quadrant)	65.00 ac.
Wetlands (North Boundary)	4.40 ac.
Unnamed Tributary (East Boundary)	6.00 ac.
Total Unusable Land Area	75.40 ac.
Total Site	199.39 ac.
Unusable Land	75.40 ac.
Total Usable Land (If Vacant)	123.99 ac.
Usable Land Area	123.99 ac.
Land Supporting Fab Plant	70.54 ac.
Total Un-utilized Land (As Imp.)	53.45 ac.

STREETS, ACCESS, FRONTAGE

Street	SE Stark Street	NE Glisan Street
Frontage	Approximately 1,269 feet	Over 3,000 feet
Paving	Asphalt	Asphalt
Curbs/Gutters	Yes	Primarily no
Sidewalks	Yes	Primarily no
Lanes	Four, with center refuge	Two
Direction of Traffic	East -West	East -West
Condition	Good	Average
Traffic Levels	High	Low
Signals/Traffic Control	Subject entry is fully signalized	Signalized at intersection with 207th Avenue
Access	Average	Good
Visibility	Good	Good
Rail Access	No	No

Primary access to the site is provided by one curb cut located along the north side of SE Stark Street, at approximately 210th Avenue. There is one improved curb cut located along the south side of NE Glisan, in the northeastern corner of the property. However, there are several unimproved access points along NE Glisan. On-site improved roadways are minimal.

ZONING

Designation:	LI, Light Industrial
Description:	Primarily intended to provide for a wide range of manufacturing uses, as well as limited office, commercial services and retail trade when included as a mixed use development.
Permitted Uses:	Permitted uses included, but are not limted to manufacturing and processing; fabrication; storage; packing; research and development; warehopusing and servicing activities; repair, finishing, and testing; assembly; distribution; office (up to 40% of total floor area- multiple tenant office is prohibited); commercial services (up to 20% of floor area); retail sales (up to 15% of floor area); and, wholesale activities (up to 20% of floor area).
Zoning Jurisdiction:	City of Gresham
Lot Restrictions	**Required**
Minimum Lot Area	20,000 square feet
Minimum Lot Frontage	80 feet
Minimum Lot Depth	100 feet
Building Restrictions	**Required**
Maximum Height	Three stories or 40 feet, unless equipped with fire sprinkler protection, then height can be increased to 65 feet.
Maximum Site Coverage	60%
Min. Front Setback	25 feet
Min. Side Setback	Zero feet for interior lots, and 15 feet for corner lots
Min. Rear Setback	None
Minimum Parking	See Comments

Conformity

Based on our inspection, a review of the site plan, and a discussion with the zoning official, the current use of the site constitutes a legally permissible use that conforms to the current zoning ordinance.

Minimum and maximum parking standards are dependent upon the type of industrial use. The ratios range from a high of 3.0 to 3.8 spaces per 1,000 square feet of building area to a low of 0.3 to 0.7 spaces per 1,000 square feet of building area. The highest minimums and maximums are allowed for laboratory and R & D facilities; the lowest ratios are found in warehouse, freight and storage facilities. The minimum parking ratio for manufacturing use is 1.6 spaces per 1,000 square feet. The maximum is 2.0 per 1,000 square feet.

As improved, the subject includes approximately 815 paved on-site parking spaces, which equates to a parking ratio of 0.99 spaces per 1,000 square feet of building area. This is slightly lower than the minimum required parking. However, the site includes a significant amount of excess land, a part of which has been graveled for use as parking.

OTHER LEGAL AND REGULATORY CONSTRAINTS

Easements, Encumbrances, and Moratoriums

We were not provided a current title report to review. A copy of an ALTA/ACSM Land Title Survey, produced by Ming Consultants, and dated July 3, 2002, was provided. The land survey identifies several easements including sanitary sewer easements, underground electrical distribution line easements, a NW pipeline right-of-way easement, and an ingress/egress easement for PGE. The easements are located primarily at the perimeter of the site and do not appear to negatively affect development of the site.

A title search is recommended to determine whether any adverse conditions exist. We are not aware of any type of development moratorium that would affect the property.

Encroachments

The ALTA/ACSM Survey revealed no encroachments.

Other Land Use Regulations

We are not aware of any other land use regulations that would affect the property.

UTILITIES

Utility	Provider
Water	Rockwood Service District
Sewer	City of Gresham
Electricity	PGE
Natural Gas	NW Natural
Local Telephone	Qwest

The property includes site wide distribution systems for power, water, firewater, deionized water, natural gas, steam, sewer and storm drain. Currently it is permitted for 2.5 million

gallons of water usage per day, and has received approval to increase the permit to 6.5 million gallons per day. The sewer capacity permit is for a daily average of 2.2 million gallons of waste water per month. The site is also served by three 115kV transmission lines that feed a dedicated on-site substation.

SUMMARY OF LAND DESCRIPTION

Overall, the physical characteristics of the subject site are suitable for the existing development. Most factors, including its topography, location, and accessibility, are positive attributes. The subject site is more than adequate for uses such as those permitted by zoning, including a manufacturing use, and the available utilities adequately service the site.

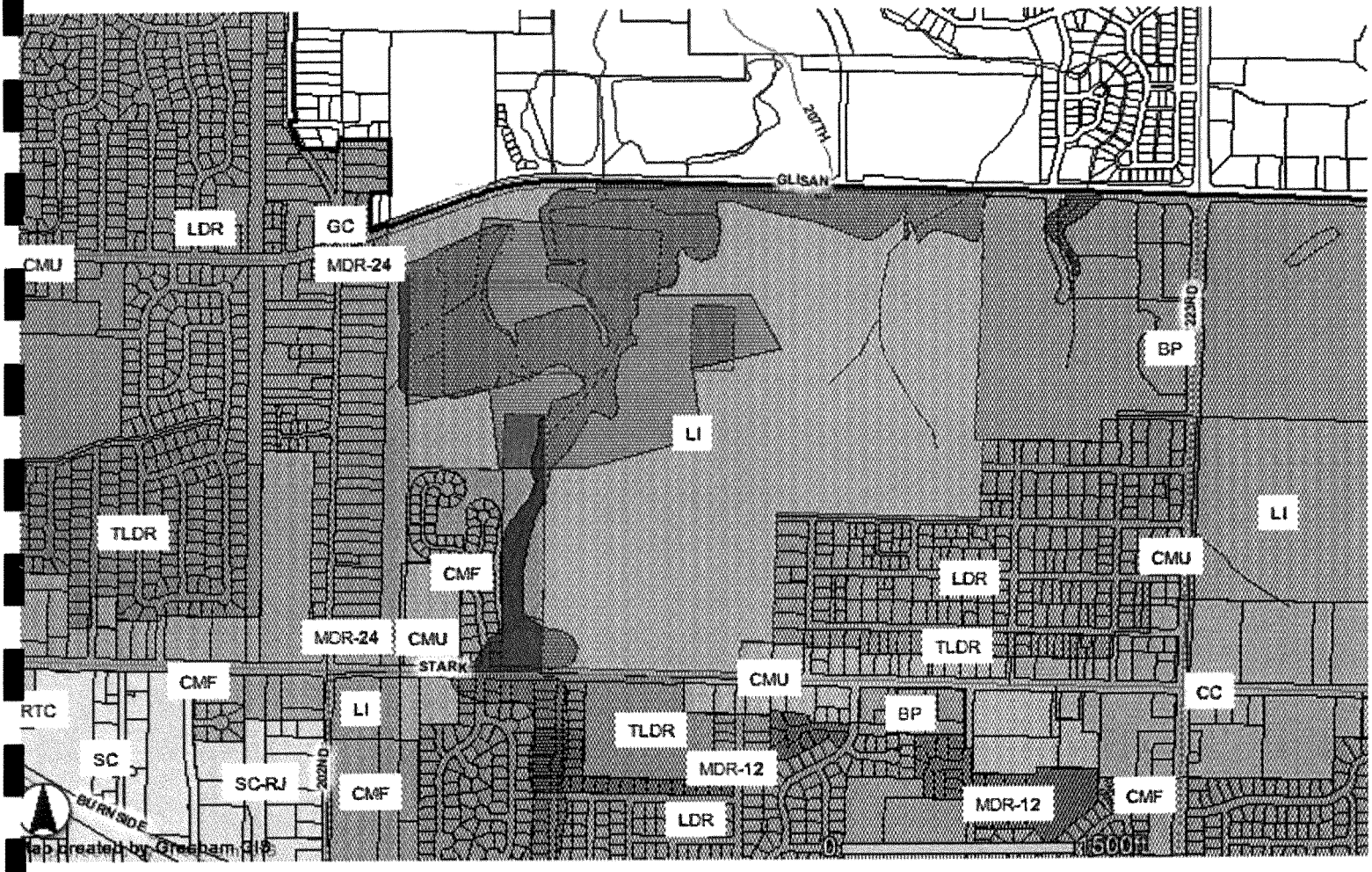
The site totals 199.39 acres, but encumbered by ponds, creeks, wetlands, and floodplain. The northwest quadrant is encumbered by Fairview Creek, wetlands, and two ponds. Additional wetlands extend along the north boundary with NE Glisan from the ponds to the northeast corner of the site. An unnamed tributary extends south from the northeast corner of the property in an arcing "Y" shape. The improved portion of the site extends north from the southern boundary through the approximate center of the site.

The following chart summarizes our estimates of the usable vs. unusable land areas at the subject. It should be noted that these are rough estimates used for purposes of analysis only. A qualified surveyor or engineer should be consulted in order to accurately quantify the usable and unusable land areas at the subject.

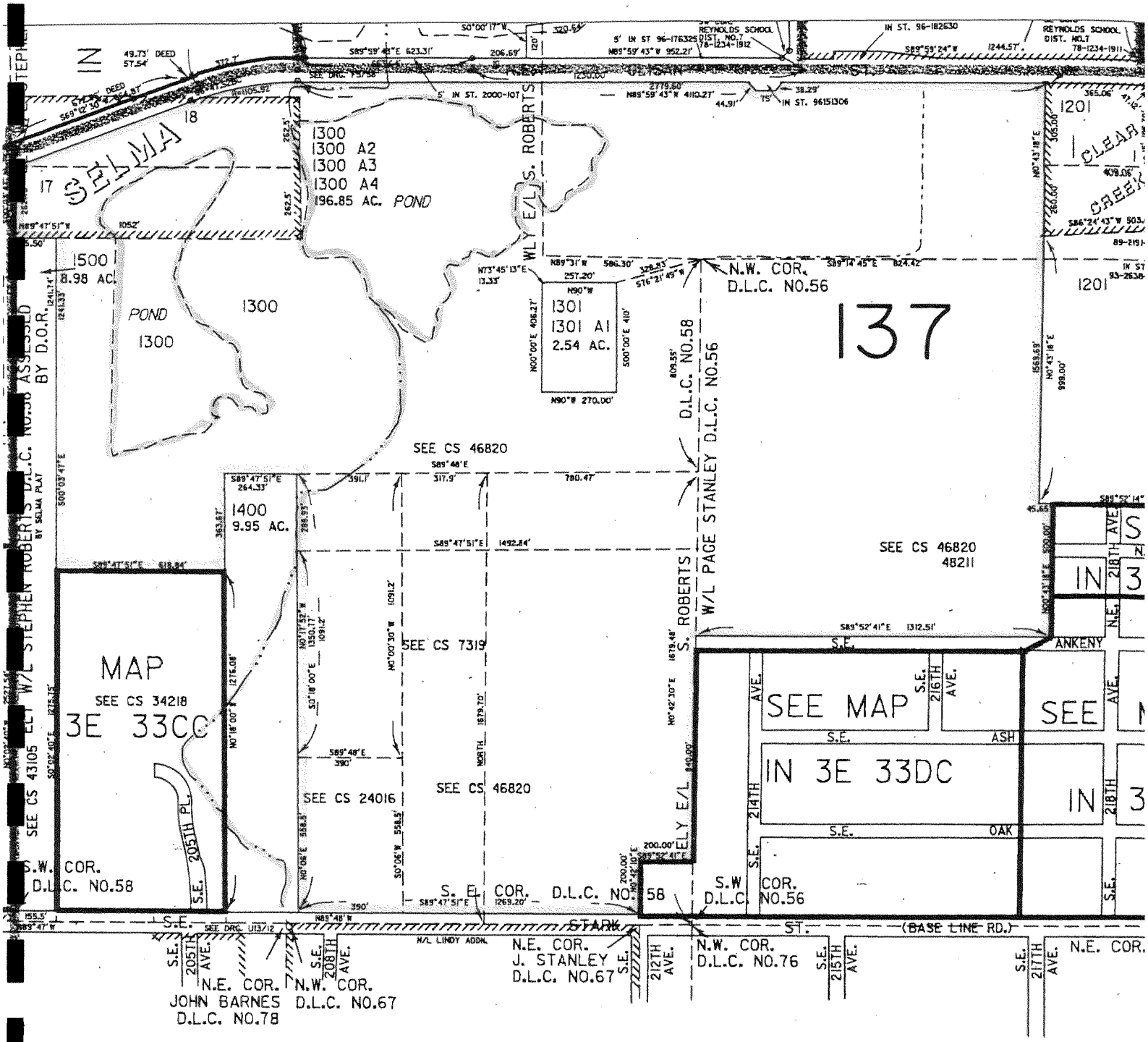
Fujitsu Usable vs. Unusable Land Estimates	
Wetlands/Ponds (NW Quadrant)	65.00 ac.
Wetlands (North Boundary)	4.40 ac.
Unnamed Tributary (East Boundary)	6.00 ac.
Total Unusable Land Area	75.40 ac.
Total Site	199.39 ac.
Unusable Land	75.40 ac.
Total Usable Land (If Vacant)	123.99 ac.
Usable Land Area	123.99 ac.
Land Supporting Fab Plant	70.54 ac.
Total Un-utilized Land (As Imp.)	53.45 ac.

Also of note - the subject is currently served by a dedicated ring bus substation, and is permitted for 2.5 million gallons of water per day and a daily average of 2.2 million gallons of waste water per month. The current level of utility service is super-adequate for most permitted uses, but is necessary to the continued operation of the microelectronic fabrication facility.

MULTNOMAH COUNTY GIS MAP



CITY OF GRESHAM GIS MAP



AP IS 3E 4BB

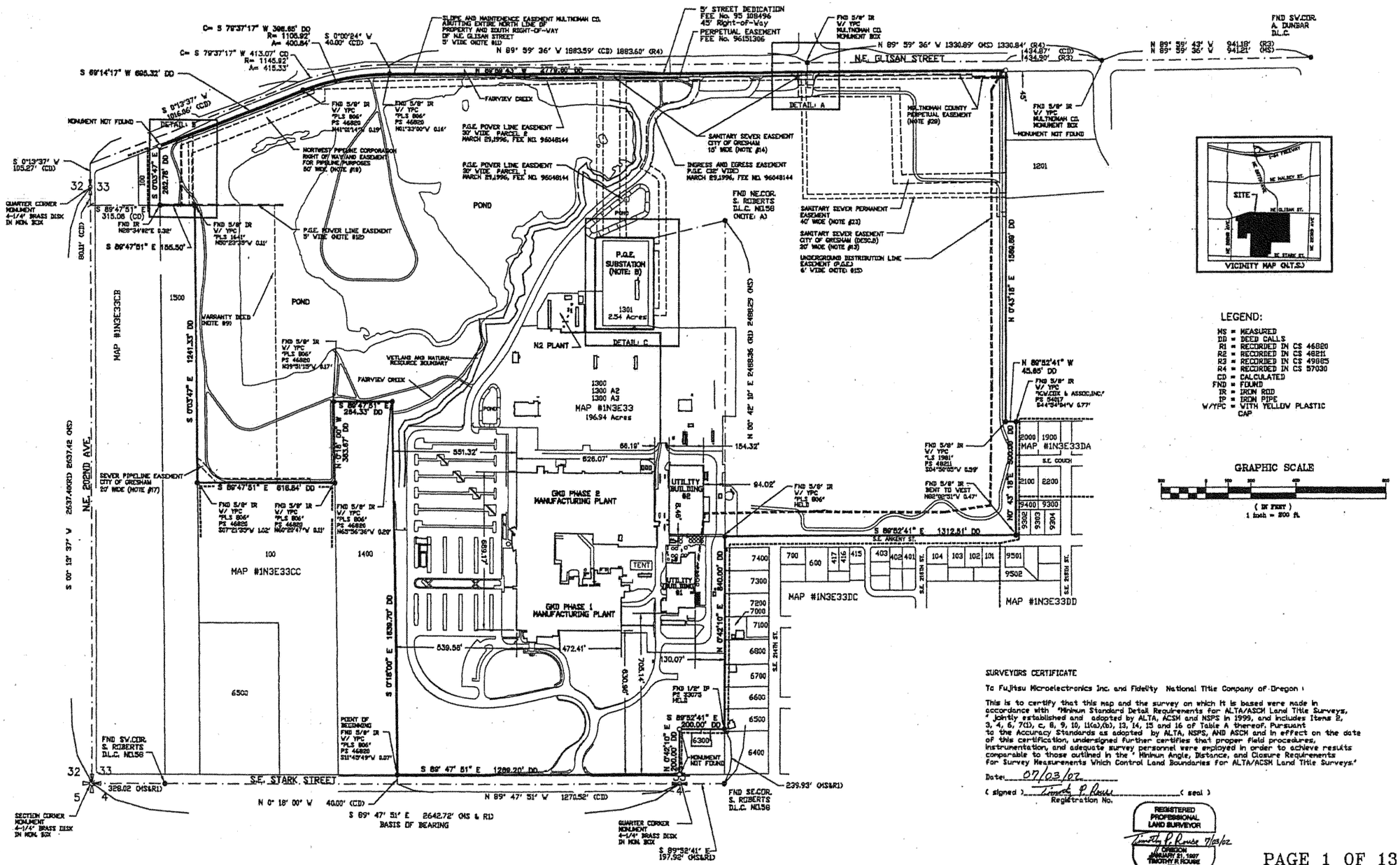
MULTNOMAH COUNTY ASSESSOR'S MAP

MING CONSULTANTS, L.L.C.
465 N.E. 181ST PMB #616
GRESHAM,OR 97230

ALTA / ACSM Land Title Survey

For Fujitsu Microelectronics, Inc.
21015 SE Stark St. Gresham, OR 97030

DATE: 6/25/2002
7/03/2002 REV.1



SURVEYORS CERTIFICATE

To Fujitsu Microelectronics Inc. and Fidelity National Title Company of Oregon :

This is to certify that this map and the survey on which it is based were made in accordance with "Minimum Standard Detail Requirements for ALTA/ASCM Land Title Surveys," jointly established and adopted by ALTA, ACSM and NSPS in 1999, and includes Items 2, 3, 4, 6, 7(a), c, 8, 9, 10, 11(a),(b), 13, 14, 15 and 16 of Table A thereof. Pursuant to the Accuracy Standards as adopted by ALTA, NSPS, AND ASCM and in effect on the date of this certification, undersigned further certifies that proper field procedures, instrumentation, and adequate survey personnel were employed in order to achieve results comparable to those outlined in the " Minimum Angle, Distance, and Closure Requirements for Survey Measurements Which Control Land Boundaries for ALTA/ACSM Land Title Surveys."

Date: 07/03/02

(signed) Timothy P. Rouse (seal)
Registration No.

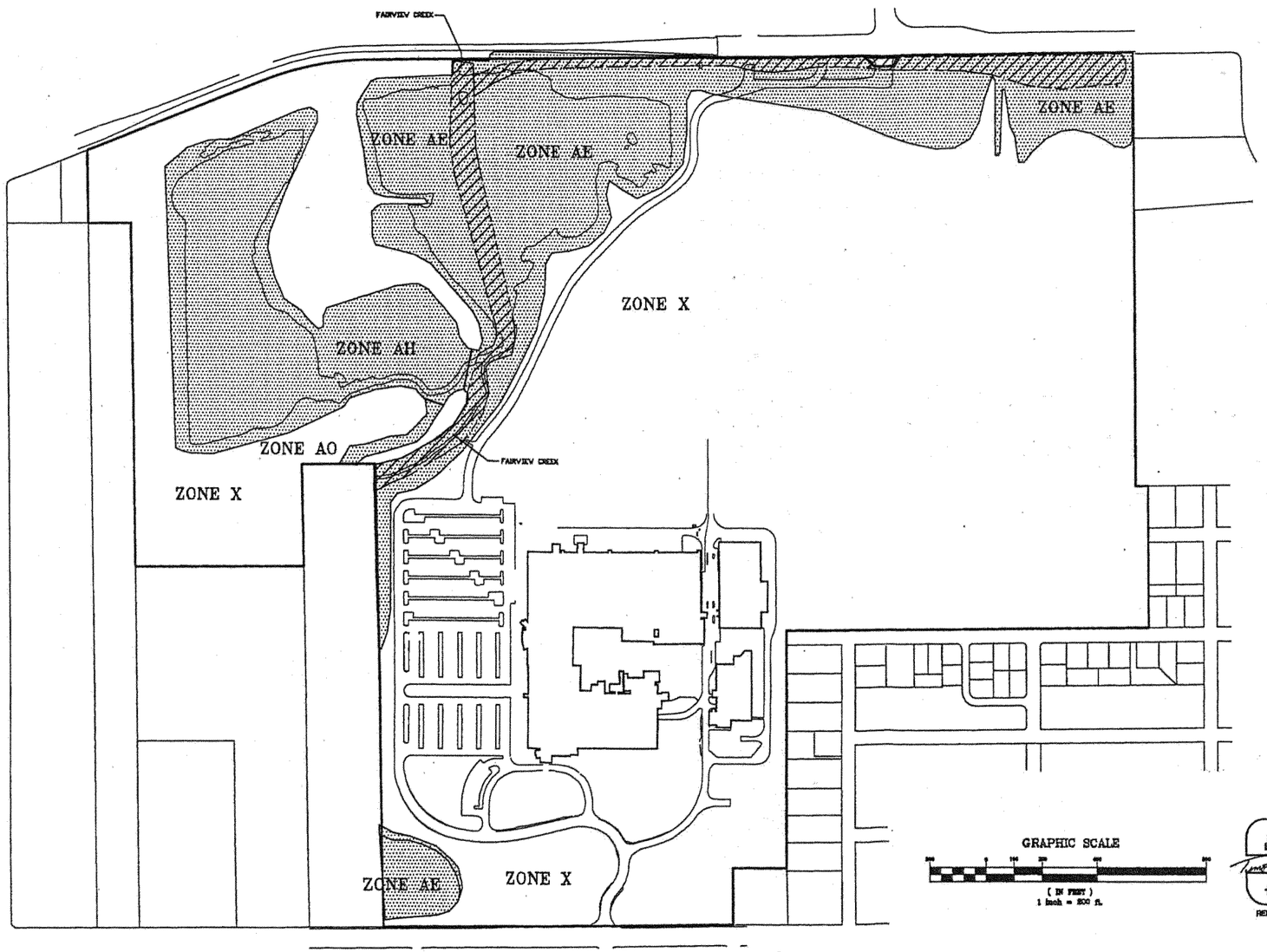
REGISTERED PROFESSIONAL LAND SURVEYOR
Timothy P. Rouse 7/03/02
OREGON
JANUARY 21, 1987
TIMOTHY R. ROUSE
2709
RENEWAL DATE 12/31/02

MING CONSULTANTS, L.L.C.
465 N.E. 181ST PMB #616
GRESHAM,OR 97230

ALTA / ACSM Land Title Survey

For Fujitsu Microelectronics, Inc.
21015 SE Stark St. Gresham, OR 97030

DATE: 7/03/2000



FEMA FLOOD MAP / SITE OVERLAY

SPECIAL FLOOD HAZARD AREAS INUNDATED BY 100-YEAR FLOOD

ZONE AE Base flood elevations determined.

ZONE AH Flood depths of 1 to 3 feet (usually areas of ponding); base flood elevations determined.

ZONE AO Flood depths of 1 to 3 feet (usually sheet flow on sloping terrain); average depths determined. For area of alluvial fan flooding, velocities also determined.

ZONE X Areas determined to be outside 500-year flood plain.

FLOODWAY AREAS IN ZONE AE

OTHER AREAS

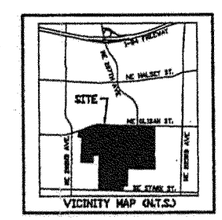
Flood Boundary

Floodway Boundary

Boundary Dividing Special Flood Hazard Zones.

SPECIAL NOTES:

1) This map was produced from overlaying Flood Insurance Rate Map, panel numbers 410181 0002E and 410181 0003E, revised September 28, 1990. The maps were to 1"=400' scale and were enlarged then scanned in to overlay at 1" =200' scale. Its location is approximate and equals the best accuracy that can be attained from above mentioned technique. We were denied G.I.S. mapping of the flood plain lines.



GRAPHIC SCALE

(IN FEET)
1 inch = 200 ft.

REGISTERED PROFESSIONAL LAND SURVEYOR
OREGON
JANUARY 21, 1997
TIMOTHY P. ROUSE
2720
RENEWAL DATE 12/31/07

Timothy P. Rouse 7/03/00

DESCRIPTION AND ANALYSIS OF THE IMPROVEMENTS

The following description is based on our inspection of the property as well as information provided by Colliers International, Fujitsu representatives, the City of Gresham, and Multnomah County. Field measurements of the improvements were not taken due to their size and complexity.

A site plan showing the relative location of the improvements is provided at the end of this section.

INTRODUCTION-OVERVIEW

The Fujitsu property is a microelectronics facility situated in a campus like setting. The main entrance to the facility is located on SE Stark, along the southern edge of the property, at approximately 210th Avenue. Because of the vibration sensitive fabrication process, the buildings are set well back from the roadway. Therefore, the main entrance is surrounded by a significant amount of landscaping. Plantings include grass, mature evergreen and deciduous trees, shrubs, and annuals in beds. A few hundred yards north of the main entry, the access road diverges in a Y' configuration. Traffic for the main employee and visitor entrances is directed to the west; shipping and receiving, and vendor traffic is directed to the east.

The facility is comprised of four buildings; Fab 1, Fab 2, Utility Building 1, and Utility Building 2. Fab 1 and Fab 2 combined are essentially "U" shaped, and are connected across the "U" by a clean sky bridge. The two utility buildings are located to the east of the fabrication buildings, and physically separate from the fab buildings.

All four buildings are reinforced concrete tilt-up construction and were built in two phases. Fab 1 and Utility 1 were constructed in 1988 (Fab 1 was completely renovated for 8-inch production in 2000); Fab 2 and Utility 2 were constructed in 1997. Both of the fabrication buildings were constructed so the column and support systems for the office/administration areas, and for the fabrication areas, are independent of each other, which essentially eliminates vibration impact on the fabrication rooms from both internal and external sources. Additionally, most mechanical systems are located in Utility 1 and Utility 2, so their vibration is isolated from the fabrication buildings.

The buildings are clustered together in the southwest quadrant of the site. The main employee entrance is located along the west elevation of the fabrication buildings. The main entrance and reception area for the public is located along the south elevation of Fab 1. Paved parking is located west of the fabrication buildings; an additional graveled parking area is located north of Fab 2. Site improvements include a nitrogen plant, a ring bus type electrical substation, and a waste water treatment plant.

FABRICATION BUILDING 1 (FAB 1)

Fab 1 has 238,000 square feet located one three levels. It is a reinforced concrete tilt-up structure that was constructed in 1988 and completely renovated for 8-inch production lines in 2000. There is 123,300 square feet on the first floor, 57,200 square feet on the second floor, and 57,500 square feet in the basement.

The building includes 24,900 square feet of office; a total of 61,000 square feet of Class 1/Class 500, Class 10/Class 100, and Class 1000/10000 clean rooms; 89,000 square feet of office/production support; a 5,600 square foot cafeteria; and, 57,500 square feet in the basement, which is dedicated to production tool auxiliary systems and clean room recirculation systems. The following charts show the square footages on a per floor basis, and based on type of finish.

Fab 1 Square Footage by Floor	
Basement	
Prod. Aux/Air Recirculation	57,500
First Floor	
Class 1 (bays)/Class 500 (chases)	33,200
Class 10/Class 100	6,800
Class 1000/Class 10000	21,000
Office	8,700
Cafeteria	5,600
Production Support	48,000
Second Floor	
Office	16,200
Production Support	41,000
Total	**238,000**

Fab 1 Square Footage by Type	
Class 1 (bays)/Class 500 (chases)	33,200
Class 10/Class 100	6,800
Class 1000/Class 10000	21,000
Office	24,900
Other Office/Production Support	89,000
Production Tool Auxiliary /recirculation system area	57,500
Cafeteria	5,600

The main lobby for public/visitor reception is located in the southwestern corner of Fab 1. Administrative offices and the cafeteria are situated north of the lobby, along the west elevation. Additional office space is located on the second floor, also along the west elevation. Support/production areas are located to the east of the office and cafeteria, and separate the fabrication/clean room areas from the lobby, office and cafeteria. The basement is entirely dedicated to production tool auxiliary and clean room recirculation systems. A loading dock is situated in the northeast corner of the building, which provides shipping and receiving support for both Fab 1 and Fab 2.

Office and lobby finishes are typical of most Class B office product, and include commercial carpet and vinyl floor coverings, painted drywall, and recessed fluorescent lighting. Ceiling heights are typically about 10 feet. All IT, phone, electric cabling, and HVAC ductwork is located above a suspended t-bar ceiling. IT cable, phone cable, and electrical is dropped from the ceiling through support columns at regular intervals. HVAC service to all non-fabrication areas, including the office and lobby areas, is provided by the same boilers and chillers that provide steam, hot air, cold water, and cold air for the fabrication systems (located in Utility 1). The floor design is generally open with posting approximately 20 feet on center. There is a minimal amount of permanent office build out located adjacent to the public entrance lobby. A single passenger elevator, located in the lobby area, provides access between the first and second floor offices.

A 5,600 square foot cafeteria is located in the northwest corner of Fab 1. The finishes are typical of office cafeterias. Finishes in the dining area include vinyl flooring, suspended t-bar ceiling, and double paned insulated windows along the west elevation.

The kitchen finish includes tile flooring, sheet vinyl and stainless steel wall coverings, and vinyl suspended t-bar ceilings. All cafeteria food preparation and service equipment is included.

Fab 1 includes Class 1/Class 500, Class 10/Class 100, and Class 1000/10000 clean aisle/maintenance bay type clean rooms. All classes of clean room include two foot raised waffle flooring (pop-out design allows for modification of manufacturing systems); pedestal and perforated plate flooring; Supply Air Fan (SAF) units that regulate and provide the appropriate atmospheric conditions; and Very Early Smoke Detection Appliance systems (VESDA). The ceiling height in the Class 1/Class 500 areas is 12 feet, and both the Class 10/100 and Class 1000/10000 clean rooms have 10 foot ceilings. The fabrication areas are built with a floating floor design, which means the column and support systems for the fabrication areas are independent of the office/administrative areas, and the floor plates for each are not connected. This design essentially eliminates vibration impact on the fabrication rooms from both internal and external sources.

The basement is 57,500 square feet, and houses the production tool auxiliary systems and the clean room recirculation systems, including the SAF air systems and the VESDA smoke detection systems. There is a single overhead door located in the east elevation. Two deep well sump pumps provide for underground water and storm water collection. Ceiling height is estimated to be about 18 feet. A freight elevator located along the north elevation provides access between the basement level and the first floor shipping/receiving areas.

FABRICATION BUILDING 2 (FAB 2)

Fab 2 is a reinforced concrete tilt-up structure that was constructed in 1997. It is 510,000 square feet located in two stories and a mezzanine. This building has 196,500 square feet on the first floor, 195,500 square feet on the second floor, and an 118,000 square foot mezzanine.

Fab 2 includes 22,000 square feet of office; a total of 141,000 square feet of Class 1/Class 500 and Class 1000/10000 clean rooms; 229,000 square feet of office/production support; and, an 118,000 square foot mezzanine dedicated to production tool auxiliary systems and clean room recirculation systems. The following charts show the square footages on a per floor basis, and based on type of finish.

Fab 2 Square Footage by Floor	
First Floor	
Office	21,000
Production Support	175,500
Second Floor	
Class 1 (bays)/Class 500 (chases)	85,000
Class 1000/Class 10000	56,000
Office	1,000
Production Support	53,500
Mezzanine	
Prod. Aux./Air Recirculation	118,000
Total	**510,000**

Fab 2 Square Footage by Type	
Class 1 (bays)/Class 500 (chases)	85,000
Class 10/Class 100	6,800
Class 1000/Class 10000	21,000
Office	22,000
Other Office/Production Support	229,000
Production Tool Auxiliary /recirculation system area	118,000

Employee reception is located in the southwestern corner of Fab 2, where Fab 1 and Fab 2 meet. Employee locker areas and administrative offices are situated north of the employee entrance, along the west elevation. A small amount of additional office space is located on the second floor. The remainder of the first floor is dedicated to support/production areas. The second floor is primarily dedicated to fabrication, but does include some production/support square footage. The mezzanine is entirely dedicated to production tool auxiliary and clean room recirculation systems. Overhead doors are located intermittently on all three levels along the north, east and south exteriors. A clean sky-bridge, located in the center of the second floor south elevation, provides a link between the clean room fabrication areas of Fab 1 and Fab 2. Additionally, Fab 2 includes two permanent exterior lifts – one situated in the northwest corner and one in the southeast corner. Back-up generators are located near the northeast corner of the building.

The employee entrance and administrative office finishes are typical of most Class B office product, and include commercial carpet and vinyl floor coverings, painted drywall, recessed fluorescent lighting, and approximately 10 foot ceilings. The Fab 2 office area features a six inch raised floor. All IT, phone, and electric cabling is located in the six inch space. Cable connections are floating, and can be modified to meet any floor design. HVAC service to all non-fabrication areas, including the office and lobby areas, is provided by the same boilers and chillers that provide steam, hot air, cold water, and cold air for the fabrication systems (located in Utility 2). The floor design is generally open with posting approximately 20 feet on center. There is a minimal amount of permanent office and conference room build out along interior perimeter of the administrative office. A data center that handles IT services for the entire complex (including fabrication automation) is located along the eastern boundary of the office/administrative area.

Fab 2 has Class 1/Class 500 and Class 1000/10000 clean aisle/maintenance bay type clean rooms. Both classes of clean room include three foot raised waffle flooring (pop-out design allows for modification of manufacturing systems); pedestal and perforated plate flooring; Re-circulating Unit (RCU) systems that regulate and provide the appropriate atmospheric conditions; and Very Early Smoke Detection Appliance systems (VESDA). The ceiling height in the Class 1/Class 500 areas is 12 feet, and Class 1000/10000 clean rooms have 10 foot ceilings. Fab 2 fabrication areas (as well as mezzanine level) also include a floating floor construction in which the column and support systems are independent of the office/administrative areas, and the floor plates for each are not connected. This design

essentially eliminates vibration impact on the fabrication rooms from both internal and external sources.

The mezzanine level is entirely dedicated to production tool auxiliary systems and the clean room recirculation systems, including the RCU air systems and the VESDA smoke detection systems. An elevator located in the southeast corner provides access between the first, mezzanine, and second stories. Ceiling height is estimated to be about 15 feet. The mezzanine level floor is exposed concrete slab, about six to eight inches thick. Column and beam support systems for the mezzanine level are separate from the upper fabrication level, which provides stability and eliminates vibration impact on the fabrication areas of the building.

UTILITY BUILDING 1

This building is 26,000 square feet on one level. It was constructed in 1988 to support Fab 1. It is reinforced concrete-tilt construction with approximately 30 foot ceilings. There is a small enclosed control room located in the northwest corner of the building. However, this control room is now a redundancy, as all control operations are now housed on the second floor of Utility 2. The systems that are housed in Utility 1 include three steam boilers, four chillers, portions of the water deionization systems, and a small electrical room.

UTILITY BUILDING 2

Utility 2 was constructed in 1997 and primarily supports Fab 2, but does provide some services to the entire facility. It is 52,500 square feet on two levels. There is 46,500 square feet on the first level primarily dedicated to mechanical systems; it includes three steam boilers, five chillers, the deionized water master reclaim system and an electrical room. The second floor is 6,000 square feet of office, control rooms, and systems monitoring. An elevator provides access between the first and second levels.

WASTE WATER TREATMENT PLANT

A waste water treatment plant is located between Utility 1 and Utility 2. This plant provides PH adjustment to the waste water for the entire facility prior to its discharge into the City of Gresham sewer system.

ELECTRICAL SUBSTATION AND NITROGEN PLANT

A ring-bus substation is located on a 2.54-acre parcel (Tax Lot 1300) near the center of the subject property. This substation is serviced by three 115kV transmission lines, and is dedicated to the subject improvements. All electrical services are built with redundancies.

A Nitrogen Plant operated by BOC Group is located immediately west of the electrical substation. This facility also provides Clean Dry Air (CDA). Pipelines for Nitrogen and CDA distribution are located below ground.

REAL ESTATE TAX ANALYSIS

Real estate tax assessments are administered by Multnomah County and are estimated by jurisdiction on a county / city / township basis for the subject. The property is located in Multnomah County. Real estate taxes in this state and this jurisdiction represent ad valorem taxes, meaning a tax applied in proportion to value. The real estate taxes for an individual property may be determined by dividing the assessed value for a property by $100, then multiplying the estimate by the composite rate. The composite rate is based on a consistent state tax rate throughout this state, in addition to one or more local taxing district rates.

The Real Market value of the real property and personalty that is included in the subject, as closed clean, was recently adjusted per a Settlement Agreement between Fujitsu Microelectronics and the State of Oregon, through the Department of Revenue and Multnomah County. Per this agreement, the Real Market Value for the 2002-03 tax year shall be $160,000,000, excluding the land. The agreement is recorded as document number 02-127003, Multnomah County records.

The land is accounted for in two tax accounts. Account Number R321939 considers Tax Lot 1300, Assessor's Map 1N-3E-33. This account had a 2001-02 Real Market Value assessment of $13,770,360. This includes the entire site, but excludes the land under the power substation. The power substation land is accounted for in Account Number R321947, which considers Tax Lot 1301. The 2001-02 Real Market Value assessment for that account was $238,130. The total 2001-02 Real Market Value for the entire site was $14,008,490. Increasing this amount by 3% for the upcoming 2002-03 tax year implies a Real Market Value assessment for that tax year of $14,428,745, rounded to $14,430,000. Therefore, the total 2002-03 Real Market Value assessment will be approximately $174,430,000+/-.

The adjusted real market value for the subject, for the 2002-03 tax year, is consistent with market indications of value and the estimated value set forth in this report.

HIGHEST AND BEST USE ANALYSES

PROCESS

Before an opinion of value can be developed, the highest and best use of the property must be determined for both the subject site as though vacant, and for the property as currently improved. The highest and best use must be:

- Legally permissible under the zoning laws and other restrictions that apply to the site.
- Physically possible for the site.
- Economically feasible.
- Capable of producing the highest net return on investment (i.e., highest value) from among the possible, permissible, and economically feasible uses.

AS THOUGH VACANT

Legally Permissible

Zoning codes, land use plans, easements, and private deed restrictions often restrict permitted uses. The site is zoned LI., Light Industrial, City of Gresham. The LI zone is intended to provide for a wide range of manufacturing uses, as well as limited office, commercial services and retail trade when icluded as a mixed use development.

Allowable uses in this zone include a wide variety of light industry, including, but not limited to: manufacturing and processing; fabrication; storage; packing; research and development; warehousing; repair, finishing and testing; assembly; and distribution. Executive and administrative offices that relate to the operation of the industrial use are allowed; however, office may not exceed 40% of the total floor area. Commercial services, retail sales, and wholesale sales activities may also be allowed in conjunction with an industrial use, but may not exceed 20%, 15%, and 20% of the total floor area, respectively.

Physically Possible

The physical factors influencing site development pertain to topography, site shape, soils conditions, the availability of utilities, exposure, access, and abutting properties. The physical characteristics of the site should reasonably accommodate most legally permitted uses that are not restricted by its size.

The subject site is a large parcel relative to what is available in the Metro area, and could therefore accommodate multiple light industrial developments.

The subject site has a gross area of 199 acres (rounded). Of this, approximately 75+/- acres are unusable due to flood plain, wetlands, and natural resource zones. The usable area totals 124 acres, of which an estimated 71 acres are developed with the existing plant, and the remaining 53 acres are not utilized at this time. If vacant, and assuming approximately 25%+/- of the developable site area is used for internal circulation roads and associated landscaping, a net area of 93 acres would be available for the siting of buildings. Assuming a standard industry site coverage of 40% implies that as vacant, the site is potentially capable of supporting 1,620,000 square feet of industrial space.

One should realize that it would take quite some time to clear the site, sell it, and develop the parcel to it's full potential. First, the plant would have to be removed and a marketing program undertaken. Demolition and site grading, as well as marketing, would most likely take one year. Another year would be spent in planning, securing permits, and beginning construction. Then, it would take probably another four years to realize full build out – and, most likely, this is a best case scenario.

The 53 acres which are not utilized are located in the northeast quadrant of the site, and the developable area has an irregular shape due to the presence of an unnamed tributary to Fairview Creek. The shape of this remainder impacts utility and what could be developed on this portion of the site. Further, there are some questions regarding the quality of fill material and the potential setbacks to the unnamed creek, which may be required. The 53 acre estimate is net of potential creek setbacks..

Most factors pertaining to its development are favorable. The site has extensive frontage along both SE Stark and NE Glisan Streets; access to the I-84 corridor is relatively easy via a full interchange located approximately one-half mile north on NE 207th Avenue; it is relatively level (although there are some areas in the northeastern quadrant that are undulating through what appear to be swales); and, all utilities are available and of sufficient capacity.

Other than what has been noted in the Site Analysis of this report, no other major physical impediments to development were observed upon inspection. However, without some interior road development, freeway access from the southern portion of the property is circuitous, and requires drivers to make a large loop around the property via Stark, 202nd (narrow residentially developed), Glisan, and 207th.

Financially Feasible and Maximally Productive

The financial feasibility of any project is perhaps the most difficult factor to analyze. The factors influencing the marketability and development of the subject site are primarily related to supply and demand characteristics for land, and the product to be constructed.

The subject site is located near the eastern edge of the Portland metro area. It has average to good access to major arterials and I-84, and it is located in an area that has a mixed industrial, commercial and residential identity. But, most importantly, the subject is a large tract of fully serviced industrial land located within the UGB, which is an increasingly scarce commodity in the Metro area. On the basis of the subject's locational

and physical characteristics, the subject site, as vacant, is judged to be a marketable entity, as long as it is priced in accordance with market standards.

An in-depth market and cost analysis to determine the most profitable mix of improvements and use of the site (hypothetically as if the existing improvements did not exist), is beyond the scope of this appraisal assignment.

AS IMPROVED

The subject site has been developed with a microelectronics fab, which was oriented to the design and production of flash memory. The facility includes numerous toolsets which can support .18-.25 micron processing of 8" wafers. The gross building area is 826,500 square feet, which includes 202,000 square feet of clean rooms, and Class 1 to Class 500 bay and chase processing areas.

Most fabs, especially those high quality 200mm facilities such as the subject, are specifically designed for that use and renovation to an alternative industrial type use such as distribution buildings, is not feasible. The subject fabs have three levels; basements and mezzanines which have low ceiling heights encumbered by miles of piping strapped to the ceilings; and, third levels which are devoted to fabrication with low (10'-12') ceiling heights. The utilities for the production/office structures are located in separate buildings sited to the east, so as to isolate vibrations away from the fabs.

As one can see, this is not a standard shell warehouse building with four walls, ceilings with 24'-30' work heights, and numerous dock high and at grade loading docks. Rather, the facility is specific to the use for which it was designed. Further, reconfiguring the facility to an alternate industrial use would not be financially feasible, or practical.

The market for fab facilities is, currently, very weak. Worldwide, since 2000, up to 60 fabs have either been closed (see accompanying exhibit at the end of this section), put on the market, or mothballed. This has been the result of significant overcapacity due to overbuilding and declining demand; industry migration from the processing of 200mm (8") to 300mm (12") wafers (i.e., technological changes, the pace of which is constantly accelerating); and, a desire by the Japanese to close overseas production facilities to, in part, stem losses, as well as protect jobs at home. This, combined with the cyclical nature of the industry, has resulted in low demand for fabs at this time.

Currently, per the Semiconductor International Capacity Statistics, during all of 2001, 8" equivalent fab capacity outstripped productive demand and starts by approximately 25%+/-. This trend has continued during the first quarter of 2002. The North American industry book to bill ratio for May was 1.26, which means that $126 of new orders were received for every $100 of product billed for the month, according to the Semiconductor Equipment and Materials International trade organization. However, looking at a three month worldwide average is more revealing – as of May 2002, the three month average billings was $862 million, which is 6% greater than $815 million in April, but still 41% less than the $1.46 billion posted one year ago. As such, there has been some improvement in the North American market, especially since the beginning of the year,

when the ratio was below 1.0. This is a worldwide industry, and in that context, demand is still weak.

Per the Semiconductor Industry Association (SIA) Forecast Summary for 2002-2005, shipments (which are a reflection of demand) will be up and down and uneven, especially in the Americas. During 2001, shipments decreased by 44%. SIA forecasts a decline of 3.5% is forecasted for the 2001-2002 period. Shipments for 2002 through 2004, are anticipated to increase at an average of 23% per year, but the period 2004-05 projections are for a small decline. One bright spot in the industry is the shipment of sensors. Shipment of sensors for 2001-02 are expected to increase by 12%, 24%+/- in 2002 through 2004, and 17% from 2004 through 2005.

These are just forecasts in a rapidly changing industry, and SIA forecasts have, at times, missed the mark (both positive and negative). But, what can be gleaned from the data, is a high degree of uncertainty and caution. As such, it is not surprising that overcapacity, combined with a drop in demand for semiconductors of all types, has resulted in prices significantly below replacement costs for the few fabs which have sold. This has been a boon for lower capitalized technology companies who, previously, could not afford sophisticated 8" wafer technology, and has enabled them to upgrade their production processes and become more efficient.

The industry trend is for plants which process 12" wafers because productivity is greater (i.e., you can get more chips off a 12" wafer than an 8"). Toolsets and equipment for 12" fabs is very expensive, and there are few businesses in the industry that can even afford to build and maintain such fabs. Only large corporations such as Intel, Motorola, Fujitsu, Toshiba, etc…can afford to build and maintain such facilities.

Essentially, we are at a point in time where even those plants that process 8" wafers are becoming obsolete. The few quality 8" fabs, such as the subject, are attractive to companies whose technology requirements are not advancing as rapidly as, say, an Intel. And, these companies are smaller and cannot afford to build, tool, and maintain a new 8" fab, let alone pay a price close to cost.

As a result, some of the fabs, especially those which could process only 6" wafers, have been mothballed or closed. A few 6" plants have been upgraded to process 8" wafers, but such changes are costly and few and far between. For instance, part of the upgrade process necessitates increasing the fab ceiling heights to accommodate new toolsets. This is a significant structural upgrade to a building and, for the most part, not financially feasible. Upgrading an 8" fab to one which processes 12" wafers is just as, if not more, significant, due to the substantial costs and space requirements for 300mm wafer toolsets.

Another factor exacerbating the market is a withdrawal of the Japanese from many of their North American plants, be they fabs, PC production facilities, etc.. For instance, and with regard to fabs specifically, Fujitsu's flash memory production at the subject did not meet expectations and has been closed; Hitachi closed and sold an 8" plant in Los Colinas, Texas; Mashushita sold a fab in Puyallup Washington to Microchip; Mitsubishi sold a plant in Durham, North Carolina, to a real estate development company who intended to redevelop the site – the site and closed plant building is back on the market.

Other North American owned fabs, though smaller than the subject, are also available, including but not limited to Zilogs 8" facility in Nappa, Idaho; IDT's 6" fab in Salinas, California; and, AMDs 6" plant in Austin, Texas.

One constant in the semiconductor industry is rapid change; things can become very good or very bad very quickly. Even given the current downturn, the subject was operated in a first class professional manner; was "closed clean" in a professional manner; and, was marketed worldwide with a sophisticated marketing campaign. The sales price for the plant is substantially below cost, and this has enabled a lower tech company to acquire an excellent asset at an affordable price. This, in turn, will enable the buyer to expand their business at a reasonable cost. The sales price has been estimated to be at market, and results in a substantial contribution to overall land value.

Today, no one would purchase the property, as improved, at the final estimate of value of $180,000,000 for site redevelopment; this would represent a site value of $33.32 per square foot for the 124 usable acres of land, which is substantially greater than market indications of site value (land sales for similar quality large sites have been between $3 and $5 per square foot of site area). Therefore, the improvements substantially contribute to land value. There are no alternative uses that could reasonably be expected to provide a higher present value than the current use. The value produced by the existing improvements exceeds the value of the site, as if vacant. For these reasons, the existing use is concluded to be maximally productive, and the highest and best use of the property as improved.

SICAS

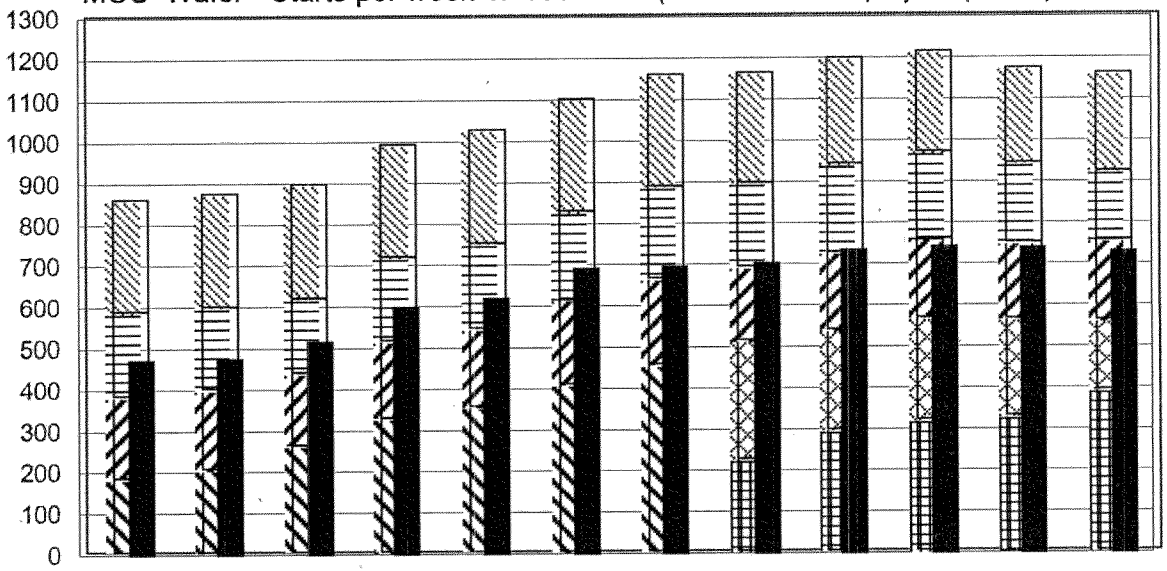
STATISTICS REPORT - 1st QUARTER 2002

Integrated Circuit Wafer - Fab Capacity

NOTES :
All data in the graph are expressed in 8 inch equivalent wafers.

The line "Total IC's" in the table includes the "Bipolar" data, which were converted for this purpose from 5 inch to 8 inch equivalent wafers by using the factor 0.391.

MOS Wafer - Starts per week x 1000 (Based on 52 weeks per year operation)



IC WAFER - FAB CAPACITY
in wafer-starts per week x 1000

		1999			2000				2001				2002
		2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
MOS ≥ 0.7µm	8 inch equivalents	273.7	276.2	277.4	274.2	276.2	273.1	270.6	265.7	258.3	245.2	230.3	237.8
MOS < 0.7µm to ≥ 0.4µm	8 inch equivalents	204.4	198.5	180.8	202.1	205.2	212.3	224.7	205.2	214.4	209.3	193.4	167.6
MOS < 0.4µm to ≥ 0.3µm	8 inch equivalents	197.6	194.1	174	186	190.2	205.8	207.8	177	187.7	192.1	184.9	194.8
MOS < 0.3µm	8 inch equivalents	181	201.7	260.6	325.8	350.8	405.8	452.3					
MOS < 0.3µm to ≥ 0.2µm	8 inch equivalents								288.8	241.2	246.6	234.7	168
MOS < 0.2µm	8 inch equivalents								221.8	293.5	317.2	325.8	388.6
MOS TOTAL	8 inch equivalents	856.7	870.5	892.8	988.1	1022.4	1097	1155.4	1158.5	1195.1	1210.4	1169.1	1156.8
MOS Foundry wafers in MOS TOTAL	8 inch equivalents												132.5
8 inch wafers in MOS TOTAL	8 inch equivalents	476.3	480.9	518.3	600.3	622.2	693.7	699.4	705	734.8	745.9	739.9	732.4
BIPOLAR	(5 inch equivalents)	305.5	299.8	303.1	308.1	313.6	320.4	325.6	298.9	303.9	291.6	281.5	289.9
TOTAL IC's	(8 inch equivalents)	976.2	987.7	1011.3	1108.6	1145.0	1222.3	1282.7	1275.4	1313.9	1324.4	1279.2	1270.2

These statistics are based on data supplied by merchant IC manufacturers who together represent the great majority of the world's IC production.

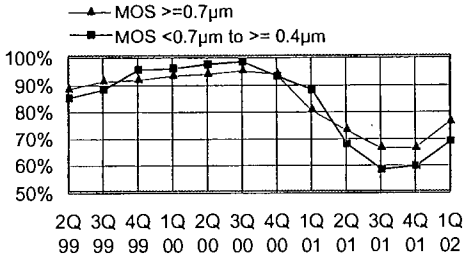
SEMICONDUCTOR INTERNATIONAL CAPACITY STATISTICS

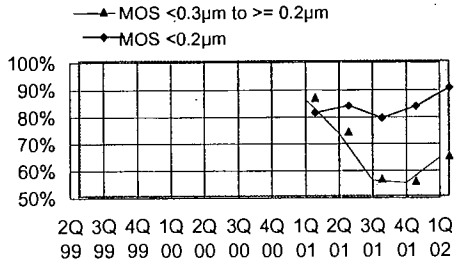
Lantie 4 5512 NG VESSEM The Netherlands

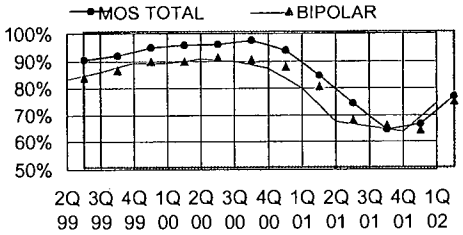
SICAS

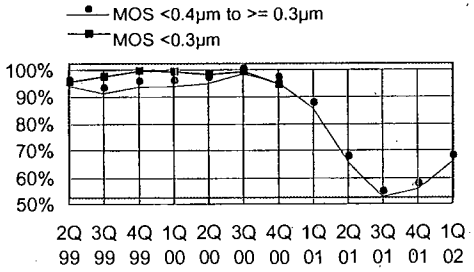
STATISTICS REPORT - 1st QUARTER 2002

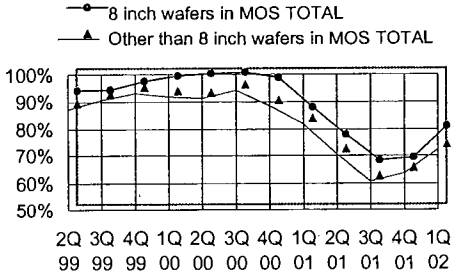
Integrated Circuit Wafer - Fab Utilisation

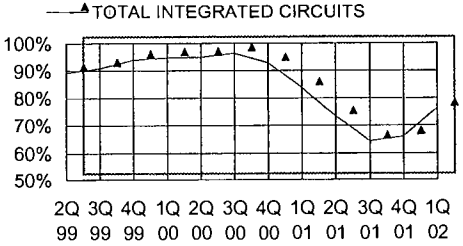












IC CAPACITY UTILISATION in percent	1999			2000				2001				2002
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
MOS ≥ 0.7µm	88.4	91.5	91.8	93.3	94	95.3	94	80.7	73.3	66.6	66.6	76.4
MOS < 0.7µm to ≥ 0.4µm	84.5	87.7	95.1	95.6	97	97.9	92.8	87.6	67.4	57.9	59.2	68.4
MOS < 0.4µm to ≥ 0.3µm	94.1	91.4	93.7	94	95	98.4	95.2	85.7	65.8	52.7	55.8	66
MOS < 0.3µm	93.6	95.5	97.5	97.3	96.2	97.2	92.4					
MOS < 0.3µm to ≥ 0.2µm								86.7	74	56.3	55.3	64.8
MOS < 0.2µm								81	83.7	79	83.5	90.4
MOS TOTAL	89.9	91.5	94.5	95.2	95.5	97.1	93.4	84.2	73.8	64	66.1	76.5
MOS Foundry wafers in MOS TOTAL (no graph)												62.4
8 inch wafers in MOS TOTAL	92.1	92.4	95.5	97.4	98.3	98.7	96.7	85.8	75.8	66.2	67.4	79
Other than 8 inch wafers in MOS TOTAL	87.1	90.5	93.1	91.9	91.2	94.2	88.4	81.8	70.5	60.6	63.7	72.2
BIPOLAR	83.2	86.1	89.2	89.3	90.7	90	87.4	80.1	67.7	65.6	63.7	74.5
TOTAL INTEGRATED CIRCUITS	89.1	90.9	93.9	94.6	95	96.4	92.8	83.9	73.2	64.2	65.9	76.3

These statistics are based on data supplied by merchant IC manufacturers who together represent the great majority of the world's IC production.

SEMICONDUCTOR INTERNATIONAL CAPACITY STATISTICS Lantie 4 5512 NG VESSEM The Netherlands

JUNE 2002

SEMICONDUCTOR FORECAST SUMMARY

2002 - 2005

(Shipments in millions of dollars)

REGIONAL MARKETS	2001	01-02 Change	2002	02-03 Change	2003	03-04 Change	2004	04-05 Change	2005
The Americas	35,778.4	- 3.5%	34,531.9	+24.1%	42,850.8	+22.3%	52,410.2	- 2.8%	50,928.6
Europe	30,216.3	+ 1.7%	29,708.3	+21.8%	36,198.5	+19.1%	43,109.8	+1.0%	43,554.9
Japan	33,147.8	-14.0%	28,492.0	+21.0%	34,484.3	+18.1%	40,719.4	+0.3%	40,860.1
Asia Pacific	39,820.1	+27.0%	50,571.1	+24.5%	62,976.3	+22.5%	77,172.5	+3.5%	79,908.1
Total Semiconductors	138,962.6	+ 3.1%	143,303.3	+23.2%	176,509.8	+20.9%	213,411.9	+0.9%	215,251.7

PRODUCT SUMMARY									
TOTAL IC'S	118,491.9	+4.4%	123,725.2	+23.6%	152,959.1	+21.5%	185,918.9	+0.1%	186,125.1
TOTAL DISCRETES	12,185.2	+0.7%	12,270.3	+22.2%	14,997.2	+16.9%	17,383.8	+3.8%	18,039.3
TOTAL OPTOELECTRONICS	7,372.3	-14.8%	6,284.8	+15.5%	7,258.2	+17.2%	8,509.8	+8.2%	9,210.6
TOTAL SENSORS	913.2	+12.0%	1,023.0	+26.6%	1,295.3	+23.5%	1,599.4	+17.3%	1,876.8

QUARTERLY COMPARISONS:
TOTAL WORLDWIDE SEMICONDUCTORS

	1st Qtr/Change*	2nd Qtr/Change*	3rd Qtr/Change*	4th Qtr/Change*	Total/Change**
2001	43,237.2 -19.4%	34,623.9 -19.9%	30,563.5 -11.7%	30,538.0 -0.1%	138,962.6 -32.0%
2002	32,255.8 + 5.6%	33,788.4 + 4.7%	36,863.9 + 9.1%	40,400.2 +9.6%	143,303.3 + 3.1%

Screened areas represent current forecast
Data uncorrected for rounding error

* % change from previous quarter
** % change from previous year

NOTES: For a detailed discussion of the impact of exchange rate changes, see the COMPLETE FORECAST.

SIA SEMICONDUCTOR INDUSTRY ASSOCIATION

Fab Closures Since 2000

Confidential - Not to be Released without Prior Permission from Colliers International; Attn: Stephen Rothrock or Doug Barrett 206-223-0866

FAB NAME	CLEANROOM CLASS	CLEANROOM PRODUCTION AREA	PRODUCTS	TECHNOLOGY	YEAR STARTED	YEAR CLOSED	THEORETICAL FULL CAP	WAFER SIZE	EQUIV 8 INCH CAPACITY
FAB 1	10	12,000	DISCRETE/DIODE	GaAs InP	2001	2002	NA	4	NA
FAB 1	1	70,000	LOGIC/OTHER	CMOS Cu SiGe	1997	2002	26,000	8	26,000
FAB 2	NA	5,000	DISCRETE/OPTO	BIPOLAR	1984	2003	1,600	5	625
FAB 3	NA	20,000	LOGIC/OTHER	MOS	1976	2001	8,500	5	3,320
FAB 4	NA	20,000	LOGIC/OTHER	BIPOLAR	1978	2001	8,500	5	3,320
FAB 5	NA	NA	LOGIC/MCU	MOS	1984	2001	20,000	4	5,000
FAB 6	1	25,000	LOGIC/OTHER	CMOS	1988	2001	20,000	6	11,250
FAB 1	10	22,000	LOGIC/MPU	CMOS	1985	2002	21,500	6	12,094
FAB 1	10	7,000	MEMORY/FLASH	CMOS	1989	2002	18,000	6	10,125
FAB 1	100	10,000	ANALOG/MIXED SIGNAL	CMOS BICMOS	1982	2002	4,000	5	1,563
FAB 1	10	27,000	ANALOG/MIXED SIGNAL	CMOS	1987	2001	7,500	5	2,930
FAB 1	5	14,000	FOUNDRY/IDM	CMOS BICMOS M2 P2	1997	2000	18,000	6	10,125
FAB 1	1,000	10,000	DISCRETE/OTHER	BIPOLAR	1982	2000	24,000	3	3,375
FAB 1	NA	NA	DISCRETE/POWER	N/A	1981	2001	NA		
FAB 1	1	26,000	MEMORY/SRAM	CMOS	1986	2002	10,500	6	5,906
FAB 1	10	36,000	MEMORY/FLASH	CMOS	1984	2001	31,500	6	17,719
FAB 1	10	12,000	LOGIC/MPU	CMOS BICMOS	1986	2002	6,500	5	2,539
FAB 2	1,000	22,000	LOGIC/MPU	CMOS BICMOS BIPOLAR	1987	2002	30,000	4	7,500
FAB 1	100	8,500	ANALOG/LINEAR	BICMOS BIPOLAR CMOS	1982	2002	1,800	4	450
FAB 2	10	10,000	R&D	BICMOS BIPOLAR CMOS	1991	2002	1,800	4	450
FAB 1	1	22,000	LOGIC/OTHER	CMOS	1993	2002	20,000	6	11,250
FAB 2	10	15,000	R&D	BICMOS CMOS LOW-K AL Cu	1989	2001	5,000	8	5,000
FAB 3	1	29,000	ANALOG/MIXED SIGNAL	CMOS M6	1975	2001	12,900	8	12,900
FAB 1	NA	NA	R&D-PILOT	Cu	1999	2000	3,000	8	3,000
FAB 2	100	22,000	ANALOG/OTHER	BIPOLAR	1967	2000	25,000	4	6,250
FAB 3	100	36,900	LOGIC/MCU	CMOS MOS	1983	2000	47,700	4	11,925
FAB 4	NA	NA	DISCRETE/POWER	MOS	1996	2000	NA		
FAB 5	100	23,700	LOGIC/MCU	CMOS MOS	1988	2002	16,875	5	6,592
FAB 6	1	NA	LOGIC/EMBEDDED	CMOS	1995	2002	40,000	8	40,000
FAB 7	10	88,800	LOGIC/OTHER	BICMOS BIPOLAR	1983	2003	82,000	4	20,500
FAB 8	10	23,000	MEMORY/SRAM	BICMOS M2	1988	2004	18,000	6	10,125
FAB 1	10	NA	DISCRETE/OPTO	SILICA ON SILICON	2000	2001	NA	6	
FAB 1	10	10,000	ANALOG	BIPOLAR	1984	2000	50,000	4	12,500
FAB 1	NA	46,290	R&D-PILOT	CMOS BICMOS	1988	2001	3,000	6	1,688
FAB 2	1	70,000	LOGIC/MCU	CMOS BICMOS	1988	2001	30,000	6	16,875
FAB 3	1	19,500	LOGIC/EMBEDDED	CMOS	1982	2002	10,000	6	5,625
FAB 4	1	19,500	LOGIC/EMBEDDED	CMOS	1996	2002	30,000	8	30,000
FAB 1	100	22,000	DISCRETE/THYRISTOR	BIPOLAR	1968	2001	20,000	4	5,000
FAB 1	1	25,000	LOGIC/OTHER	BICMOS QUBiC	1999	2001	4,200	8	4,200
FAB 2	1	32,392	DISCRETE/POWER	BiCMOS SiGe SOI	1970	2002	10,000	6	5,625
FAB 1	100	NA	MEMORY/OTHER	CMOS	1984	2000	35,000	4	8,750
FAB 1	10	13,000	ANALOG/OTHER	BIPOLAR	1976	2002	NA	4	NA
FAB 2	1,000	6,500	LOGIC/OTHER	BIPOLAR CMOS	1983	2001	8,000	4	2,000
FAB 1	100	NA	R&D	SiGe BIPOLAR BICMOS	1996	2000	2,000	6	1,125
FAB 1	10	NA	ANALOG/OTHER	MOS	1990	2000	10,000	6	5,625
FAB 2	NA	NA	ANALOG/OTHER	MOS	1987	2000	12,500	6	7,031
FAB 3	10	22,000	LOGIC/OTHER	CMOS BICMOS BIPOLAR SiGe P2	NA	2001	5,160	6	2,903
FAB 4	1	30,000	ANALOG/MIXED SIGNAL	CMOS CMOS BiCMOS M2 P2	1982	2002	14,500	6	8,156
FAB 1	NA	10,000	DISCRETE/POWER	CMOS MOS	1976	2000	1,000	4	250
FAB 1	10	42,000	ANALOG/MIXED SIGNAL	BICMOS	1988	2001	26,000	6	14,625
FAB 1	1	80,000	MEMORY/DRAM	CMOS	1993	2001	20,000	8	20,000
FAB 1	10	15,000	PILOT	GaAs M2	1983	2002	495	4	124
FAB 1	10	7,637	FOUNDRY/DEDICATED	CMOS	1987	2002	20,000	6	11,250

Fab Closures Since 2000

Confidential - Not to be Released without Prior Permission from Colliers International; Attn: Stephen Rothrock or Doug Barrett 206-223-0866

FAB NAME	CLEANROOM CLASS	CLEANROOM PRODUCTION AREA	PRODUCTS	TECHNOLOGY	YEAR STARTED	YEAR CLOSED	THEORETICAL FULL CAP	WAFER SIZE	EQUIV 8 INCH CAPACITY
FAB 1	10	NA	MEMORY/OTHER	CMOS MOS	1988	2002	28,000	5	10,938
FAB 1	10	11,000	PILOT	GaAs	1984	2000	300	2	19
FAB 1	NA	18,277	ANALOG/LINEAR	BIPOLAR	NA	2002	14,000	4	3,500
FAB 2	NA	18,277	DISCRETE/DIODE	BIPOLAR SiGe	NA	2002	12,000	6	6,750
FAB 3	1	14,800	LOGIC/OTHER	CMOS NMOS M3	1987	2002	25,000	6	14,063
FAB 4	1	14,800	ANALOG/LINEAR	CMOS NMOS M3	1987	2002	24,000	8	24,000
FAB 1	NA	22,000	R&D	CMOS	1995	2002	750	8	750
FAB 2	100	13,000	LOGIC/MPU	NMOS	1980	2002	17,000	4	4,250
FAB 3	100	43,300	ANALOG/MIXEDSIGNAL	CMOS P2	1995	2002	7,000	8	7,000

Valuation Analysis

VALUATION ANALYSIS

VALUATION METHODOLOGY

The traditional methods of processing market data into a value indication include:

- Cost Approach;
- Sales Comparison Approach; and
- Income Capitalization Approach.

The cost approach assumes that an informed purchaser would pay no more than the cost of producing a substitute property with the same utility. This approach is particularly applicable when the improvements being appraised are relatively new and represent the highest and best use of the land, or when the property has unique or specialized improvements for which there is little or no sales data from comparable properties.

The sales comparison approach assumes that an informed purchaser would pay no more for a property than the cost of acquiring another existing property with the same utility. This approach is appropriate when an active market provides sufficient data that can be verified from authoritative sources. The sales comparison approach is less reliable in an inactive market, or when estimating the value of properties for which no real comparable sales data is available. It is also questionable when sales data cannot be verified with principals to the transaction.

The income capitalization approach reflects the market's perception of a relationship between a property's potential income and its market value, a relationship expressed as a capitalization rate. This approach converts the anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value indication through capitalization. This approach is widely applied when appraising income-producing properties.

The cost approach and income approach to value have not been used in the completion of this appraisal.

Given current market conditions for fabs, the cost approach is not appropriate in the valuation of a facility such as the subject. First, due to the intricate design of the facility, it would be extremely difficult to estimate it's depreciated value, inclusive of the toolsets which are included in the sale. Second, and by extension, based on our research, buyers and sellers of fabrication facilities do not base price on depreciated book value, because depreciated book does not capture the impact of market forces such as supply and demand, limited number of potential buyers with sufficient capitalization, rapid changes in technology. As such, the Cost Approach was not applied in this analysis.

The income approach is also not appropriate in the valuation of this microelectronics fabrication facility, because these types of properties are rarely, if ever leased. In our

research we found few leases, and those found were synthetic leases. Synthetic leases are not a reflection of real estate markets, but are off balance sheet forms of debt financing.

SALES COMPARISON APPROACH

The sales comparison approach is a set of procedures in which a value indication is developed by comparing the subject to similar properties that have recently sold, or are listed for sale. The steps taken to apply the sales comparison approach are as follows:

- Research recent sales of comparable properties;
- Select sales most similar to the subject and assemble pertinent data;
- Compare the sales to the subject under various elements of comparison and adjust the sale prices to compensate for differences that affect value;
- Reconcile the adjusted prices of the sales into a value indication for the subject.

To apply the sales comparison approach, we surveyed sales activity for similar fab facilities throughout North America. Relying upon sales that occurred recently as the best indication of current investor attitudes and market behavior, we have selected five sales as the best indicators of value for the subject.

In analyzing the sales data, we have selected the price per square foot of gross area as the unit of comparison. This is the unit of comparison most commonly quoted by brokers, sellers, and purchasers when discussing sales transactions and is considered the most relevant for the subject.

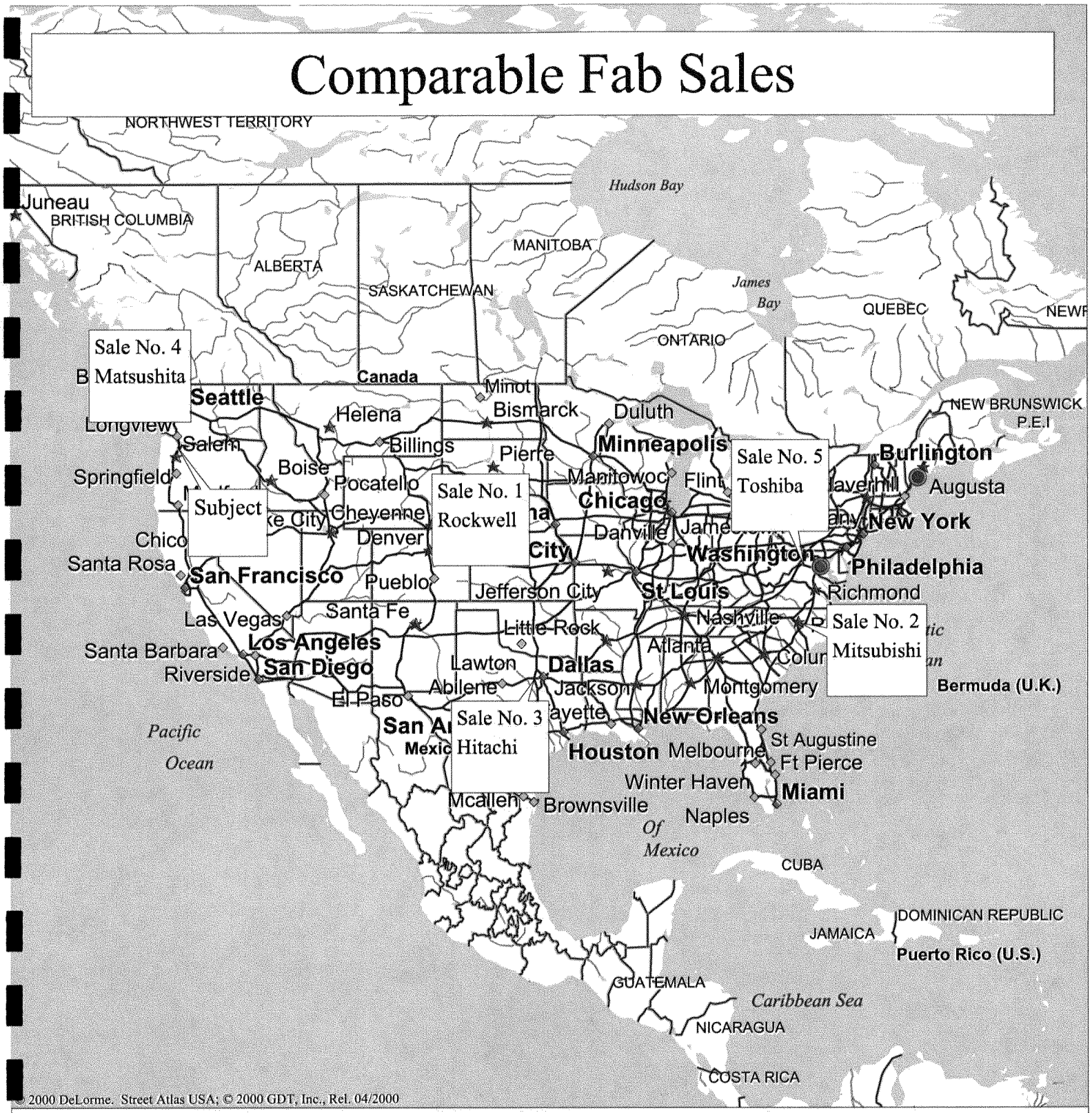
The five comparable sales are summarized in the following table.

Summary of Comparable Fab Sales

Sale No.	Name/Location	Buyer	Sale Date	Year Built	Year Upgraded	Gross Area Sq. Ft.	% Clean Rooms	Wafer Size	% Office	Toolsets	Sales Price	Sales Price Per Sq. Ft.
1	**Rockwell (1)** Colorado Springs, Colorado	**Intel**	2000	1992	1997	1,001,500	22.06%	8"	Unknown	No	$47,000,000	$46.93
2	**Mitsubishi (2)** Raleigh/Durham, North Carolina	**Teer Associates**	2000	1982	1995	341,298	15.29%	6"	41.02%	No	$18,000,000	$52.74
3	**Hitachi (3)** Los Colinas, Texas	**Atmel**	2000	1986	1997	707,692	21.55%	8"	Unknown	No	$60,000,000	$84.78
4	**Matsushita (4)** Pulyallup, Washington	**Microchip**	2000	1982	1997	710,654	9.88%	8"	12.66%	Yes (not a total fit)	$80,000,000	$112.57
5	**Toshiba** Manassas, Virginai	**Micron**	2001	1997	N/A	784,000	18.50%	8"	26.79%	Yes	$300,000,000	$382.65
	Subject	**Microchip**	2002	1986	2000	826,500	24.44%	8"	27.00%	Yes	$183,500,000	$222.02

(1) Purchased existing 8" fab to upgrade to 12". Essentially, Intel purchased a shell and land to completely upgrade and retool.
(2) 5 interconnected buildings totalling 341,298 square feet. Essentially purchased for land and large office component. Being developed as part of a research/office park.
(3) 2 buildings. Closed clean. Approximately 37,598 sq. ft. of clean room areas were unfinished.
(4) 10 buildings. Closed clean. Includes a 55,491 open ballroom clean room environment in Fab D, of which 31,235 sq. ft. had been finished.
(5) Purchase of an operating plant with labor force and toolsets, ongoing contracts, and agreement for seller to withdraw from commodity DRAM business

Comparable Fab Sales



Mag 4.00
Tue Jul 30 09:55 2002
Scale 1:32,000,000 (at center)
500 Miles
1000 KM

Limited Access
Toll Highway
National Capital
Mega City
State Capital
Large City
City
State Boundary
National Boundary
Population Center
Land
Water
River/Canal
Intermittent River

ANALYSIS AND ADJUSTMENT OF SALES

CORRELATION

In this analysis, the following valuation factors should be kept in mind:

(a) All other factors being equal, plants closed dirty sell for considerably less than those closed clean;

(b) All other things being equal, the inclusion of toolsets which can be useful to the next user increases the overall value of the plant at sale;

(c) All other things being equal, the higher percentage of good quality clean rooms, the higher the price paid per square foot;

(d) All other considerations aside, newer facilities sell for more per square foot than older ones; and,

(e) Buildings with good utility should sell for more than buildings which lack the attributes associated with modern structures. In this case, the subject is considered above average.

No adjustments for financing were required because all of the transactions were for cash. All of the transactions were also conducted at arm's length, so there are no adjustments required for conditions of sale. The comparables used are the most recent which could be found which bracket the characteristics of the subject. There is no evidence of appreciation or depreciation from the market data and, as such, no time adjustment will be made. However, consideration has been given the fact that the economy and the industrial market conditions were better when these sales occurred than they are today.

The adjustments necessary to account for individual differences between each of the comparable sales and the subject are difficult to isolate and accurately quantify from the market. As such, a relative comparison analysis has been relied upon in this correlation. This is the study of relationships indicated by market data without reliance upon quantification derived from the market. This technique is widely used by appraisers because it reflects the imperfect nature of real estate markets. The technique involves determining whether the comparables characteristics are inferior, superior, or equal to those of the property. This analysis is very similar to paired-data analysis. A relative comparison analysis is usually employed when the market data is not sufficient to derive specific dollar or percentage adjustments between the comparables and the subject.

The subject is unique relative to most other sales of Fabs because it is a high quality facility capable of processing 8" wafers, closed clean, and includes numerous toolsets necessary to operate the plant. Delivery and installation of such toolsets takes a long time (can be 12+ months). As such, including toolsets that can be used in the production processes of another user, can enable a purchaser to begin operations and production considerably faster than if the toolsets were not made available. If the toolsets cannot be used by the next user, they have little value in the transaction – in these instances, the toolsets are usually sold separately from the physical plant. Many of the tools included in the sale of the subject are useful to the prospective purchaser.

These properties are not like appraising a high-rise office building, where there is a clear delineation of the real property asset. Rather, in these instances, the real property is so specific to the production process that, in a case like the subject, the division between real property and personalty becomes blurred and intertwined.

Analyzing and valuing a plant such as the subject is extremely difficult because quality information is difficult to come by, and confirming sources are reticent to divulge information which may be useful to competitors. Much of the information provided for this appraisal was provided on a confidential basis.

The comparable's show a broad range of values, most of which is attributable market conditions at the time of sale, the condition of the plant when sold, whether the plant was capable of 6" vs. 8" processing, adaptability of the plant to a buyers processes, upgradeability, and inclusion of toolsets.

Comparable Fab Sale No. 1 – Rockwell to Intel (rate of $46.93 per square foot) is located in Colorado Springs, Colorado. This is a 1,001,500 square foot facility built in 1992 and upgraded in 1997. It was capable of processing 8" wafers, and 22% of it's space was in clean rooms. No toolsets were included. Essentially, this was the purchase of a shell with the intention of upgrade to process 12" wafers. The subject would sell for much more per square foot, due to it's "closed clean" status; percentage of area devoted to clean rooms; and inclusion of toolsets which will enable the purchaser to begin production much sooner than if they had not been present.

Comparable Fab Sale No. 2 – Mitsubishi to Teer Associates (rate of $52.74 per square foot) is located in the Raleigh/Durham area of North Carolina. This is the sale of a fab complex consisting of 5 interconnected structures, with nearly 41% of the total area devoted to office/R&D space. Essentially, Teer purchased the site for redevelopment to a tech/bio-tech oriented research park. What was most attractive to the buyer was the fact that 41% of the improved buildings were office in a building separate from the fab and utility buildings. As such, the office area was readily adaptable to re-use and has been leased, in part, by a French Bio-Tech company known as BioMerieux. Little to no value was ascribed to the fab itself, hence the $52.74 per square foot price. As configured, the subject would sell for substantially more per square foot.

Comparable Fab Sale No. 3 – Hitachi to Atmel (rate of $84.78 per square foot) is an 8" fab located in Los Colinas, Texas. This facility was built in 1986 and upgraded in 1997. Approximately 21.55% of the space is in clean rooms, but approximately 37,598 square feet was not finished. This facility had been "closed clean" like the subject, but did not include any toolsets, book of business, labor force "in place". The subject is a more modern facility also "closed clean", but including numerous toolsets which will enable the purchaser to begin production much sooner than was possible for Atmel. As such, the subject would be expected to sell for more.

Comparable Fab Sale No. 4 – Matsushita to Microchip (rate of $112.57 per square foot) is the sale of an 8" fab in Puyallup, Washington. This is a 10 building facility constructed in 1982 and upgraded in 1997. Total area in clean rooms was only 9.88%, which is an inferior characteristic. Furthermore, of a total potential of 55,491 square feet of open

ballroom clean room space, only 31,235 square feet had been finished, with the balance to be completed. The sale included toolsets, some of which were still in shrink wrap. This facility is inferior to the subject relative to the percentage of area devoted to clean rooms, the match between the toolsets included and the processes of the buyer, and the multi-building configuration which is more scattered than the subject. Overall, the subject has been able to command a higher price per square foot due to it's superior features. The subject is able to sell for more per square foot.

Comparable Fab Sale No. 5 – Toshiba to Micron (rate of $352.94 per square foot) is the sale of a 784,000 square foot 8" plant situated on 123 acres, located in Manassas, Virginia, which is located approximately 30 miles from Washington D.C.. At the end of 2001, Toshiba and Micron entered into a memorandum of understanding for Micron to acquire the plant and ongoing DRAM business and production of Dominion Semiconductor, which originally was a joint partnership between Toshiba and IBM, with Toshiba having bought IBM's interest in 1999.

This comparable is similar to the subject with regard to size, percentage of office and clean rooms, and overall quality. However, this transaction involved more than real property and toolsets – it also included a book of business, ongoing contracts, and an agreement for Toshiba to withdraw from the commodity DRAM business – essentially, Micron bought a good quality facility, a business agreement for a competitor to withdraw from Micron's bread and butter industry, and an intact labor force. This is a superior situation relative to the subject, and the subject would sell for less per square foot.

Conclusion

Microchip's offer of $183,500,000 equals $222.02 per square foot, which is supported by the comparable sales, and consistent with market trends. If the subject had not been "closed clean" (which is expensive) and did not include the toolsets offered, it would have sold for much less, as evidenced by the data collected for this report.

In the final analysis, the estimated market value of the fee simple estate of the subject, as of July 1, 2002, has been estimated at:

$180,000,000

RECONCILIATION

Reconciliation involves the analysis of alternative value indications to determine a final value conclusion. Reconciliation is required because different value indications result from the use of multiple approaches and within the application of a single approach. The values indicated by our analyses are as follows:

Cost Approach	**Not Used**
Sales Comparison Approach	**$180,000,000**
Income Capitalization Approach	**Not Used**

COST APPROACH

The cost approach assumes that an informed purchaser would pay no more than the cost of producing a substitute property with the same utility. This approach is particularly applicable when the improvements being appraised are relatively new and represent the highest and best use of the land, or when the property has unique or specialized improvements for which there is little or no sales data from comparable properties.

Given current market conditions for fabs, the cost approach is not appropriate in the valuation of a facility such as the subject. First, due to the intricate design of the facility, it would be extremely difficult to estimate it's depreciated value, inclusive of the toolsets which are included in the sale. Second, and by extension, based on our research, buyers and sellers of fabrication facilities do not base price on depreciated book value, because depreciated book does not capture the impact of market forces such as supply and demand, limited number of potential buyers with sufficient capitalization, rapid changes in technology. As such, the Cost Approach was not applied in this analysis.

SALES COMPARISON APPROACH

The sales comparison approach assumes that an informed purchaser would pay no more for a property than the cost of acquiring another existing property with the same utility. This approach is appropriate when an active market provides sufficient data that can be verified from authoritative sources. The sales comparison approach is less reliable in an inactive market, or when estimating the value of properties for which no real comparable sales data is available. It is also questionable when sales data cannot be verified with principals to the transaction.

In this instance, the sales comparison approach provides the strongest indictor of value for the subject. Five sales of fab plants were located for this appraisal. No one sale was identical to the subject, but all bracketed it's characteristics.

INCOME CAPITALIZATION APPROACH

The income capitalization approach is often given greatest weight when evaluating investment properties. The income capitalization approach reflects the market's perception of a relationship between a property's potential income and its market value, a

relationship expressed as a capitalization rate. This approach converts the anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value indication through capitalization. This approach is widely applied when appraising income-producing properties.

The income approach is also not appropriate in the valuation of this microelectronics fabrication facility, because these types of properties are rarely, if ever leased. In our research we found few leases, and those found were synthetic leases. Synthetic leases are not a reflection of real estate markets, but are off balance sheet forms of debt financing.

FINAL CONCLUSION OF VALUE

Based on the analyses and conclusions in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed in this report, it is our opinion that the market value of the Fee Simple estate of the subject as of July 1, 2002, is:

ONE HUNDRED EIGHTY MILLION DOLLARS
$180,000,000

EXPOSURE TIME

Exposure time is the estimated length of time that the subject would have been offered on the market prior to a hypothetical sale of the property on the effective date of the appraisal. Based on data obtained from sales transactions and interviews with market participants, it is our opinion that the probable exposure time for the property at the concluded market value is twelve to eighteen months.

MARKETING PERIOD

Marketing period is an opinion of the amount of time it might to take to sell the subject at the concluded market value during the period immediately subsequent to the effective date of the appraisal. Because we foresee no significant changes in market conditions in the near term, it is our opinion that a reasonable marketing period for the subject is the same as its exposure time. Therefore, the subject's marketing period is estimated at twelve to eighteen months.

CERTIFICATION

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. We did not personally inspect the comparables. Information regarding the comparables was provided by industry participants and confirming parties.
7. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in compliance with the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute, in conformity with the *Uniform Standards of Professional Appraisal Practice (USPAP)*, and in accordance with the appraisal regulations issued in connection with the *Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)*.
9. Donald L. Singer, MAI and Kathleen E. Buono made a personal inspection of the property that is the subject of this report on July 1, 2002.
10. Kathleen E. Buono, an experienced Appraiser Assistant in the employ of Integra Realty Resources - Portland has provided significant real property appraisal assistance to the person signing this certification.
11. This appraisal is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
12. We have not relied on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.
13. It is our opinion that the subject does not include any enhancement in value as a result of any natural, cultural, recreational or scientific influences retrospective or prospective.

14. We have the competency to appraise the subject and are in compliance with the Competency Rule of *USPAP*.
15. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
16. As of the date of this appraisal, Donald L. Singer, MAI has completed the requirements of the continuing education program of the Appraisal Institute. Qualifications of the Appraiser are in Addendum A.

INTEGRA REALTY RESOURCES – PORTLAND

Donald L. Singer, MAI
Certified General Real Estate Appraiser
Oregon Certificate #C000055

ASSUMPTIONS AND LIMITING CONDITIONS

In conducting this appraisal, we have assumed, except as otherwise noted in our report, as follows:

1. The subject includes creeks, ponds, wetlands and floodplain. We were not provided a survey that quantified the usable and unusable acreage. In order to make rough estimates of the usable vs. unusable land areas, we relied on various sources, including an ALTA/ACSM Land Title Survey, produced by Ming Consultants, and dated July 3, 2002; information from the National Wetland Inventory (NWI) – provided by Chuck Beasley with Multnomah County Land Use; City of Gresham GIS maps; Multnomah County GIS maps; information regarding wetlands from a Shapiro & Associates Wetlands Survey - provided by John Pettis with the City of Gresham; and, Metroscan.

   It should be emphasized that our estimates are rough estimates provided for purposes of analysis necessary to the appraisal of the subject property. It is our recommendation that a qualified engineer and/or land surveyor be engaged in order to accurately quantify the usable and unusable acreage. Any significant change in the usable and unusable land estimates could significantly alter the value indications reached herein.

2. The title is marketable and free and clear of all liens, encumbrances, encroachments, easements and restrictions. The property is under responsible ownership and competent management and is available for its highest and best use.

3. There are no existing judgments or pending or threatened litigation that could affect the value of the property.

4. There are no hidden or undisclosed conditions of the land or of the improvements that would render the property more or less valuable.

5. The property is in compliance with all applicable building, environmental, zoning, and other federal, state and local laws, regulations and codes.

6. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

Our appraisal report is subject to the following limiting conditions, except as otherwise noted in our report.

1. An appraisal is inherently subjective and represents our opinion as to the value of the property appraised.

2. The conclusions stated in our appraisal apply only as of the effective date of the appraisal, and no representation is made as to the affect of subsequent events.

3. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated.

4. No environmental impact studies were either requested or made in conjunction with this appraisal, and we reserve the right to revise or rescind any of the value opinions based upon any subsequent environmental impact studies. If any environmental impact statement is required by law, the appraisal assumes that such statement will be favorable and will be approved by the appropriate regulatory bodies.

5. We are not required to give testimony or to be in attendance in court or any government or other hearing with reference to the property without written contractual arrangements having been made relative to such additional employment.

6. We have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or survey of the property included in this report is for illustrative purposes only and should not be considered to be scaled accurately for size. The appraisal covers the property as described in this report, and the areas and dimensions set forth are assumed to be correct.

7. No opinion is expressed as to the value of subsurface oil, gas or mineral rights, if any, and we have assumed that the property is not subject to surface entry for the exploration or removal of such materials, unless otherwise noted in our appraisal.

8. We accept no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal descriptions and other legal matters, geologic considerations, such as soils and seismic stability, and civil, mechanical, electrical, structural and other engineering and environmental matters.

9. This appraisal report shall be considered only in its entirety. No part of this appraisal report shall be utilized separately or out of context.

10. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers, or any reference to the Appraisal Institute) shall be disseminated through advertising media, public relations media, news media or any other means of communication (including without limitation prospectuses, private offering memoranda and other offering material provided to prospective investors) without prior written consent from Integra Realty Resources.

11. Information, estimates and opinions contained in this report, obtained from sources outside of the office of the undersigned, are assumed to be reliable and have not been independently verified.

12. The current purchasing power of the dollar is the basis for the value stated in our appraisal; we have assumed that no extreme fluctuations in economic cycles will occur.

13. The value found herein is subject to these and to any other assumptions or conditions set forth in the body of this report but which may have been omitted from this list of Assumptions and Limiting Conditions.

14. The analyses contained in this report necessarily incorporate numerous estimates and assumptions regarding property performance, general and local business and economic conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates, and the variations may be material.

15. The *Americans with Disabilities Act (ADA)* became effective January 26, 1992. We have not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet the *ADA* accessibility guidelines. In as much as compliance matches each owner's financial ability with the cost to cure the non-conforming physical characteristics of a property, we cannot comment on compliance to *ADA*. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.

16. This appraisal report has been prepared for the exclusive benefit of Multnomah County, 501 SE Hawthorne Blvd., Fourth Floor, Portland, Oregon. It may not be used or relied upon by any other party. All parties who use or rely upon any information in this report without our written consent do so at their own risk.

17. No studies have been provided to us indicating the presence or absence of hazardous materials on the site or in the improvements, and our valuation is predicated upon the property being free and clear of any environment hazards.

Addenda

ADDENDUM A

QUALIFICATIONS OF APPRAISER

DONALD L. SINGER

Professional Experience

1980	Curtis Slocom, Inc.; Principal

Education

Real Property Analytics, Inc.

1992	Pro-Ject+ Advanced Course

Metropolitan Building Owners and Managers Association

1992	Americans with Disabilities Act

Appraisal Institute

2002	Apartment Appraisal: Concepts and Applications
	Condemnation Appraising: Basic Principles and Applications
	Disclosure
2001	Standards of Professional Practice – Part A
2000	Federal Land Exchanges and Acquisitions
	Partial Interest Valuation-Undivided
	Real Estate Fraud and the Appraiser's Role
1998	Appraising from Blueprints and Specifications
1997	The Internet and Appraising
	Standards of Professional Practice, Part C
	Development in Mixed Use Housing Trends
	Litigation Skills for the Appraiser
1995	Signage Appraisal
	Appraisal of Retail Properties
1994	Limited Reporting and Appraisal Options Seminar
1993	Standards of Professional Practice, Part A
	Developments in Income Property Valuation Seminar
1991	Standards of Professional Practice, Parts A & B
1990	Feasibility Analysis and Highest and Best Use - Non-residential properties
	OTS FIRREA Seminar
	Construction Costs

Real Estate, American Institute

1989	Analyzing Cash Flows
1988	Risk Analysis
	Cash Equivalency
1987	Standards of Professional Practice Update Seminar
	R 41c Seminar
1984	Standards of Professional Practice
	Industrial Valuation
1983	Case Studies in Real Estate Valuation
	Valuation Analysis and Report Writing
1982	Capitalization Theory and Techniques, Parts 1, 2, & 3
1981	Real Estate Appraisal Principles
	Basic Valuation Procedures

Graduate Level Real Estate Courses, University of Oregon:

1980	Real Estate Finance
	Real Estate Investment Analysis
	Real Estate Economics

DONALD L. SINGER (Contd.)

General

1980	MBA, Finance, University of Oregon Secondary Area of Concentration: Real Estate Finance
1976	BA, History, Occidental College, Los Angeles, California

License

Salesman, State of Oregon, License #810404095
State Certified Appraiser, State of Oregon Certificate #C000055
State Certified Appraiser, State of Washington Certificate #1100847

Associations and Memberships

Multnomah Athletic Club
Nob Hill Business Association-Transportation Committee
Citizens Advisory Committee, City of Portland, Central City Streetcar
Northwest District Association-Transportation Committee
Board of Directors, Integra Realty Resources, Inc.

Professional Designations

MAI - Member of the Appraisal Institute

Certification

The Appraisal Institute conducts a voluntary program of continued education for its designated members. MAIs and RMs who meet the minimum standards of this program are awarded periodic education certification. I am currently certified under the AI voluntary continuing education program.

Clients Served

State of Oregon Highway Dept.
First Security Bank
U.S. Bancorp
Union Bank of California
Pacific Realty Trust
HGW, Inc.
Port of Hood River
Peerless, a division of Leer-Siegler
FDIC
Standard Insurance
Morgan Park, Inc.
Key Bank of Oregon
Brooks Resources
Regal Cinemas
Wells Fargo Bank
Allen, Kilmer, & Schraeder
Norris, Beggs & Simpson, Inc.
Cronin & Caplan, Inc.
Providence Hospital
Prudential Life Insurance Company
Buttes Gas & Oil
University of Oregon Foundation
Tri-Met
The Southland Corp.
Hoyt Street Properties
City of Beaverton
Resolution Trust Corp.
Birtcher Properties
Leavitt-Shay Co.
Unocal
Inner City Properties
State Of Oregon-Dept. of Admin. Services
National Mortgage
GSA
Housing Authority of Portland
Bank of America

INTEGRA REALTY RESOURCES, INC.

CORPORATE PROFILE

Integra Realty Resources, Inc., is the largest property valuation and counseling firm in the United States, with 51 offices in 30 states. Integra was created for the purpose of combining the intimate knowledge of well-established local offices with the powerful resources and capabilities of a national company. Integra's local offices have an average of 20 years of service in the local market. A Managing Director with an average of 25 years of deep-rooted valuation and counseling experience in the local market leads each office.

Integra Realty Resources, Inc., has over 125 professionals who hold the Appraisal Institute's MAI designation, of which 24 are CRE members of The Counselors of Real Estate. In addition to having expertise in the standard commercial property types, the firm has an extensive track record in specialty property classes including regional malls, hotels, health care facilities, golf courses, and pipeline rights-of-way. Integra also has a wealth of experience in market and feasibility studies, property tax consulting, litigation support, and machinery and equipment and business valuation.

A listing of Integra's local offices and their Managing Directors follows:

ATLANTA, GA – J. Carl Schultz, Jr., MAI, SRA, CRE
ATLANTIC COAST NEW JERSEY - Anthony S. Graziano, MAI, CRE
AUSTIN, TX – Randy A. Williams, MAI
BALTIMORE, MD – Patrick C. Kerr, MAI, SRA
BOSTON, MA – David L. Cary, MAI, SRA, CRE
CHARLOTTE, NC – Fitzhugh L. Stout, MAI, CRE
CHICAGO, IL – Gary K. DeClark, MAI, CRE
CHICAGO, IL – J. Scott Patrick, MAI
CINCINNATI, OH – Gary S. Wright, MAI, SRA
COLUMBIA, SC – Michael B. Dodds, MAI, CCIM
COLUMBUS, OH – Eric E. Belfrage, MAI, CRE
DALLAS, TX – Charles A. Bissell, MAI, CRE
DAYTON, OH – Gary Wright, MAI, SRA
DENVER, CO – Brad A. Weiman, MAI
DETROIT, MI – Jay L. Messer, MAI
EUGENE, OR – Roxanne R. Gillespie, MAI
FORT MYERS, FL – Woodward S. Hanson, MAI, CRE, CCIM
FORT WORTH, TX – Benjamin D. Loughry, MAI
HARTFORD, CT – Mark F. Bates, MAI, CRE
HOUSTON, TX – David R. Dominy, MAI
INDIANAPOLIS, IN – Michael C. Lady, MAI, SRA, CCIM
KANSAS CITY, MO/KS – Kevin K. Nunnink, MAI
LAS VEGAS, NV – Shelli L. Lowe, MAI, SRA
LOS ANGELES, CA – John G. Ellis, MAI
LOUISVILLE, KY – George M. Chapman, MAI, SRA, CRE
MEMPHIS, TN – J. Walter Allen, MAI
MIAMI, FL – Michael Y. Cannon, MAI, SRA, CRE
MILWAUKEE, WI – Gary K. DeClark, MAI, CRE
MINNEAPOLIS, MN – Alan P. Leirness, MAI, CCIM
MORGANTOWN, WV – Thomas A. Motta, MAI, CRE
NAPLES, FL – Julian L.H. Stokes, MAI, CRE
NASHVILLE, TN – R. Paul Perutelli, MAI, SRA
NEW YORK, NY – Raymond T. Cirz, MAI, CRE
NORTHERN NEW JERSEY – Barry J. Krauser, MAI, CRE
ORANGE COUNTY, CA – Larry Webb, MAI
ORLANDO, FL – George L. Goodman, MAI
PHILADELPHIA, PA – Joseph D. Pasquarella, MAI, CRE
PHOENIX, AZ – Walter Winius, Jr., MAI, CRE
PITTSBURGH, PA – Paul D. Griffith, MAI
PORTLAND, OR – Gerald L. Curtis, MAI, SRA
PROVIDENCE, RI – Mark F. Bates, MAI, CRE
RICHMOND, VA – Robert E. Coles, MAI, CRE
SACRAMENTO, CA – Scott Beebe, MAI
SAN ANTONIO, TX – Martyn C. Glen, MAI, CRE, FRICS
SAN DIEGO, CA – Lance W. Doré, MAI, SRA
SAN FRANCISCO, CA – Jan Kleczewski, MAI
SAVANNAH, GA – J. Carl Schultz, Jr., MAI, SRA, CRE
SEATTLE, WA – Allen N. Safer, MAI
TAMPA, FL – Bradford L. Johnson, MAI
TULSA, OK – Robert E. Gray, MAI
WASHINGTON, DC – Patrick C. Kerr, MAI, SRA

Corporate Office
Sean P. Hutchinson, President
George G. Ward, MAI, Vice President
3 Park Avenue, 39th Floor, New York, NY 10016-5902
(212) 255-7858; (646) 424-1869 Fax; E-Mail: Integra@irr.com

ADDENDUM B

DEFINITIONS

DEFINITIONS

These definitions have been extracted, solely or in combination, from definitions and descriptions printed in:

- *Uniform Standards of Professional Appraisal Practice*, 2002 Edition (*USPAP*);
- *The Dictionary of Real Estate Appraisal,* Third Edition, Appraisal Institute, Chicago, Illinois, 1993 (*Dictionary*);
- *The Appraisal of Real Estate,* Twelfth Edition, Appraisal Institute, Chicago, Illinois, 2001 (*Twelfth Edition*); and/or
- *Marshall Valuation Service*, Marshall & Swift, Los Angeles, California, (*Marshall*).

Accrued Depreciation

The difference between the reproduction or replacement cost of the improvements on the effective date of the appraisal and the market value of the improvements on the same date. (*Dictionary*)

Appraisal

The act or process of developing an opinion of value; an opinion of value. (*USPAP*)

Business Value

A value enhancement that results from items of intangible personal property such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements (*Dictionary*).

Deferred Maintenance

Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in the past. (*Dictionary*)

Discounted Cash Flow (DCF) Analysis

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis. (*Dictionary*)

Effective Date of the Appraisal

The date at which the value opinion is an appraisal applies, which may or may not be the date of inspection; the date of the market conditions that provide the context for the value opinion. Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report. Prospective value opinions (effective date of the appraisal subsequent to the date of the report) are intended to reflect the current expectations and perceptions along with available factual data. Retrospective value opinions are likely to apply as of a specific historic date; the opinions are intended to reflect the expectations and perceptions of market participants at the specified date, along with available factual data. Data subsequent to the

effective date may be considered in estimating a retrospective value as a confirmation of trends. (*Dictionary* and *USPAP)*

Entrepreneurial Incentive
A market-derived figure that represents the amount an entrepreneur expects to receive as compensation for providing coordination and expertise and assuming the risks associated with the development of a project. (*Twelfth Edition*)

Entrepreneurial Profit
A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the development cost of a property and its market value upon completion and stabilization, which represents the entrepreneur's compensation for the risk and expertise associated with development. Entrepreneurial profit is an amount earned, estimated after completion, while entrepreneurial incentive is an amount anticipated, prior to development. (*Twelfth Edition*)

Exposure Time
Exposure time is the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time differs from the marketing period in that exposure time is assumed to precede the effective date of the appraisal. (*USPAP* and *Dictionary*)

Fee Simple Estate
Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. (*Dictionary*)

Going-Concern Value
The value created by a proven property operation; considered as a separate entity to be valued with a specific business establishment. (*Dictionary*)

Gross Building Area (GBA)
The total floor area of a building, including below-grade space but excluding unenclosed areas; measured from the exterior of the walls. (*Dictionary*)

Gross Leasable Area (GLA)
The total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines, and measured from the center of partitioning to outside wall surfaces; the standard measure for shopping centers. (*Dictionary*)

Highest and Best Use
The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. (*Dictionary*)

Industrial Property Classifications

Distribution Warehouse - High cube single-story structures with clear ceiling heights of at least 22 feet to allow three stacking heights of seven feet each. The most common height in this market is 24-foot clear ceiling height. Some distribution buildings now have clear ceiling heights as high as 40 feet or more due to the introduction of robotic computer systems, which allow very narrow aisles and high stacking. In general, column spacing is wider than that in office warehouse buildings and office build-out is minimal, generally 10% or less.

Flex - Buildings designed with warehouse capabilities such as dock-high or drive-in loading doors and clear ceiling heights of 14 to 16 feet. However, they are termed flex based on their broad range of office finish and their single-story exterior office appearance. The level of office finish typically ranges from 30% to 70% and suites can be divided into relatively small units. Research & Development (R&D) buildings are generally the same as flex warehouse construction but with higher percentages of office finish, often up to 90%.

Manufacturing – Buildings intended to provide space in which to transform, fabricate, or assemble physical resources into other physical goods. These buildings can vary greatly in design, with low clear ceiling heights of 12 feet, to very high clear ceiling heights of 30 feet or more, according to specific industry needs.

Office Warehouse - Generally single-story buildings with clear ceiling heights ranging from about 16 feet to 21 feet. The level of office finish is shaped by the needs of individual tenants, the general uses within the market area, and the availability of parking. The level of office finish typically ranges from 10% to 20%. Suites are typically larger than flex warehouse space. These buildings usually have drive-in bays, dock height bays, or a combination thereof and are used for light manufacturing, services, and small-scale distribution businesses.

Insurable Value

Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost less deterioration and non-insurable items. Sometimes cash value or market value but often entirely a cost concept. Non-insurable items (also known as exclusions) are a matter of underwriting policy, not valuation. (*Marshall*)

Investment Value

The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached. (*Dictionary*)

Leased Fee Estate

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease. (*Dictionary*)

Leasehold Estate

The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions. (*Dictionary*)

Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and acting in what they consider their best interests;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (*USPAP, according to the Federal Register, CFR 34.43(F)*)

Marketing Period

The amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal. Marketing period is a function of price, time, use, and anticipated market conditions. (*Dictionary and USPAP*)

Rentable Area (RA)

The amount of space on which rent is based, calculated according to local practice. (*Dictionary*)

Replacement Cost

The estimated cost to construct, at current prices as of the effective date of the appraisal, a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout. (*Dictionary* and *USPAP*)

Reproduction Cost

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, superadequacies, and obsolescence of the subject building. (*Dictionary*)

Stabilized Occupancy

Occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy which an income-producing real estate project is expected to achieve under competent management, after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. (*Dictionary*)

Usable Area

The actual occupied area computed by measuring the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining usable areas and to the inside finished surface of the dominant portion of the permanent outer building walls. No deductions are made for columns and projections necessary to the building. (*Dictionary*)

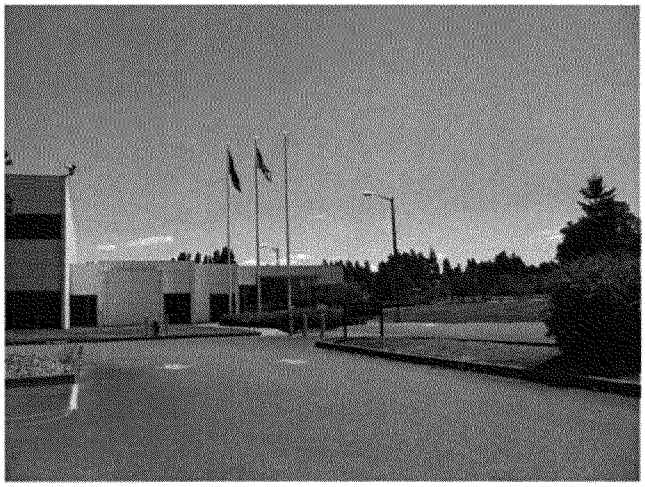
Use Value

The value a specific property has for a specific use. (*Dictionary)*

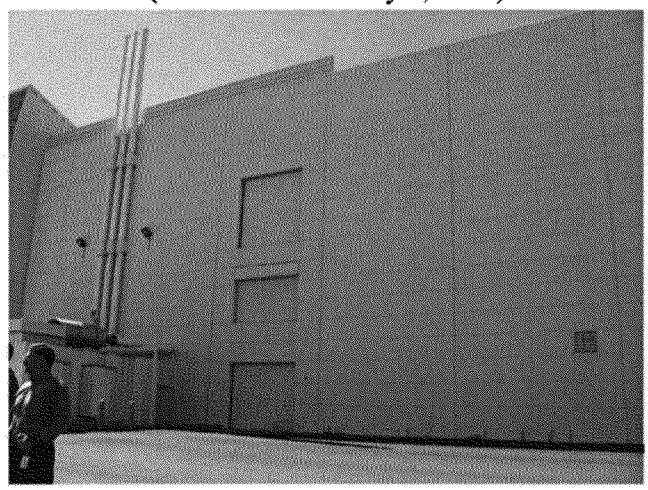
ADDENDUM C

SUBJECT PHOTOGRAPHS

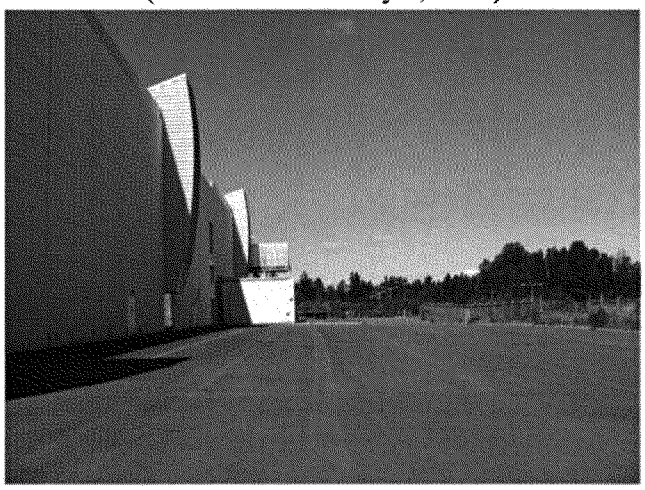
Exterior – West Elevation, Facing North
(Photo Taken on July 1, 2002)



Exterior – Fab 1, Facing East
(Photo Taken on July 1, 2002)



Exterior – North Wall of Fab 2
(Photo Taken on July 1, 2002)

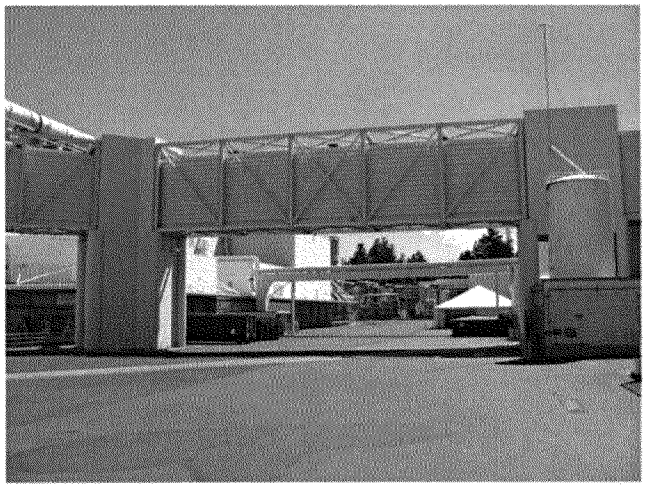


Exterior – Fab 2, Facing West
(Photo Taken on July 1, 2002)

Site – Facing North, PGE Substation Visible
(Photo Taken on July 1, 2002)

Parking- West Side of Fab 2
(Photo Taken on July 1, 2002)

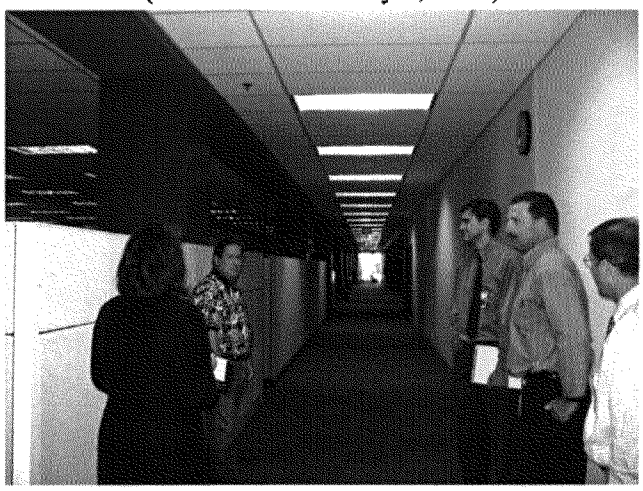
Exterior – Between Fab 1 and Fab 2
(Photo Taken on July 1, 2002)



Exterior – Clean Sky Link
(Photo Taken on July 1, 2002)

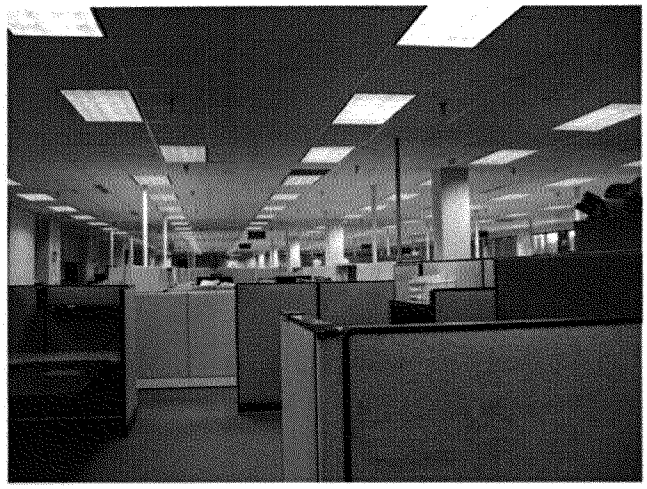
Interior – Employee Entrance (Fab 2)
(Photo Taken on July 1, 2002)

Interior – Visitor Lobby (Fab 1)
(Photo Taken on July 1, 2002)

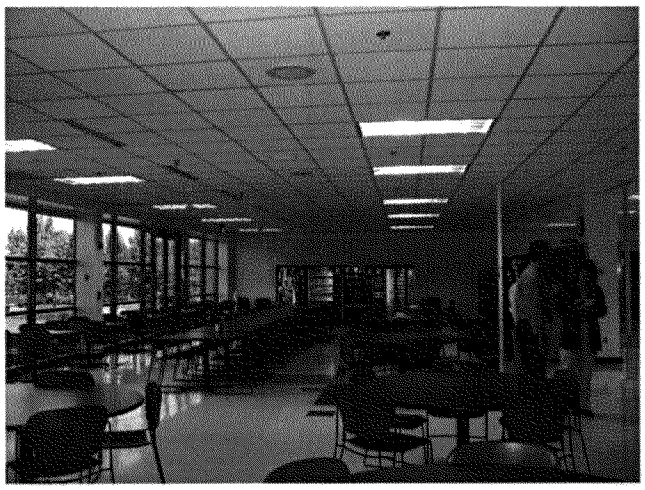


Typical Office Corridor – Fab 2
(Photo Taken on July 1, 2002)

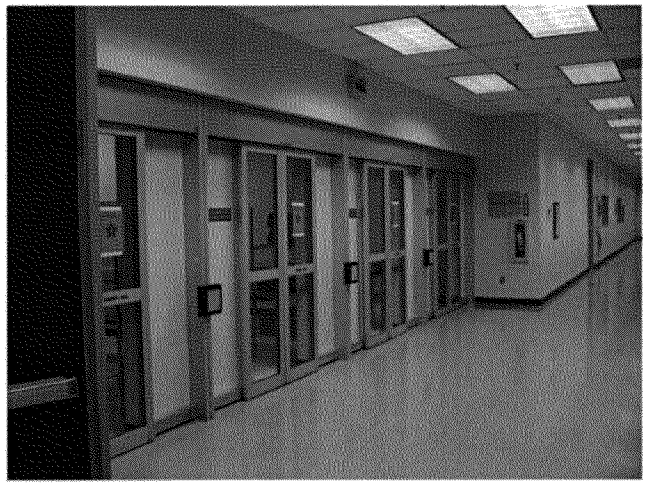
Typical Office – Fab 2
(Photo Taken on July 1, 2002)



Typical Office – Fab 2
(Photo Taken on July 1, 2002)



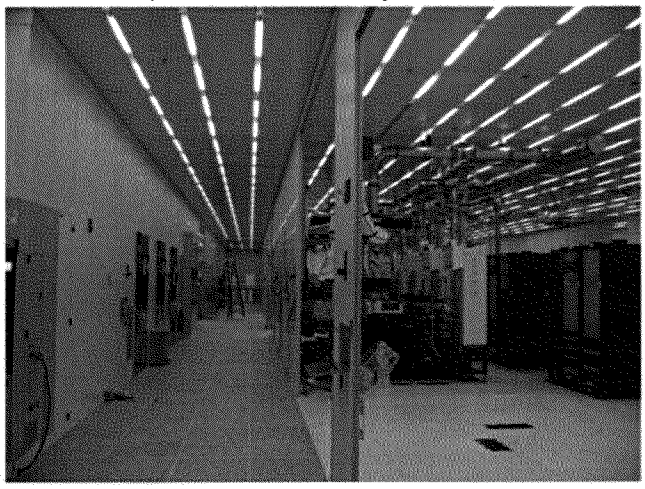
Interior - Cafeteria
(Photo Taken on July 1, 2002)



Typical Clean Room Entry
(Photo Taken on July 1, 2002)

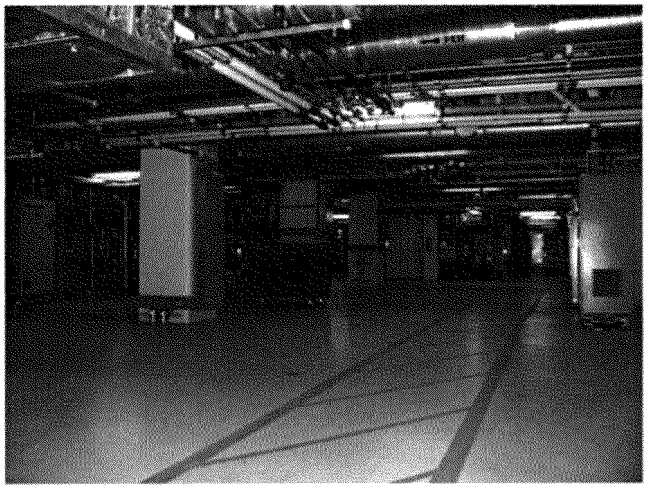
Clean Room Corridor
(Photo Taken on July 1, 2002)

Manufacturing Floor
(Photo Taken on July 1, 2002)



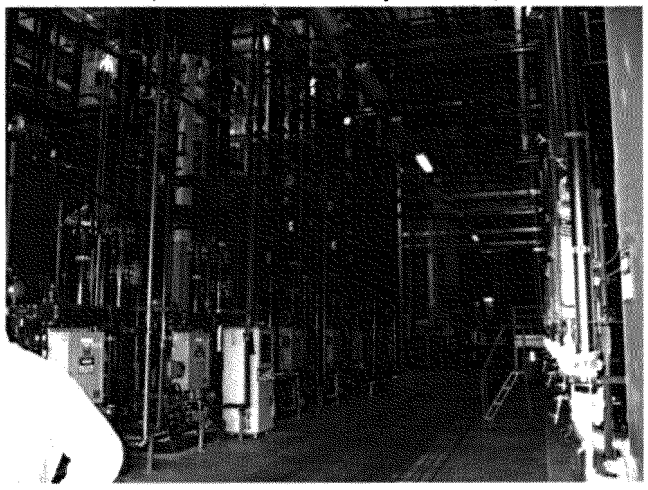
Manufacturing Floor
(Photo Taken on July 1, 2002)

Basement Level Fab 1
(Photo Taken on July 1, 2002)

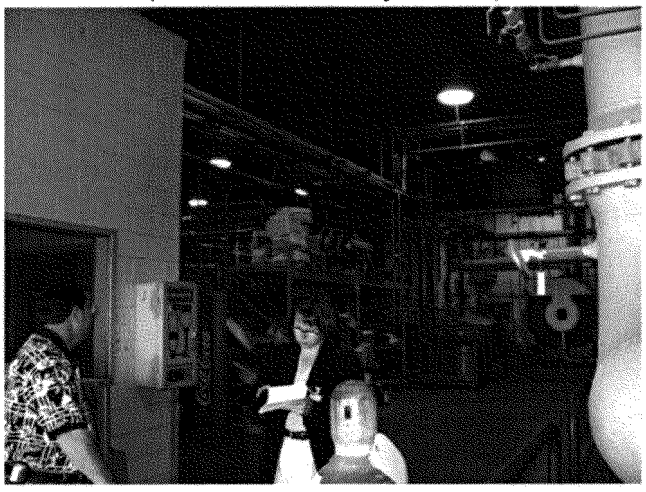


Mezzanine Level Fab 2
(Photo Taken on July 1, 2002)

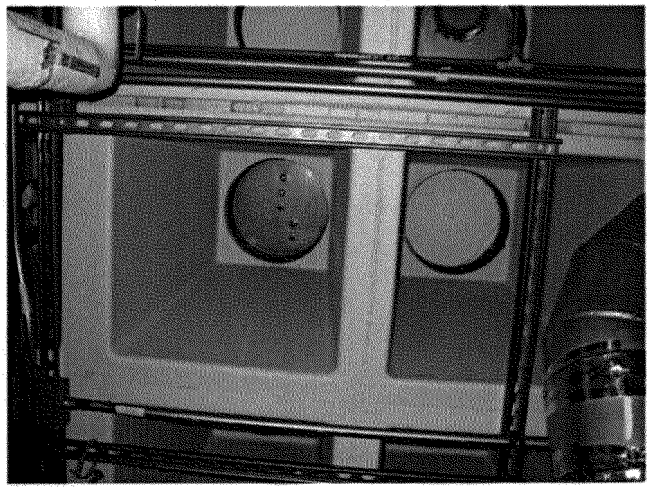
Control Room – Fab 2 Second Floor
(Photo Taken on July 1, 2002)



Interior – Utility Building 2
(Photo Taken on July 1, 2002)



Interior Utility - Building 1
(Photo Taken on July 1, 2002)



Waffle Flooring
(Photo Taken on July 1, 2002)

ADDENDUM D

PROPERTY INFORMATION

After recording, return to:

Oregon Department of Revenue
c/o Eric H. Smith, PTO
955 Center St NE
Salem, OR 97301-2555
Plu Bob Ellis 7-17-02

Recorded in the County of Multnomah, Oregon
C. Swick, Deputy Clerk
Total : 0.00
2002-127003 07/17/2002 02:30:28pm ATKLM
A01 S NF
0.00

MEMORANDUM OF SETTLEMENT AGREEMENT

FUJITSU MICROELECTRONICS, INC, owner of the property described in Exhibit A hereto ("the Property"), THE STATE OF OREGON, by and through the Department of Revenue, and MULTNOMAH COUNTY have entered into a Settlement Agreement dated July 11th 2002.

Pursuant to the Settlement Agreement, the parties named above have stipulated and consented to the valuation for property tax purposes of the real market value of the improvements and personal property on the Property for the tax year 2002-2003. Specifically, Fujitsu Microelectronics, Inc has agreed on behalf of itself and all future owners of the Property, that, for the 2002-03 tax year:

1. The real market value of the improvements and personal property, not including the land, shall be reduced by a plant closure adjustment to $160,000,000 for property tax purposes.
2. The assessed value shall be calculated without regard to the adjudication statute (ORS 309.115)
3. It shall waive any rights it might have under the adjudication statute (ORS 309.115) with regard to this valuation and assessment, and
4. It shall not appeal the assessed or real market value for the 2002-03 tax year.

This Settlement Agreement is binding on subsequent purchasers of the Property.

IN WITNESS WHEREOF, the above parties have executed this instrument this 11th day of July, 2002.

FUJITSU MICROELECTRONICS, INC

By: [signature]

Title: SECRETARY

Post-it® Fax Note 7671	Date 7/18	# of pages ▸ 9
To Don Sayer	From Dave Boyer	
Co./Dept.	Co.	
Phone #	Phone #	
Fax # 503 274-8630	Fax #	

STATE OF OREGON, acting by and through its Department of Revenue

By: Joseph A Larange

Title: Assistant Attorney General

MULTNOMAH COUNTY

By: John F Ellis

Title: Assessor

STATE OF OREGON)
) ss.
County of Multnomah)

On this 11th day of July, 2002, before me personally appeared Michael M. Moore who being duly sworn stated that he/~~she~~ is the Secretary of Fujitsu Microelectronics, Inc, a California corporation, and acknowledged the foregoing instrument to be the voluntary act of said corporation, and that he/she executed the foregoing instrument on behalf of said corporation.

Shirley Ann Koodlach
NOTARY PUBLIC FOR OREGON
My commission Expires: Jan 23, 2003

OFFICIAL SEAL
SHIRLEY ANN KOODLACH
NOTARY PUBLIC - OREGON
COMMISSION NO. 319348
MY COMMISSION EXPIRES JAN. 23, 2003

STATE OF OREGON)
) ss.
County of Marion)

On this 16 day of July, 2002, before me personally appeared Joseph A. Larange who being duly sworn stated that he/she is the Counsel of the Department of Revenue, and acknowledged the foregoing instrument to be the voluntary act of the Department of Administrative Services, and that he/she executed the foregoing instrument on behalf of said state agency, acting on behalf of the State of Oregon.

Pamela R. Van Dyke
NOTARY PUBLIC FOR OREGON
My commission Expires: 11-24-03

OFFICIAL SEAL
PAMELA R VAN DYKE
NOTARY PUBLIC-OREGON
COMMISSION NO. 328826
MY COMMISSION EXPIRES NOV. 24, 2003

STATE OF OREGON)
) ss.
County of Multnomah)

On this 17th day of July, 2002, before me personally appeared Robert L. Ellis who being duly sworn stated that he/~~she~~ is the Assessor of Multnomah County, and acknowledged the foregoing instrument to be the voluntary act of Multnomah County, and that he/she executed the foregoing instrument on behalf of said County.

Deborah Lynn Bogstad
NOTARY PUBLIC FOR OREGON
My commission Expires: 06.27.05

OFFICIAL SEAL
DEBORAH LYNN BOGSTAD
NOTARY PUBLIC-OREGON
COMMISSION NO. 345246
MY COMMISSION EXPIRES JUNE 27, 2005

EXHIBIT A

Owner: FUJITSU MICROELECTRONICS I
Prop ID: R321939 (R943330450) ATTN TAX DEPARTMENT
Map Tax Lot: 1N3E33 -01300 3545 N 1ST ST
Legal : SECTION 33 1N 3E; TL 1300 196.85 ACRES; LAND & IMPS SAN JOSE, CA 95134-1804

Situs : 21015 SE STARK ST
GRESHAM, OR

Owner: FUJITSU MICROELECTRONICS
Prop ID R321942 (R943330453) ATTN TAX DEPARTMENT
Map Tax Lot: 1N3E33 -01300-A3 3545 N 1ST ST
Legal : SECTION 33 1N 3E; TL 1300 IMPS ONLY SAN JOSE, CA 95134-1804

Situs : 21005 SE STARK ST
GRESHAM, OR

Owner: IBJTC LEASING CORP
Prop ID : R321941 (R943330452) % DURAN,SYLVIA
Map Tax Lot: 1N3E33 -01300-A2 3545 N 1ST ST
Legal : SECTION 33 1N 3E; TL 1300; MACH & EQUIP, SEE MAIN ACCT R321939* SAN JOSE, CA 95134

Situs : 21015 WI/ SE STARK ST
GRESHAM, OR 97030

Owner: FUJITSU MICROELECTRONICS INC
Prop ID : P437119 (P091562000-99 (653150) ATTN SYLVIA DURAN, TAX
Map Tax Lot: 1N3E33 -01300 3545 NORTH FIRST STREET
Legal : TL 1300 SEC 33 1N 3E SAN JOSE, CA 95134

Situs : 21015 SE STARK ST
GRESHAM, OR

Owner: FUJITSU MICROELECTRONICS IN
Prop ID : P437120 (P091562001-99 ATTN SYLVIA DURAN, TAX ACCT
Map Tax Lot: 1N3E33 -01300-A3 3545 NORTH FIRST STREET
Legal : TL 1300 SEC 33 1N 3E SAN JOSE, CA 95134

Situs : 21015 SE STARK ST
GRESHAM, OR

SETTLEMENT AGREEMENT – Tax Years 2000, 2001 and 2002

Effective the 11TH day of July, 2002, **FUJITSU MICROELECTRONICS, INC.** ("Fujitsu"), **MULTNOMAH COUNTY** ("County"), and the **OREGON DEPARTMENT OF REVENUE** ("DOR"), agree as follows:

RECITALS

A. Fujitsu is the owner of certain industrial real property located in Multnomah County and identified as account numbers R321939 - Fab 1 Real Property, R321942 - Fab 2 Real Property, P437119 - Fab 1 Personal Property, P437120 - Fab 2 Personal Property, and Lease Account R321941 (hereinafter "the subject property," if not identified specifically).

B. DOR is responsible for the valuation of Fujitsu's industrial property for ad valorem tax purposes. County is responsible for the valuation of the land.

C. Fujitsu properly appealed the assessed value of the subject property to the Regular Division of the Oregon Tax Court for the 2000-01 tax year (Case No. 4542) and to the Magistrate Division of the Oregon Tax Court for the 2001-2002 tax year (Case No. 011211D), where the cases are now pending.

D. All parties recognize the considerable time and expense involved in litigation in the Oregon Tax Court regarding these cases. Due to the uncertainties of litigation, to avoid the further costs and expenses of litigation, to avoid the further accrual of interest on the amount of taxes due the County, and to provide an opportunity for an early resolution of the 2002-03 tax year, the parties agree to stipulate to the real market

and assessed values of the subject property for the 2000-01, 2001-02 and 2002-03 tax years.

TERMS AND CONDITIONS

The parties agree to the following terms and conditions, each of which is necessary, important and mutually dependent:

1. The appeal for the 2000-01 tax year (Case no. 4542) shall be dismissed with prejudice.

2. For the 2001-02 tax year, the total original real market value of the only account subject to change under appeal, No. #R321939, is $277,890,120, not including land. The total stipulated real market value of this account is $117,890,120, not including land, a reduction of $160,000,000 to the improvements. There will be no changes made to the other remaining accounts under appeal for this tax year.

3. For the 2001-02 tax year, the M50 additions shown on the value transmittal sheet (VTS) for Account #R321939 will be ratably reduced to reflect the overall reduction for a revised total M50 addition of $107,196,532 and a net M50 addition after adjusting for retirements of $97,745,572. The 2001-02 reduction of real market value on Account #R321939 will be reflected as a single line item settlement adjustment on the VTS.

4. For the 2002-03 tax year, the real market value of the improvements for the following listed accounts will not be based on adjudicated values from the prior year, but will instead be based on a "plant closure adjustment" calculation that, when applied, will result in a real market value for the improvements of the following four accounts the total of which shall equal $160,000,000:

R321939 - Fab 1 Real Property,

R321942 - Fab 2 Real Property,

P437119 - Fab 1 Personal Property,

P437120 - Fab 2 Personal Property.

The "plant closure adjustment" calculations will be shown on the two VTSs for R321939 and R321942 (as separate line items), but will be calculated so that, excluding land, the real market value for the four accounts total $160,000,000. The value of R321939 will have already been reduced by a prior year's adjudication. The adjudicated value, not the value prior to adjudication, will be the one used in this calculation. The reduction in value below the adjudicated amount means that tax year 2002-03 is effectively free from the constraints of the prior adjudication and constitutes a waiver by the parties of the adjudication statute (ORS 309.115) for the 2002-03 tax year. The 2002-03 tax year, since not under appeal, will not be an adjudicated value.

Fujitsu agrees not to appeal the 2002-03 tax year assessment of the subject property so long as the 2002-03 tax year assessment conforms to the terms and conditions of this agreement. Fujitsu agrees that should Fujitsu sell the subject property or, in any way, transfer the ownership of the subject property, in whole or in part, Fujitsu will require the purchaser of the subject property to agree, as a condition of the sale or transfer, that: (1) the purchaser will be bound by the terms of this settlement agreement and, specifically, agrees not to appeal the 2002-03 tax year assessment of the subject property provided the 2002-03 tax year assessment conforms to the terms and conditions of this agreement; and, (2) if the purchaser sells the subject property the purchaser will include the same or similar terms of like import in any subsequent purchase and sale

agreement, escrow agreement or similar agreement with any subsequent buyer such that all future buyers are similarly bound by this settlement agreement. Further, Fujitsu agrees that a memorandum summarizing this agreement in the form set forth as Attachment A to this agreement may be recorded in the records of Multnomah County, Oregon.

The Department and Multnomah County agree that in the event Fujitsu sells the subject property the real market value of the subject property for the 2002-03 tax year, as set forth in this agreement, will remain the same as if no sale had taken place.

5. The parties agree to enter any order and take any action to correct, alter, amend or place upon the property tax rolls the real market value or assessed value of the subject property consistent with this agreement including, but not limited to, entering stipulated judgments with the Magistrate Division and Regular Division of the Oregon Tax Court. The parties agree to utilize their best good faith efforts to facilitate implementation of the terms of this agreement.

6. The terms and conditions of this agreement form a binding contract. In the event any of the terms and conditions of this agreement are not complied with by any of the parties to this agreement, any party may seek specific performance to enforce the terms and conditions of this agreement.

/////

/////

/////

/////

/////

7. This agreement forms the entire agreement between the parties, supercedes and replaces any prior agreement, whether oral or written, and cannot be altered, modified or amended except in writing signed by all of the parties hereto.

IT IS SO AGREED:

FUJITSU MICROELECTRONICS, INC.

By David S. Conway

Title Attorney

Date 7-11-02

DEPARTMENT OF REVENUE
STATE OF OREGON

By Joseph A Larenga

Title Asst. Attorney General

Date 7-16-02

MULTNOMAH COUNTY

By Paul Phillips

Title Assessor

Date 7-18-02

PDX_DOCS:287333.1

Section 4.0300
Industrial Land Use Districts

General

4.0301 Purpose

Development of land in the Industrial Development Districts is permitted when development proposals are found to comply with the standards of this section and the relevant supplementary requirements of the Community Development Code.

Land Use District Characteristics

4.0310 Business Park District (BP)

The Business Park District is primarily intended for manufacturing and related industrial activities, office development as well as research and development facilities. Secondary uses which are permitted in mixed use developments include commercial services and retail commercial development. The district is designed to allow the uses to operate in a park-like atmosphere which achieves a high degree of compatibility with adjoining properties. Areas determined appropriate for Business Park District development are identified on the Community Development Plan Map.

4.0311 Light Industrial District (LI)

The Light Industrial District is primarily intended to provide for a wide range of manufacturing uses and a limited range of uses such as office, commercial services and retail commercial, when included as mixed use developments. While limited outdoor storage and display areas are permitted, they must be screened from adjoining properties and public streets to ensure compatibility. Areas determined appropriate for Light Industrial District development are identified on the Community Development Plan Map.

4.0312 Heavy Industrial District (HI)

The Heavy Industrial District is primarily intended for industrial uses which are generally not compatible with residential development because of their operational characteristics which can include noise and air pollution. The district is also intended for uses which may require extensive outdoor areas to conduct

business activities or for product storage or display. These regulations are designed to permit the development of land within the district in a manner consistent with efficient industrial operations. Areas determined appropriate for Heavy Industrial District development are identified on the Community Development Plan Map.

Permitted Uses

4.0320 Permitted Uses

Table 4.0320 lists those uses that are permitted in each Industrial Development District. Permitted uses are designated with a "P" and uses that are prohibited are designated with a "NP". An "L" in this table indicates a use type which may be permitted in that district, but which is limited in the extent to which it may be permitted. Each of these uses must comply with the site development requirements of Section 4.0330 and all other applicable requirements of the Community Development Code.

Table 4.0320: Permitted Uses In The Industrial Development Districts[1]

USES	BP	LI	HI
(A) Manufacturing and Processing	P[2]	P[3]	P[5]
(B) Fabrication	P[2]	P[3]	P[5,6]
(C) Storage	L[12]	P	P
(D) Packing	P[2]	P[3]	P[5,6]
(E) Research And Development Activities	P[2]	P[3]	P[5,6]
(F) Laboratories	P[2]	L[12]	L[12]
(G) Warehousing and Servicing Activities	L[12]	P[3]	P[5,6]
(H) Repair, Finishing, and Testing	NP	P[3]	P[5,6]
(I) Assembly	NP	P[3]	P[5,6]
(J) Distribution Activities	P[2]	P[3]	P[5,6]
(K) Offices	P (100% of the total floor area)	P[4]	P[6]
(L) Commercial Services	P[7] (Up to 30% of the total floor area)	P[7] (Up to 20% of the total floor area)	P[6, 7]
(M) Retail sales	P (Up to 20% of the total floor area)	P (Up to 15% of the total floor area)	P[6]
(N) Wholesale activities	P (Up to 20% of the total floor area)	P (Up to 20% of the total floor area)	P (Up to 20% of the total floor area)
(O) Community services	L[9]	L[9]	L[9]
(P) Temporary uses	P[10]	P[10]	P[10]
(Q) Home occupations	L[8]	L[8]	L[8]
(R) Temporary Health Hardship Dwellings	L[11]	L[11]	L[11]
(S) Industrial Services	P	P	P

Table 4.0320 Notes:

[1] See Appendix 2.000 for expanded list of uses

[2] Up to 100% of the total floor area may consist of these manufacturing and distribution uses. Examples of these uses appropriate in this district include: manufacture of apparel, audio products, communication equipment, professional or scientific instruments and toys.

[3] Up to 100% of the total floor area may consist of these manufacturing and distribution uses. Examples of uses which would be appropriate include: aircraft or auto parts, bottling plants, bakery products, communication equipment, drugs, fabricated textile products, office machines, building materials, recycling centers, and motor freight terminals.

[4] Executive and administrative offices which relate to the operation of the industrial use of the property. Up to 40% of the total floor area may consist of these executive and administrative uses. Multiple tenant office buildings are prohibited.

[5] Examples of uses which would be appropriate include: manufacture of concrete, brick and clay products; crushing or processing of rock; manufacture of acid, fertilizer, gas, and paper products; breweries; junk yards when located more than 1,000 feet from a residential district, and petroleum storage and refining.

[6] Provided the development percentages identified for the Permitted Uses section of the LI district are met.

[7] Commercial services such as building maintenance, restaurants, data processing, child care, job training, banks and recreational facilities.

[8] In the BP, LI, and HI Land Use districts, home occupations shall be permitted only within pre-existing homes.

[9] See Section 8.0100, Community Service Uses.

[10] See Section 10.1400, Temporary Uses.

[11] Permitted only in conjunction with pre-existing single-family homes in accordance with Section 10.1300.

[12] Permitted only in conjunction with and accessory to a primary industrial use such as listed as A, B, D, E, and J above.

4.0321 Other Permitted Uses

(A) For Business Park Districts, other manufacturing and related industrial activities, office development or research and development facilities which, in the determination of the manager:

(1) Can achieve a high degree of compatibility with adjoining properties; and,

(2) Are consistent with the applicable industrial land use policies and implementation strategies of the Community Development Plan.

(B) For Light Industrial Districts, other manufacturing uses or office and commercial uses, when included as mixed use developments, which in the determination of the manager:

(1) Require limited outdoor storage and display areas; and

(2) Are consistent with the applicable industrial land use policies and implementation strategies of the Community Development Code.

(C) For Heavy Industrial Districts, other industrial uses which, in the determination of the manager:

(1) Would generate noise or air pollution which would not be compatible with residential areas;

(2) May require extensive outdoor areas to conduct business activities for product storage or display; and,

(3) are consistent with the applicable industrial land use policies and implementation strategies of the Community Development Code.

Industrial Land Use District Standards

4.0330 Industrial Land Use District Standards

The site development requirements listed in Table 4.0330 are applicable to all development within the Business Park, Light Industrial and Heavy Industrial districts. Development within these districts shall also be consistent with all other applicable requirements of the Community Development Code.

Table 4.0330 Development Requirements For Industrial Land Use Districts

	BP	LI	HI
(A) Minimum Lot Size	1 acre	20,000 square feet	20,000 square feet
(B) Minimum Lot Dimensions	Width = 100 feet Depth = 200 feet	Width = 80 feet Depth = 100 feet	Width = 80 feet Depth = 100 feet
(C) Minimum Yard Setbacks[1]	Front = 25 feet Side[2] • Interior lot = 0 feet • Corner lot = 20 feet (side abutting the street) Rear = 0 feet	Front = 25 feet Side[2] • Interior lot = 0 feet • Corner lot = 15 feet (side abutting street) Rear = 0 feet	Front = 25 feet Side[2] • Interior lot = 0 feet • Corner lot = 20 feet (side abutting street) Rear = 0 feet
(D) Maximum Building Height	See Section 4.0331(A)	See Section 4.0331(A)	See Section 4.0331(A)
(E) Maximum Building Coverage	50%	60%	75%
(F) On-Site Activities	All business, storage and display activities with the exception of garbage facilities shall be conducted within a completely enclosed building.	(1) Up to 50% of the land area may be devoted to outdoor storage. (2) Outdoor storage areas shall be screened by 6 feet high sight-obscuring fencing or walls.[3, 4]	(1) Up to 100% of the land area may be devoted to outdoor business activities, storage, or display. (2) All outdoor business activities and storage areas shall be screened by 6 feet high sight-obscuring fencing or walls.[3, 4] (3) Up to 10% of the total lot area may be devoted to unscreened outdoor display areas.
(G) Parking, Loading and Unloading Areas	See Section 4.0331(B)	See Section 4.0331(B)	See Section 4.0331(B)

Table 4.0330 Development Requirements For Industrial Development Districts, continued

	BP	LI	HI
(H) External Effects	See Section 4.0331(C)	See Section 4.0331(C)	See Section 4.0331(C)
(I) Operational Impacts	See Section 4.0331(D)(1)	See Section 4.0331(D)(2)	Not Applicable
(J) Mechanical Equipment Screening	See Section 4.0331(E)	See Section 4.0331(E)	Not Applicable
(K) Exterior Building Treatment	See Section 4.0331(F)	Not Applicable	Not Applicable
(L) Public Facility. Site and Supplementary Requirements	See Section 4.0331(G)	See Section 4.0331(G)	See Section 4.0331(G)

Table 4.0330 Notes:

1 Buffering and screening may be required in addition to these setbacks. See Section 9.0100 for the buffering and screening requirements. Also, refer to the height transition area requirement found in Section 9.0600, Height Transitions, since it can increase the minimum yard setbacks where a development abuts a residential district.

2 No side yard setbacks are required where the side property line abuts a "heavy" railroad right-of-way or spur track.

3 All screened or walled outdoor storage areas which abut a public street shall be set back a minimum of 25 feet from the property lines. Within the setback areas trees and evergreen shrubs shall be planted. The plants shall be of such a variety and arranged so as to allow only minimum gaps between foliage of mature trees and shrubs within four years of planting.

4 Outdoor storage areas shall be drained and surfaced with pavement or crushed rock except on those portions maintained as landscaped areas.

4.0331 Additional Industrial Land Use District Standards

(A) Maximum Building Height in all Industrial Land Use Districts

(1) Three stories or 40 feet unless equipped with built-in fire protection systems. When fire sprinklers, alarms, and, when needed, enclosed, pressurized exit stairwell systems are provided, the building height can be increased to 65 feet (6 stories for an office building in BP).

(2) When abutting a residential district the height transition standards of Section 9.0600 shall apply.

(B) Parking, Loading and Unloading Areas in all Industrial Land Use Districts

(1) Parking, loading and unloading areas shall not be located within the required yard setback.

(2) No loading or unloading facilities shall be located adjacent to residentially designated land or a residential community service if there exists an alternative location of adequate size adjacent to commercial, industrial or non-residential community service.

(C) External Effects

(1) All operations in Industrial Land Use Districts must conform to the requirements of the Department of Environmental Quality.

(2) In the LI and BP districts, the emission of air pollutants or odorous gasses and changes in temperature detectable by the human senses without the aid of instruments at any point beyond the property line is prohibited.

(3) In the LI and BP districts, electrical disturbances which interfere with the normal operation of equipment or instruments is prohibited.

(4) In the BP district, except for exterior lighting, operations producing heat or glare shall be conducted entirely within an enclosed building.

(5) In the BP district, emissions that endanger human health or cause damage to vegetation or property shall not be permitted to emanate beyond the boundaries of the property.

(6) In the BP district, loud, unnecessary, or unusual noise which endangers health, peace or safety is prohibited.

(D) Operational Impacts in the LI and BP Land Use Districts

(1) No hazardous materials as provided under Group H, Division 1 (but not including the exception quantities of these materials), (2) and (6) occupancies under the Uniform Building Code shall be stored or used on the premises

(2) No hazardous materials as provided under Group H, Division 1 (but not including the exception quantities of these materials) occupancy under the Uniform Building Code shall be stored or used on the premises

(E) Mechanical Equipment in the LI and BP Land Use Districts

Roof mounted mechanical equipment such as ventilators and ducts shall be contained within a completely enclosed structure that may include louvers, latticework, etc.

(F) Exterior Building Treatment in the BP District

In the Business Park (BP) District, unfinished metal structure siding shall not be a major exterior material. Materials such as wood, tilt-up concrete, masonry or glass should be the primary structural siding materials.

(G) Public Facility Site and Supplementary Requirements for all Industrial Land Use Districts

All developments shall also be subject to the applicable requirements of Section 4.0330 - Site Development Standards; Article IX - Common Requirements; and Appendix 5.000 - Public Facilities.

COMMUNITY-PANEL NUMBER
410181 0003 E

MAP REVISED:
SEPTEMBER 28, 1990

LEGEND

SPECIAL FLOOD HAZARD AREAS INUNDATED BY 100-YEAR FLOOD

- **ZONE A** No base flood elevations determined.
- **ZONE AE** Base flood elevations determined.
- **ZONE AH** Flood depths of 1 to 3 feet (usually areas of ponding); base flood elevations determined.
- **ZONE AO** Flood depths of 1 to 3 feet (usually sheet flow on sloping terrain); average depths determined. For areas of alluvial fan flooding, velocities also determined.
- **ZONE A99** To be protected from 100-year flood by Federal flood protection system under construction; no base elevations determined.
- **ZONE V** Coastal flood with velocity hazard (wave action); no base flood elevations determined.
- **ZONE VE** Coastal flood with velocity hazard (wave action); base flood elevations determined.

FLOODWAY AREAS IN ZONE AE

OTHER FLOOD AREAS

- **ZONE X** Areas of 500-year flood; areas of 100-year flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 100-year flood.

OTHER AREAS

- **ZONE X** Areas determined to be outside 500-year floodplain.
- **ZONE D** Areas in which flood hazards are undetermined.

Flood Boundary

Floodway Boundary

Zone D Boundary

Boundary Dividing Special Flood Hazard Zones, and Boundary Dividing Areas of Different Coastal Base Flood Elevations Within Special Flood Hazard Zones.

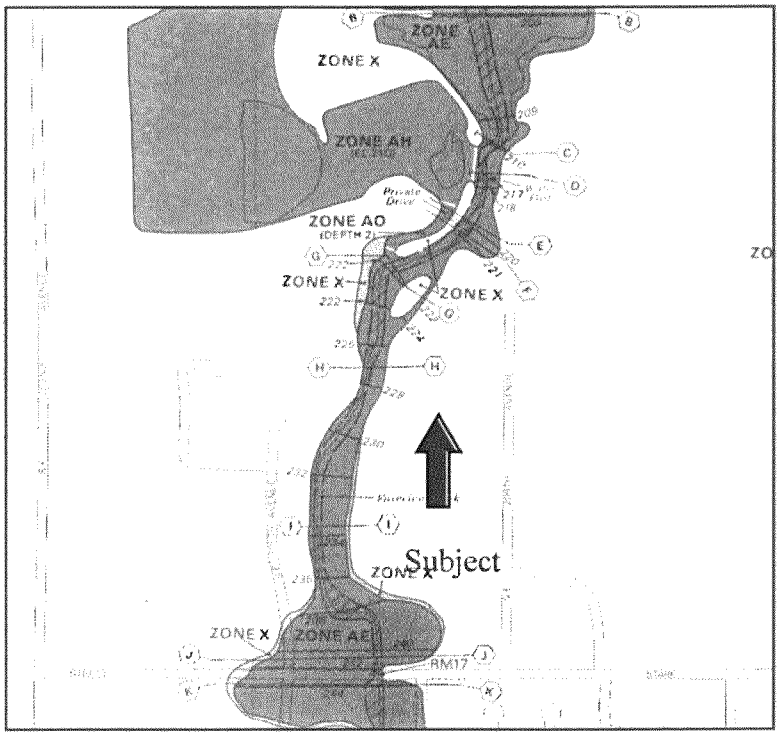
513 — Base Flood Elevation Line; Elevation in Feet*

D — D — Cross Section Line

(EL 987) — Base Flood Elevation in Feet Where Uniform Within Zone*

RM7X — Elevation Reference Mark

*Referenced to the National Geodetic Vertical Datum of 1929



Background on SIP

- We are here this evening to talk about the proposed Strategic Investment Program agreement among Multnomah County, the City of Gresham and Microchip Technologies, Inc.

- Let me give you a little background on the Strategic Investment Program.

- The Strategic Investment Program (SIP) was created by the Oregon legislature in 1993. The SIP was created because of the capital costs and resulting disproportionate property taxes associated with the investments in technology, and equipment necessary to design, develop, and manufacture semiconductors in a global market.

- Local government, by statute, has the authority and responsibility to level the playing field for this industry in our property tax dependent structure.

- Everybody knows that Fujitsu announced its closure last November. Fujitsu had entered into a SIP agreement with the County and Gresham; however, they never received a single penny of tax relief. The agreement was mutually terminated.

- The only SIP in place in Multnomah County at this time is with LSI logic.

Specifics on proposed Agreement

- The proposed agreement with Microchip was negotiated in an accelerated timeline because we had to take advantage of the fact the plant is **now** "closed but clean," however, it can't remain so for very long and *once* the facility is shut down

completely, it would no longer be attractive to potential buyers in the high tech industry.

- When a plant like this is closed it can not be reopen without massive reinvestment.

- Time was of the essence

- Additionally, we wanted to move quickly to create as many jobs immediately. Especially for the laid off Fujitsu employees.

- Specifics of the proposed agreement:

  1. Property taxes will be levied on the first $100 million of value and will grow 3% each year. The County, the City of Gresham and all local taxing districts will receive immediate revenue from those taxes. Additionally, if the company continues to invest and the value of the property exceeds $490 million, any amount valued above $490 million will be fully taxed.

  2. Community Service Fee equal to 25% of the abated taxes not to exceed $2 million annually for the General Fund of the City and County.

  3. This agreement includes the specific hiring of displaced Fujitsu employees. We will measure the company's performance by the efforts to hire former Fujitsu employees.

  4. Let me add that one of the reasons the company was interested in this facility was the skilled workforce available immediately.

5. In addition, the County, City and Company have agreed to the following:

a) *Limited Company Tax Benefit*

There is a limit on the amount of property taxes eligible for abatement. Any value in excess $490 million will be fully taxed. No other SIP has ever had this feature.

Limited Duration

The term of the proposed SIP agreement is only 7 years, less than half the term of any other SIP agreement in Oregon.

County SIP Goals

As in prior Multnomah County SIP agreements, the proposed partnership with Microchip establishes performance standards and community benefits based on County goals for:

a) job creation, wages, benefits,
b) support for local education and training,
c) environmental stewardship,
d) and local procurement and contracting (for example; for installation, repair and construction projects, Microchip will be required to use contractors who meet a responsible standard)

Consultants Report:

- Multnomah County and the City of Gresham hired two outside consultants. The City and County were reimbursed by Microchip for cost of the appraisal and the economic analysis.

- The consultants' findings confirmed our own assessment of the agreement. It's a win all the way around.

- Our appraisers report found that the property is valued at $180 million – the state assessed the property at about $174 million and the purchase price is $184 million.

- Our fiscal and economic analysis found that Microchip's fiscal condition is strong and holds a solid position in a volatile market.

- The report provided the tax revenue by district information that I mentioned earlier and outlined that even with the SIP agreement, Microchip will be paying between four thousand ($4,000) and eight thousand ($8,000) in property taxes alone per employee – *over ten thousand ($10,000) per employee with the required Community Service Fee.* This is significantly higher than the average industry which pays about $615 per employee in property taxes.

- The report also showed that not only will thee be 400+ direct company hires. Our third party research finds that with Microchip continuing to use the facility, 800 additional jobs with be supported.

- Microchip will use local suppliers- supporting that industry and Microchip employees will be patronizing businesses in the area and using thier pay checks locally, so the multiplier effect is significant.

- Both the appraisal and economic analysis found this to be the best use of the facility. In the hypothetical, if Microchip were not to purchase the facility, it's highly unlikely that another chip producing company would purchase the property.

- Therefore the facility would have to be demolished and the property would have to be completely redeveloped into, perhaps, an industrial park of some sort.

- The property would then be valued at less than $50 million whereas now its value is more than three times that amount. And there would be no guarantees that 400 new jobs would be generated and that an additional 800 would be supported.

Outline Public Testimony Process

- Myself, Mayor Becker, the Board of Commissioners and the City Council are here this evening to your answer questions and to hear your opinion on the proposed agreement. We would like this to be a community dialogue and welcome all of your input.

- We'll be taking testimony from anyone who has signed up. If you haven't signed up and would like to, sign up sheets are available.

- Testimony is limited to 2-3 minutes in order for everyone to have an opportunity to participate.

- Before beginning the public testimony piece, I would like to give an opportunity for Microchip to introduce themselves to the community publicly.

- Please welcome Bob Lloyd who is Microchip's vice-president of facility and site services.

MEMORANDUM
Office of the City Manager

DATE: August 1, 2002

TO: City Council

FROM: Rob Fussell, City Manager (503-618-2835) RMF

SUBJECT: August 6th Joint Public Hearing on the Strategic Investment Program (SIP)

Meeting materials continue to trickle in from Multnomah County related to the Joint Public Hearing next week. To date you have received the media packet (which contained key summary materials), the Strategic Investment Program (SIP) Contract, and a draft Economic and Fiscal Analysis Report.

This memo transmits the final Financial Impact Report and County Staff Report summarizing the background materials. We have yet to receive the final agenda with an overview of the procedures for the hearing that we will be hosting in Council Chambers.

These procedures will outline the steps for conducting the meeting and the order of presentations prior to taking public testimony. City Council and County Commissioners will not be making presentations or take final action that evening. Chair Linn and Mayor Becker will convene the meeting and introduce the process.

I appreciate your patience, as I know this is a lot of information to absorb. We will fax the final agenda and procedures just as soon as we receive it from the County.

Please contact me or Kyle Walker (503-618-2362) if you have any questions or wish to discuss this matter.

Diane Linn, Multnomah County Chair

Suite 600, Multnomah Building
501 SE Hawthorne Boulevard
Portland, Oregon 97214-3587
Email: mult.chair@co.multnomah.or.us

Phone: (503) 988-8308
FAX: (503) 988-3093

STAFF REPORT

TO: Board of County Commissioners

FROM: John Rakowitz, Chief of Staff, Multnomah County Chair Diane Linn; Duke Shepard, Multnomah County Economic Development Director, Dave Boyer, Multnomah County Finance Director, Sandra Duffy, County Attorney

DATE: July 31, 2002

RE: Proposed Strategic Investment Program (SIP) Agreement between Multnomah County, City of Gresham, Microchip Technologies Inc.

1. Recommendation/Action Requested:

Joint public hearing with the Gresham City council for consideration of a proposed SIP Agreement between Multnomah County, City of Gresham, and Microchip Technologies, Inc.

2. Background/Analysis:

The Strategic Investment Program (SIP) was created by the Oregon legislature in 1993. The SIP was created because of the prohibitive 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 a global market. The following are the statutory elements of the SIP:

- Any company entering into a SIP agreement pays property taxes on the first $100 million of assessed property (growing 3% every year). Property taxes are exempt on assessed valuation of new investments above $100 million, unless otherwise agreed upon by the County, City, and company;

- A community service fee, equal to 25 percent of the abated taxes up to a maximum of $2 million per year, is paid to the county and distributed based upon an agreement between the County and the City in which an SIP project is located (in this case, Gresham).

- The participating county is allowed to negotiate other reasonable requirements or restrictions with the company.

- Any company entering into a SIP agreement is required to enter into a First Source Hiring Agreement with a publicly funded job training provider.

Multnomah County has established an "exemplary corporate citizen standard" for any SIP participating company that is designed to ensure measurable community benefits within the SIP agreement. This standard, represented through contractual goals and policy statements, provides the framework for consideration and negotiation of any SIP agreement, including Multnomah County's previous SIP agreements with LSI Logic and Fujitsu Microelectronics.

Multnomah County entered into a 15 year SIP Agreement with LSI Logic in 1995. This agreement is reviewed annually by the Board of County Commissioners and has been recognized locally and nationally as an exemplary partnership of local government and industry.

Also in 1995, Multnomah County and the City of Gresham entered into a 15 year SIP agreement with Fujitsu Microelectronics. This SIP Agreement with Fujitsu was mutually terminated in 1997 under terms negotiated between the County, the City, and Fujitsu. During the period in which that SIP agreement was in place, Fujitsu received no tax benefits, as the property value did not exceed $100 million.

Fujitsu Microelectronics continued to operate and expand in Gresham after the termination of the SIP, retooling during the semiconductor boom of 1999-2000. Fujitsu ultimately increased employment to over 900 at its Gresham location.

Beginning in mid- year 2001, the semiconductor entered what would prove to be the steepest and largest decline in its history. In February 2002, Fujitsu announced the permanent closure of its Gresham facility, dislocation of its workforce, and interest in selling the property.

Colliers international marketed the product on Fujitsu's behalf, and found a potential buyer in Microchip Technology.

Microchip Technology is a leading semiconductor manufacturer, supplying components which provide electronics intelligence in products used by consumers every day, such as garage door openers, electronic thermostats, automotive remote-keyless-entry system, battery-powered electronics and smart appliances. In many cases, the user simply does not know that a semiconductor provides the "smart" control of the product.

Microchip is an industry leader in providing embedded control solutions to its customers. Embedded control means that the circuitry is 'hidden' or built into an electronic system's operating board. Embedded applications include automotive, machine tools, cameras, consumer and office appliances, cellular phones, personal digital assistants (PDAs) and other handheld electronics, as well as robots and toys. Headquartered near Phoenix, Arizona, Microchip has more than 35,000 customers worldwide.

Representatives of Microchip and Fujitsu approached the City of Gresham and Multnomah County to explore the SIP standards, process, and possibilities for such an agreement related to the potential sale of the Fujitsu property to Microchip for continued use as a semiconductor manufacturing facility.

After several exploratory, informal conversations focusing on the potential sale and the County's SIP standards, Microchip entered into a tentative agreement to purchase the Fujitsu Property. Microchip made the approval of the SIP an explicit condition of the plant purchase. At this time, Multnomah County and the City of Gresham entered into negotiations with Microchip with the goal of producing a tentative SIP agreement in alignment with longstanding county policy related to such agreements.

On July 17, 2001, a tentative agreement was reached among the parties and announced publicly as a proposed agreement subject to City, County, and State review, consideration, and approval.

Key features of this agreement beyond those named in state SIP statute include:

Term: Seven year term (in contrast to 15 year term for all other SIP agreements in Oregon)

Value Cap: An annual cap of $490 million on the value of the property subject to tax relief under the SIP. Any assessed value in excess of this annual amount is taxed in full.

Due Diligence: Multnomah County contracted with two independent firms (ECONorthwest, Integra) for research and analysis of the proposed agreement's fiscal conditions and impacts. Microchip has agreed to compensate the County for these due diligence costs regardless of whether or not the proposed SIP agreement becomes a reality.

County Goals: As in prior Multnomah County SIP agreements, the proposed partnership with Microchip establishes performance standards and community benefits based on County goals for job creation, wages, benefits, support for local education and training, environmental stewardship, and local procurement and contracting.

3. Financial Impact:

a) Integra Realty Resources was contracted with to provide a summary report of a limited appraisal for the Fujitsu property. The following is a summary of the appraisal report:

1. The contracted sales price between Fujitsu and Microchip for the property and facility is $183.5 million.

2. The market value using a Sales Comparison Approach is $180 million.

3. Five other sales of similar plants throughout the United States were used for comparisons.

4. The Assessed Property Tax value for the 2002-03 tax year is $174.4 million.

5. The property use as a microchip facility is highest and best use.

6. Facility sits on about 199 acres and about 93 acres developable. The remaining acres are for setbacks, roads, utilities and wetlands.

7. An alternative facility could be built on the site and would take about 4 to five years to complete. The completed facility has a potential of supporting about 1,620,000 square feet of space ECONorthwest translates this into a facility with a market value of about $51 per square foot or $82.6 million and a property tax value of about $41.3 million.

b) Multnomah County hired ECONorthwest to conduct two related analyses of the proposed agreement: an economic analysis and a fiscal analysis.

In the *economic analysis*, the report estimates the direct number of jobs and employee compensation (i.e., salary and benefits) created by Microchip's on-going operations and projects how Microchip's activities will impact other sectors of the economy. In the *fiscal analysis*, property tax payments that would be made to Multnomah County, the City of Gresham, and other affected districts in three scenarios were forecasted. First, calculated taxes that would be paid by Microchip if they located in Gresham *without* the SIP agreement. Second, calculated taxes for Microchip assuming they locate in Gresham *with* the SIP agreement. Third, forecasted property tax and community service fee payments assuming Microchip does not purchase the plant, and the property is put to an alternative use. The third scenario is based on the work of Integra Realty Resources using the assumption that in the absence of the Microchip sale, the property would be developed as an industrial park. The following is a summary of the economic report:

1. Microchip's financial condition is strong.

2. Microchip has committed to hiring 204 employees in the first year of the SIP agreement and 401 employees in fiscal year 2010.

3. Direct Microchip employee compensation (salary and benefits) would average about $57,000 in fiscal 2004.

4. Microchip will purchase goods and services in the Portland area from local chemical supply companies, engineering firms, electricians, and others. Therefore, direct employment of Microchip employees at 204 translates into about 411 additional jobs in the Metro area bringing the total employment to 615. At 401 employees an additional 806 jobs are created in the metro area bringing the total employment to 1,207.

5. The net present value of the SIP agreement to Microchip is $17.3 million. This is a savings in tax payments that Microchip receives by paying property taxes on the first $100 million in assessed value and community service fee compared to paying property taxes on the entire assessed value. This is over the seven year SIP.

6. The value to local governments for property taxes would be $12.2 million over the life of the 7 year SIP and over a 15 year period the net present value to local governments would be estimated at $37.2 million. The present value amounts assume that a hypothetical industrial facility would be built on the site if Microchip did not purchase the facility and the benefit is the difference between what the hypothetical facility would pay and what Microchip would pay. The $37.2 figure is included because in year 8 Microchip property taxes go to the full amount of the assessed value.

7. Microchip would pay between $4,996 and $8,225 per worker per year in property taxes with the SIP compared to the typical County business that pays about $617 in property taxes per worker per year. Amounts fluctuate due to the plant and equipment investment cycles.

8. Microchips impacts on the local infrastructure, roads utilities, schools etc. would not exceed Fujitsu's impact.

4. Legal Issues:

The legal issues involved in this matter relate to the state statutory requirements for tax exemptions under the Strategic Investment Program. The tax exemption requirements are found in ORS 307.123. And there are eligibility requirements that companies must meet for the tax exemption, which are found in ORS 285B.383, as well as procedural requirements in ORS 285B.386. All requirements have been identified and have been met to this point in the process. All further requirements can be met.

5. Controversial Issues:

Controversial issues related to this agreement will be those typically associated with economic development incentives and will be of two types: Philosophical and Substantive.

Philosophical: Controversies in the area arise from a belief among some in the community that agreements such as this represent "corporate welfare", are inappropriate uses of government policy to intervene in the marketplace, and represent an unfair, unnecessary adjustment of tax policy to benefit industry.

Substantive: The global semiconductor industry is highly cyclical and frequently volatile; hence the fluctuations of the industry are unpredictable as are the ramifications of those fluctuations on local workers, communities, and the regional economy. Further substantive controversy may arise around the basic question of value for the county: do the elements of the proposed contract generate sufficient return on investment and include sufficient accountability to justify the use of the SIP. Additional controversy will arise due to confusion of information in the public at large regarding the mechanisms of the agreement (what taxes are abated, what fees are paid), and which companies have agreements in place (a recent letter to the editor in The Oregonian cited Fujitsu's SIP as being currently in effect, when in fact it was dissolved 7 years ago). Finally, controversy may arise from the fact that the number of jobs projected under the agreement are fewer than those previously employed by Fujitsu at the facility.

6. Link to Current County Policies:

Reduction in poverty, creation of family wage jobs, County living wage ordinance, longstanding SIP policy.

7. Citizen Participation:

Public Hearing August 6, 2002.

8. Other Government Participation:

The City of Gresham, through City Manager Rob Fussell and Economic Development Director Max Talbot, has negotiated on the City's behalf and have been equal members of the County/city negotiating team. The Oregon Economic and Community Development Department has also advised the parties in negotiations. Per state statute, the proposed SIP Agreement, if approved by the County and City, must then be approved by the Finance Committee of the Oregon Economic and Community Development Department before the agreement can go into effect.

Microchip Technology's Request for Tax Abatement Under Oregon's Strategic Investment Program

An Economic and Fiscal Analysis Prepared for Multnomah County

Prepared by

ECONorthwest

ECONOMICS • FINANCE • PLANNING

John Tapogna, M.P.P.
Eric Fruits, Ph.D.
Alec Josephson, M.S.
Peter Graven

July 29, 2002

Introduction and Summary

BACKGROUND

Late last year, the Fujitsu Company announced it would end production of flash memory chips at its Gresham, Oregon plant. The company laid off the majority of its 670± workers and placed its assets on the market. On July 17, 2002, Microchip Technology (Microchip) announced their intention to purchase buildings, land, and remaining machinery. As a condition of that sale, Microchip has requested property tax relief under Oregon's Strategic Investment Program (SIP), which is authorized by state law but administered by counties. The program's goal is to attract to Oregon companies in capital-intensive industries, particularly those in the high technology sector, that would not consider locating here but for the program. The key feature of a SIP agreement is a cap on the assessed value of the subject property to $100 million—with annual inflation adjustments—for a specified period of time not to exceed 15 years. In exchange for the tax relief, participating companies typically pay special community service fees in lieu of portion a of the abated taxes, agree to specific job targets, and commit to hiring local residents whenever feasible.

Under the specific agreement under consideration, Microchip would pay property taxes on a capped level for seven year. Specifically, in fiscal year 2004, Microchip would pay property taxes on at the standard SIP cap of $100 million. During the next six years, the cap in the assessed value would increase by 3 percent and would rise to $119 million in fiscal year 2010. During this period, Microchip would estimate its property tax savings and pay community service fees equal to 25 percent of those savings. The SIP agreement would end at the conclusion of fiscal year 2010, and from that point forward the company would pay property taxes under standard state and local rates and rules at that time. Microchip will pay regular property taxes on the assessed value in excess of $490 million.

Multnomah County hired ECONorthwest to conduct two related analyses of the proposed agreement: an economic analysis and a fiscal analysis. In the *economic analysis*, we report the direct number of jobs and employee compensation (i.e., salary and benefits) created by Microchip's on-going operations during the next 15 years. Using Microchip's payroll estimates, we then project how Microchip's activities will impact other sectors of the economy. For example, in addition to hiring people for their own operations, Microchip will purchase goods and services from local technology suppliers, engineers, electricians, and plumbers. Moreover, Microchip's own employees would spend portions of their salaries in the local economy on mortgage or rent payments, groceries, health care, transportation services, and entertainment. The local spending by Microchip and its employees would generate a so-called multiplier effect, supporting jobs and income in other

sectors of the regional economy. Our economic analysis estimates the size of that multiplier effect over time.

In the *fiscal analysis*, we forecast property tax payments that would be made to Multnomah County, the City of Gresham, and other affected districts in three scenarios. First, we consider taxes that would be paid by Microchip if they located in Gresham *without* the SIP agreement. Second, we calculate taxes for Microchip assuming they locate in Gresham *with* the SIP agreement. By comparing the streams of payments under these first two scenarios, we calculate the value of the SIP agreement to the firm. Under a third scenario, we forecast property tax and community service fee payments assuming Microchip does not purchase the plant, and the property is put to an alternative use. Based on the work of Integra Realty Resources—a local appraisal firm—we assume that in the absence of the Microchip sale, the property would develop as an industrial park. The difference between property tax and fee payments under the second and third scenarios represents the value of the agreement to local governments.

For the purposes of this report and our forecasts, we have assumed that *without* the SIP agreement Microchip would not purchase the Fujitsu plant. Given the state of the high-technology sector and uncertainty in the economy in general, such an assumption does not seem unreasonable. Moreover, Microchip officials made the approval of the SIP an explicit condition of the plant's sale. That said, ECONorthwest in not in the position to say with absolute certainly that the SIP agreement is necessary to attract the buyer to the region.

FINDINGS

Below, we outline our key findings:

- **Microchip's financial condition is strong and purchase would strengthen company's production capacity.** Microchip Technology has been a successful player in the 8-bit microcontroller market by adeptly acquiring plants and equipment from larger corporations. Microchip Technology's financial condition is strong and they have reported rising sales. The company needs a plant they can open quickly with a trained labor supply and ready-to-go modern equipment that can efficiently handle 8-inch wafers at 0.25-micron or less architectures, which is precisely what the Fujitsu plant and Gresham-area labor force would provide.

- **Microchip has agreed to hire more than 400 direct employees at full implementation.** Microchip has committed to hiring 204 employees in the first year of the SIP agreement and 401 employees in fiscal year 2010. The company assumes employment would remain at that level thereafter. At peak employment, ECONorthwest estimate direct employee

compensation (salary and benefits) would average roughly $57,000 in fiscal 2004.

- **Microchip's purchases of goods and services in the local economy, as well as the purchases of its employees, would support more than 800 full- and part-time jobs in other sectors of the economy.** Microchip will purchase goods and services in the Portland area and elsewhere in Oregon from local chemical supply companies, engineering firms, electricians, and others. We estimate that every direct job at Microchip would support approximately 800 additional full and part-time jobs in the Portland area. Therefore, at full employment, more than 1,200 full and part time jobs would be supported, directly or indirectly, by Microchip's *on-going* operations. The associated jobs would not be paying as well as the direct Microchip jobs. Comparing personal incomes, each dollar earned by a direct Microchip employee would be associated with $1.34 in personal incomes earned by those indirectly affected by the plant's on-going operations. The company's periodic investments in machinery would add to those impacts as the company would hire local labor to install the equipment.

- **Value of the SIP agreement to Microchip would total $17.3 million.** Under Microchip's projected investment plan, the property's assessed value would peak at $492 million and never be lower than $200 million during the life of the SIP agreement. However, under the agreement, the property's assessed value would be capped at $100 million in the first year of the agreement rising to $119 million in the project's final year. In addition, the company would pay community service fees equal to 25 percent of their calculated property tax savings. Comparing property taxes paid with and without the SIP agreement, we estimate the net present value of the agreement to be $17.3 million.

- **Value of the SIP agreement to local taxing districts would total $12.2 million during 2004-2010.** By comparing property taxes and community service fees paid by Microchip to property taxes that would be paid by a hypothesized industrial park, we can calculate the benefits of the SIP agreement to local taxing districts. Specifically, we find the present value of the additional taxes and fees would total $12.2 million—if measured only over the agreement period. If we extend the forecast period to include the entire 2004-2018 period, we estimate a net present value to local governments of $37.2 million. Benefits to local taxing jurisdictions increase sharply at the conclusion of the agreement. Again, the benefits of the SIP to local taxing jurisdictions hinge on two key assumptions. First, and most importantly, we assume Microchip would not locate in Gresham without the agreement. Second, we assume that without the Microchip purchase—the property would redevelop as an industrial park.

- **Microchip's property taxes per worker, with the SIP agreement, would greatly exceed the countywide average.** Assuming the SIP is in place, Microchip would pay between $4,996 and $8,225 per worker annually in property taxes alone. Considering property taxes and community service together, the company's total payments fluctuate between $8,511 and $11,119 per worker per year during the SIP agreement. By contrast, the typical Multnomah County business paid $617 per worker per year.

- **Microchip's impacts on local infrastructure is unlikely to exceed Fujitsu's.** Given that Microchip anticipates operating the plant with fewer employees than were employed by Fujitsu, we anticipate that the company's impact on local roadway, water, and sewer infrastructure would not exceed that of Fujitsu's. Conversations with City of Gresham planning staff confirm that planning staff do not anticipate significant system impacts should the purchase be finalized.

ORGANIZATION OF THIS REPORT

The balance of this report consists of four additional sections:

Section 2 Buyer Profile provides background on Microchip Technology and discusses how the purchase of the Fujitsu plant relates to the company's market strategy.

Section 3 Economic Analysis reports the company's employment projections and details estimated impacts of Microchip's operations on the regional and state economies.

Section 4 Fiscal Analysis projects assessed property values and associated taxes assuming Microchip purchases the plant with or without the SIP agreement, as well as, under an assumed industrial park use. This section then reports the value of the SIP agreement to Microchip and local taxing jurisdictions.

Section 5 Infrastructure Considerations briefly summarizes the position of City of Gresham staff that Microchip's operations would place less demands on local infrastructure than did Fujitsu's operations.

Company Profile

In this section, we provide background on Microchip and discuss how the proposed purchase of the Fujitsu plant works into the company's long-term strategy.

Microchip makes embedded control products or microcontrollers, which are chips used in a wide array of common commercial, industrial, and consumer products. The company is a niche player in the semiconductor industry. Although relatively small compared to firms such as Intel and National Semiconductor they have been quite successful because of their focused product offering and their low-cost manufacturing produces good margins. Financially, the company is doing very well. The company has a strong balance sheet. An examination of their cash flow statement indicates that there are no significant problems in evidence. The only major problem we see is that they may have to take a large write-down on their investment in a plant in Puyallup, Washington, which the firm has yet to open.

Microcontrollers are common semiconductor devices. They are found in such things as garage door openers, air conditioners, photocopiers, remote controls, slot machines, kitchen appliances, wind turbines, electric-powered carts, cell phones, factory equipment, and industrial ovens. They are designed for specific functions such as power conservation, optimizing efficiency, security controls, and maintaining temperatures.

Microcontrollers are high volume, low unit price (generally under $10) products. Years ago Microchip made a concerted effort to go after the 8-bit microcontrollers market, which is the low-end of the spectrum with unit prices typically between fifty cents and $3. Their strategy was to offer highly reliable products at competitive prices.

To succeed, company officials believe they need to control the chip fabrication plants (Fabs) rather than use third party producers. Doing so would allow them to shorten the design-to-delivery cycle and ensure product quality. However, there were drawbacks to this strategy, which are typical of niche players trying to do it all themselves. Larger companies (all their significant competitors are much larger than they are) and those using third party production have cost advantages. To offset this, Microchip decided to buy old plants and equipment at discounts, and to rely on older production technology while using advanced designs in its products. This had the effect of lessening capital costs while maximizing production yields and offering consumers good products. As a result, they have been able to compete on price and gain market share.

The company ranks in between Motorola and Mitshubishi in the world market for 8-bit microcontrollers. They do not currently sell 16- and 32-bit products—markets currently dominated by Intel, Hitachi, NEC, and Mitsubishi. However, some of Microchip's 8-bit microcontrollers can compete

with lower-end 16- and 32-bit products. While the bulk of the world microcontroller market consists of 8-bit products, the market is shifting towards 16-bit chips and Microchip does not make these. However, Microchip's Digital Signal Controller (DSC) division is focused on entering the 16-bit market. Also the company's plants are about 25 years old and it may become increasingly difficult for them to succeed against their more formidable competitors with their newer production technologies and improving yields. For instance, Microchip uses 0.5-micron geometry and has recently moved towards 0.35 microns whereas competitors, such as Motorola, are working at 0.25-micron geometry and moving towards the rapidly maturing 0.18 process technology.

Microchip got its start in 1989 when venture capitalists bought an old Fab plant in Chandler, Arizona from General Instruments. Initially 95 percent of their output was memory devices. The decision was soon made to switch production to microcontrollers, which had much higher profit margins. In 1993 Microchip added capacity and bought a Fab plant in Tempe from Digital Equipment.

In 2000 Microchip bought a large Fab plant from Matsushita Electric. The plant, located in Puyallup, Washington is about 20 years old and has never made money. Fairchild Camera & Instrument built the plant in 1981, sold it in 1987 to National Semiconductor who then sold it again in 1991 to Matsushita. In 1997, Matsushita built a new wafer fabrication building (called "Fab D" by Matushita), which it had never brought into production and closed in 1998. Fab D was the primary reason for Microchip acquiring the site, which Microchip now calls Fab 3. Microchip first said they would open the plant in August 2001, delayed the opening to December 2002, and now has it on stand-by status. Microchip's Fab 3 may need a significant investment in new equipment and since it was never operated, substantial worker training would be required. According to the company:

> *Fab 3 is currently being maintained at minimal operating cost until we expect to require its capacity for production. We currently plan to utilize Fab 3 for our future production requirements. However, as we begin to plan for the mobilization of Fab 3, we continue to explore other, potentially more cost-effective, alternatives that may become available to meet our future production requirements. When required for production, Fab 3 will produce 8-inch wafers. Upon commencement of operations at Fab 3, our operating margins could suffer as production is brought on-line and depreciation on the buildings and related equipment commences.*[1]

As noted before, Microchip has tended to follow rather than lead the industry in process technology. Microchip believes it is important to transition to larger wafers and more advanced process technologies.

---

[1] Microchip 10-K report. June 3, 2002.

We continue to transition products to smaller geometries and to larger wafer sizes to reduce future manufacturing costs. We also continue to increase our manufacturing capacity for 8-inch wafers and to transition products to our 0.7-micron process. Other companies in the industry have experienced difficulties in transitioning to larger wafers and to smaller geometries, resulting in reduced manufacturing yields or delays in product deliveries. We believe that our transition to smaller geometries and to larger wafers is important for us to remain competitive. Our future operating results could be reduced if the transition is substantially delayed or inefficiently implemented.[2]

In conclusion, Microchip has been a successful player in the 8-bit microcontroller market by adeptly acquiring plants and equipment from larger corporations. The microcontroller market is a distinct subcategory of the semiconductor industry. Unlike PC, fiber-optic, and wireless communications dependent semiconductor plants, makers of microcontrollers sell to such a wide array of consumer and commercial product manufacturers that they have been able to avoid the recent huge decline in sales. Microchip's financial condition is strong and they have reported rising sales. However, this industry remain competitive and there are no signs of competition abating.

Microchip needs to modernize. Its attempt to do so with the acquired Puyallup plant has not yet come to fruition. That investment remains on the books of the corporation. If Microchip buys a better plant, the management would need to evaluate writing off the portion of its investment in Fab 3.

What they need is a plant they can open quickly with a trained labor supply and ready-to-go modern equipment that can *efficiently* handle 8-inch wafers at 0.25-micron or less architectures. This would help reduce the negative investor response that could surface because of the decision to replace Fab 3. Thus, the move to a new plant and decision to recognize a loss at the older plant need to be made at about the same time. Thus any delays in permitting or other bureaucratic roadblocks—for which, unfortunately, Oregon has developed a reputation, could prove disastrous.

---

[2] Microchip 10-K report. June 7, 2000.

Economic Analysis

Impacts from the proposed development by Microchip at the former Fujitsu site in Gresham stems from two sources.

1) The annual, ongoing operations of the manufacturing facility.

2) The capital investment in the property. Microchip plans to invest over $1.3 billion in capital improvements over time for equipment and modifications to the current facility, and employ 401 workers once this site is fully operational. These effects develop over time with most of the activity occurring after the estimated seven year ramp up period.

In order to trace the effects of the proposed development through the local and state economies, ECONorthwest developed two regional input-output models of the semi-conductor industry using IMPLAN modeling software.[1] This modeling framework enables us to estimate the total amount of economic activity attributable to Microchip's proposed manufacturing facility. This section of the report describes these impacts on both the Portland metropolitan and state economies.

DIRECT EMPLOYMENT

Microchip provided an annual employment schedule that included detailed compensation data for each class of employees. These compensation totals include salary and benefits for employees directly hired by the company. In Table 3-1, ECONorthwest assumed compensation would increase to keep pace with an estimated 3 percent annual rate of inflation. Lacking other detailed information about the company's compensation history, we assumed no increases in real wages.

Projected job growth ends in 2010 when the facility becomes fully operational and employs an estimated 401 workers. Microchip has revealed no plans for additional site development after this level is reached. Compensation reported in Table 3-1 summarizes the total compensation for employees in seven employment categories, including: Engineering, Engineering technician, Manufacturing, Management/Administration, Facilities, Document Control, and Materials. The employment mix, however, will change as the phase-in period ends and the facility becomes fully operational.

---

[1] IMPLAN was developed by the Forest Service of the US Department of Agriculture in cooperation with the Federal Emergency Management Agency and the Bureau of Land Management of the US Department of the Interior to assist federal agencies in their land and resource management planning. Applications of IMPLAN by the US Government, public agencies and private firms span a wide range of projects, from broad, resource management strategies to individual projects, such as proposals for developing ski areas, coal mines, and transportation facilities, and harvesting timber or other resources. ECONorthwest has applied the model to a variety of public and private sector projects including, most recently, a major US/Canada gas pipeline project.

As such, the average real wage for direct hires will gradually decrease as the facility shifts towards lower-paid manufacturing labor.

Table 3-1: Microchip's Estimated Employment Schedule

Calendar Year	Jobs	Compensation (in Millions of $)	Compensation Average (in $)
2003	204	11.22	54,988
2004	227	12.77	56,277
2005	256	14.76	57,640
2006	286	16.89	59,042
2007	322	19.43	60,340
2008	360	22.20	61,658
2009	401	25.24	62,939
2010	401	26.00	64,827
2011	401	26.78	66,772
2012	401	27.58	68,775
2013	401	28.41	70,839
2014	401	29.26	72,964
2015	401	30.14	75,153
2016	401	31.04	77,407
2017	401	31.97	79,729

Source: Microchip, Inc.

ONGOING OPERATIONS

Microchip's operations in Gresham will affect the local and state economies in three ways:

- **Direct economic impacts.** The company will *directly* purchase goods and services in the local economy. As just described, the majority of these direct impacts are associated with the hiring of those workers necessary to operate the manufacturing facility.

- **Indirect economic impacts.** Microchip also *indirectly* affects the local economy as the company purchases goods and services from local providers or vendors. These providers will, in turn, purchase materials and supplies themselves. These purchases of "intermediate" goods and services indirectly fuels additional economic activity.

- **Induced economic impacts.** The direct and indirect increases in employment and income enhance overall economy purchasing power, thereby *inducing* further consumption spending. For instance, manufacturing workers who use their income to buy groceries or take their family to the theater generate economic impacts for workers and businesses in those sectors. These individuals will, in turn, spend their income much like the manufacturing workers do. This cycle continues until the spending eventually leaks out of the local economy

as a result of taxes, savings, or purchases of non-locally produced goods and services or "imports."

Microchip estimates that they will directly employ between 204 and 401 workers annually during an estimated 15 year time horizon, from 2004 to 2018. In addition, according to the IMPLAN input-output models, spending by Microchip and other businesses on goods and services from local providers will indirectly generate between 168 and 329 jobs in the Portland metropolitan area, and between 171 and 337 jobs in Oregon, annually over this time frame.

Spending by the direct hires of the company, and workers and firms that are indirectly affected by Microchip's spending, will produce another 243 to 477 *induced* jobs in the local area and 254 to 500 jobs throughout Oregon (including Clark County). Tables 3-2 and 3-3 map out the nature and timing of job impacts over the 15 year time horizon for the Portland area and Oregon.

Table 3-2: Employment and Personal Income Impacts, Portland Metropolitan Area (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2003	204	168	243	615	11.52	7.54	8.01	27.07
2004	227	186	270	683	13.12	8.65	9.18	30.95
2005	256	210	305	771	15.16	10.04	10.67	35.86
2006	286	235	340	861	17.35	11.56	12.27	41.18
2007	322	264	383	970	19.96	13.36	14.19	47.51
2008	360	296	428	1,084	22.81	15.43	16.39	54.63
2009	401	329	477	1,207	25.94	17.71	18.80	62.45
2010	401	329	477	1,207	26.72	18.24	19.37	64.33
2011	401	329	477	1,207	27.52	18.79	19.95	66.26
2012	401	329	477	1,207	28.35	19.35	20.55	68.25
2013	401	329	477	1,207	29.20	19.93	21.16	70.29
2014	401	329	477	1,207	30.08	20.53	21.80	72.40
2015	401	329	477	1,207	30.98	21.14	22.45	74.57
2016	401	329	477	1,207	31.91	21.78	23.13	76.81
2017	401	329	477	1,207	32.86	22.43	23.82	79.12

Source: ECONorthwest IMPLAN Model
Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

Tables 3-2 and 3-3 additionally report personal income totals for each of the direct, indirect, and induced effects. Personal income consists of wages and salaries received by households (including benefits such as health and life insurance, and retirement payments) and the payments received by small-business owners or self-employed individuals. As can be seen in Table 3-2, once the facility becomes fully operational, approximately $64.3 million in personal income is generated in Portland in 2010.

As discussed previously, spending by Microchip has a multiplier effect[2] on the local and state economies. For instance, the estimated job multiplier for Portland of 3.01 suggests that each direct hire at Microchip would support roughly 2 additional jobs (*full time or part time*) elsewhere in the local economy. This job multiplier is higher than has been reported in past studies of the impacts of high-technology firms on the local economy. For example, in a 1998 analysis for Intel, ECONorthwest estimated a job multiplier of 2.59, which implies that every direct job supports 1.59 jobs elsewhere in the economy. We can offer two explanations for the higher multiplier. First, as time has passed, Portland's high-technology sector has matured, so firms like Microchip or Intel will find more of the goods and services they need in the Portland area. As the IMPLAN model is updated, it takes that maturation into account. Second, and perhaps more important, the IMPLAN metric for reporting jobs has changed in the last few years. In previous models, IMPLAN measured employment impacts in full-time equivalent jobs (FTEs). The current model estimates the total number full- and part-time jobs. Because the model does not aggregate the part-time jobs into full-time equivalents, the impacts will appear larger than they have in the past.

The personal income multiplier ranges from 2.34 to 2.41 for both state and local impacts. That is, for every dollar of personal income for employees at Microchip in fiscal year 2004, another $1.34 in personal income is generated for employees in various sectors of the local, Portland metropolitan economy.

[2] In this report, the economic multipliers are estimated by dividing the total job or personal income impacts by the direct job or personal income impacts.

Table 3-3: Employment and Personal Income Impacts, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2003	204	171	254	630	11.82	7.67	8.24	27.73
2004	228	192	284	704	13.47	8.83	9.49	31.79
2005	256	215	319	790	15.56	10.21	10.97	36.74
2006	286	240	357	883	17.81	11.75	12.62	42.19
2007	322	271	401	994	20.50	13.63	14.64	48.77
2008	360	303	449	1,112	23.43	15.69	16.86	55.98
2009	401	337	500	1,238	26.66	18.00	19.34	64.00
2010	401	337	500	1,238	27.46	18.54	19.92	65.92
2011	401	337	500	1,238	28.28	19.10	20.52	67.90
2012	401	337	500	1,238	29.13	19.67	21.13	69.94
2013	401	337	500	1,238	30.01	20.26	21.77	72.04
2014	401	337	500	1,238	30.91	20.87	22.42	74.20
2015	401	337	500	1,238	31.83	21.50	23.09	76.42
2016	401	337	500	1,238	32.79	22.14	23.79	78.72
2017	401	337	500	1,238	33.77	22.81	24.50	81.08

Source: ECONorthwest IMPLAN Model
Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

IMPLAN also provided estimates of the job and personal income impacts for the 528 different industry sectors contained in the input-output model. Table 3-4, below, shows the portion of total jobs going to the nine main industry categories. With 401 direct hires and additional 75 jobs generated from business or consumer spending, the manufacturing sector receives the bulk of the total employment impacts (39 percent). Workers and firms in the service and wholesale/retail trade sectors also benefit from spending by Microchip and their employees, with approximately 30 and 19 percent, respectively, of the total employment impacts.

Table 3-4: Employment Impacts in Sample Year 2010, By Sector

Sector	Metro	%	State	%
Agriculture, Forestry, and Fisheries	7	1%	10	1%
Mining	0	0%	0	0%
Construction	38	3%	39	3%
Manufacturing	476	39%	478	39%
Trans., Comm., & Utilities	34	3%	35	3%
Wholesale and Retail Trade	224	19%	237	19%
Finance, Insurance, & Real Estate	57	5%	60	5%
Services	362	30%	368	30%
Government	10	1%	10	1%
Total	1208	100%	1237	100%

Source: ECONorthwest IMPLAN Projections

CAPITAL INVESTMENT

Microchip plans on making substantial capital improvements in the facility. These improvements lead to contract work for businesses and workers in the local economy, which generate additional indirect and induced employment impacts.

The purchase of new chip-making equipment will compose a significant share of Microchip's capital investments. For the purposes of this impact analysis, we assume Microchip will purchase this specialized equipment outside the local and state economies. Accordingly, this component of Microchip's capital investment plans yields no local impacts. Microchip, however, will hire local labor, engineers, electricians, plumbers, and others to install and test this chip-making equipment. . Based on discussions with the company, we assume 15 percent of the machinery-related investments and 80 percent of other facility and site work would be associated with contracted installation services.

The schedule in Table 3-5 indicates a manufacturing equipment buildup beginning in calendar year 2006 and slowing down by 2010. More than 50 percent of the total investment will occur in these 4 years. After 2010, the schedule shows annual investments of $50 million manufacturing equipment.

Table 3-5: Microchip's Estimated Capital Investment Schedule (in Millions of Current Year Dollars)

Calender Year	Initial Purchase Price	Facilities/Site Work	Manufacturing Equipment	Totals	Total (real dollars)
2002	$184	$5	$20	$209	$209
2003	0	3	38	41	40
2004	0	3	50	53	49
2005	0	0	207	207	189
2006	0	0	215	215	191
2007	0	0	100	100	86
2008	0	0	100	100	84
2009	0	0	50	50	41
2010	0	0	50	50	39
2011	0	0	50	50	38
2012	0	0	50	50	37
2013	0	0	50	50	36
2014	0	0	50	50	35
2015	0	0	50	50	34
2016	0	0	50	50	33
Total	$184	$11	$1,129	$1,324	$1,142

Source: Microchip Inc.

In order to measure the effects from the proposed capital investments at the Gresham site, ECONorthwest created input-output models for Portland and the state that would trace the economic impacts associated with Microchip's proposed expenditures on contract work. These impacts are reported in Tables 3-6 and 3-7, below.

Table 3-6. Employment and Personal Income Impacts, Portland Metropolitan Area (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	103	42	144	-	4.13	1.19	5.33
2003	-	115	47	162	-	4.78	1.38	6.16
2004	-	136	55	191	-	5.80	1.67	7.48
2005	-	416	169	585	-	18.30	5.27	23.57
2006	-	422	171	592	-	19.08	5.50	24.58
2007	-	190	77	267	-	8.86	2.55	11.41
2008	-	184	75	259	-	8.86	2.55	11.41
2009	-	90	36	126	-	4.43	1.28	5.71
2010	-	87	35	122	-	4.43	1.28	5.71
2011	-	84	34	119	-	4.43	1.28	5.71
2012	-	82	33	115	-	4.43	1.28	5.71
2013	-	80	32	112	-	4.43	1.28	5.71
2014	-	77	31	109	-	4.43	1.28	5.71
2015	-	75	30	105	-	4.43	1.28	5.71
2016	-	73	29	102	-	4.43	1.28	5.71
2017		71	29	99		4.43	1.28	5.71

Source: ECONorthwest IMPLAN Model
Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

From an input-output perspective, spending by Microchip on contract work creates indirect jobs and incomes in the local and state economies. As a

result, there are no direct employment and income impacts reported in tables 3-6 and 3-7. Spending by contract workers, however, will induce additional jobs and income in other sectors of the Portland and state economies. For instance, at year five of the capital investment schedule, Microchip will hire approximately 397 contract workers, whose spending will generate almost 150 more jobs in the Portland area.

Table 3-7: Employment and Personal Income Impacts, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	98	41	139	-	4.17	1.57	5.74
2003	-	110	46	156	-	4.82	1.82	6.64
2004	-	130	54	184	-	5.85	2.21	8.06
2005	-	398	165	563	-	18.43	6.96	25.40
2006	-	403	167	570	-	19.23	7.26	26.49
2007	-	181	75	257	-	8.93	3.37	12.30
2008	-	176	73	249	-	8.93	3.37	12.30
2009	-	86	36	121	-	4.46	1.69	6.15
2010	-	83	34	118	-	4.46	1.69	6.15
2011	-	81	33	114	-	4.46	1.69	6.15
2012	-	78	33	111	-	4.46	1.69	6.15
2013	-	76	32	108	-	4.46	1.69	6.15
2014	-	74	31	104	-	4.46	1.69	6.15
2015	-	72	30	101	-	4.46	1.69	6.15
2016	-	70	29	98	-	4.46	1.69	6.15
2017	-	68	28	96	-	4.46	1.69	6.15

Source: ECONorthwest IMPLAN Model
Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

COMBINED ECONOMIC IMPACTS

The combined, economic impacts include those from ongoing manufacturing operations and those associated with the proposed capital investments at this site. Tables 3-8 and 3-9 report the combined economic impacts over time for Portland and the state.

The noticeable peak in associated jobs resulting from the manufacturing build-up is moderated by the impact from regular operations creating a more consistent stream of benefits to the region.

Table 3-8: Combined Economic Impacts of Microchip's Ongoing Operations and Investment-Related Expenditures, Portland Metro (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002	-	103	42	144		4.13	1.19	5.33
2003	204	283	290	777	11.52	12.33	9.39	33.24
2004	227	322	325	874	13.12	14.45	10.85	38.42
2005	256	626	474	1,356	15.16	28.34	15.94	59.43
2006	286	657	511	1,453	17.35	30.64	17.77	65.76
2007	322	486	460	1,268	19.96	22.22	16.74	58.92
2008	360	480	503	1,343	22.81	24.29	18.94	66.05
2009	401	419	513	1,333	25.94	22.14	20.08	68.16
2010	401	416	512	1,329	26.72	22.67	20.64	70.03
2011	401	413	511	1,326	27.52	23.22	21.23	71.96
2012	401	411	510	1,322	28.35	23.78	21.82	73.95
2013	401	409	509	1,319	29.20	24.36	22.44	76.00
2014	401	406	508	1,316	30.08	24.96	23.07	78.11
2015	401	404	507	1,312	30.98	25.57	23.73	80.28
2016	401	402	506	1,309	31.91	26.21	24.40	82.52
2017	401	400	506	1,306	32.86	26.86	25.10	84.82

Source: ECONorthwest IMPLAN Model
Note: The Portland metropolitan area includes Washington, Clackamas, Multnomah, and Clark (WA) counties.

Table 3-9: Combined Economic Impacts of Microchip's Ongoing Operations and Investment-Related Expenditures, Oregon (Current Dollars)

Calendar Year	Jobs				Personal Income (in Millions of $)			
	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
2002		98	41	139		4.17	1.57	5.74
2003	204	282	300	786	11.82	12.49	10.06	34.37
2004	228	321	338	888	13.47	14.68	11.69	39.84
2005	256	613	484	1353	15.56	28.65	17.93	62.14
2006	286	643	524	1453	17.81	30.98	19.89	68.68
2007	322	452	477	1251	20.50	22.55	18.01	61.07
2008	360	479	522	1361	23.43	24.62	20.23	68.28
2009	401	423	535	1359	26.66	22.47	21.03	70.15
2010	401	420	534	1356	27.46	23.01	21.61	72.07
2011	401	418	533	1352	28.28	23.56	22.20	74.05
2012	401	415	532	1349	29.13	24.14	22.82	76.09
2013	401	413	532	1346	30.01	24.73	23.45	78.19
2014	401	411	531	1343	30.91	25.33	24.11	80.35
2015	401	409	530	1340	31.83	25.96	24.78	82.57
2016	401	407	529	1337	32.79	26.60	25.47	84.86
2017	401	405	528	1334	33.77	27.27	26.19	87.23

Source: ECONorthwest IMPLAN Model
Note: For consistency with the Portland model, Oregon includes Clark County, Washington.

Fiscal Impacts

INTRODUCTION

In this section, we estimate the impacts of the proposed agreement from the perspectives of the company, as well as, the local taxing jurisdictions that levy property taxes in the area. For the fiscal analysis, we have estimated property taxes and community service fees that would be paid to affected local governments under the following three scenarios:

- **Scenario 1: Microchip purchases and operates the plant without the SIP agreement.** In the first scenario (hereafter W/O SIP), we assume Microchip purchases and occupies the Gresham plant *without* the SIP agreement. While Microchip officials firmly state that this scenario will never come to pass, we need to consider it in order to estimate a value of the SIP agreement to the company.

- **Scenario 2: Microchip purchases and operates the plant with the SIP agreement.** Under a second scenario, we evaluate taxes and fees under the assumption that Microchip purchases the plant and receives the SIP agreement (hereafter W/ SIP). In the two scenarios with Microchip ownership, we assume the company would not expand its operations beyond the current buildings. Moreover, we further assume Microchip would *not* sell or develop the remaining—currently undeveloped—land on the property because vibrations from construction activities or alternative activities could disrupt the chip-making process and generate property security problems.

- **Scenario 3: Microchip does not purchase the plant and the property reverts to the next best use.** Under a third scenario, we consider an alternative that assumes the Microchip sale does not take place. In this event, we assume that Fujitsu would cease maintaining the plant in its "near ready" condition and would begin dismantling and selling the plant's remaining machinery and tools. At this point, the property's remaining value would be the land and the building shell. To predict the likely course of events, we rely on the expertise of a local real estate appraiser—Integra Reality Resources.

In the remainder of this section, we review Microchip's proposed investment schedule and then forecast assessed values, property taxes, and community service fees that Microchip would pay with and without the SIP agreement. We similarly calculate assessed values and taxes under an alternate use. By comparing taxes and fees under these scenarios, we then calculate the value of the agreement to Microchip and local taxing districts.

ASSESSED VALUES

In order to forecast the property's assessed values under the three scenarios, we first need to characterize the property's worth assuming Microchip ownership (for Scenario 1 and 2) and then under the alternative non-chip making use. In this section, we detail the assumptions.

MICROCHIP OWNERSHIP (SCENARIOS 1 AND 2)

Assuming Microchip's ownership, the property's value would be determined in large part by the value of the investments, in buildings and equipment that the company makes there. Microchip's investment schedule, Table 4-1, proposes investment falling into three categories: the initial purchase price of the site, facilities and site work and, manufacturing equipment. The $184 million initial purchase of land and facilities leads to a total investment of $1.1 billion. A substantial share of this investment occurs during a manufacturing equipment build-up in 2005 through 2008. The remainder of the investment schedule depicts consistent purchases of $50 million coming solely from the manufacturing equipment category.

The investment schedule does not signal clear plans for growth after the build-up ending in 2008, although the company clearly has difficulty predicting precise investment amounts so far in the future.

Table 4-1. Investment Schedule (in millions of current and constant 2002 dollars)

Calender Year	Facilities/Site Work	Manufacturing Equipment	Totals	Total (real dollars)
2002	$5	$20	$25	$25
2003	3	38	$41	$40
2004	3	50	$53	$49
2005	0	207	$207	$189
2006	0	215	$215	$191
2007	0	100	$100	$86
2008	0	100	$100	$84
2009	0	50	$50	$41
2010	0	50	$50	$39
2011	0	50	$50	$38
2012	0	50	$50	$37
2013	0	50	$50	$36
2014	0	50	$50	$35
2015	0	50	$50	$34
2016	0	50	$50	$33
Total	$11	$1,129	$1,140	$959

Source: Microchip Technology Incorporated

The next step is calculating property taxes and translating the investment schedule into annual property values that would be subject to

taxation. Oregon property tax rules establish two types of value: *real market value* and *assessed value*. Real market value, as the name suggests, is the tax assessor's best estimate of the value a property in the real estate marketplace at the time of assessment. Assessed value, on the other hand, is a calculated percentage of real market value and is used in the property tax calculation. The relationship between real market value and assessed value differs by property class. For capital-intensive properties like chip-making plants, real market value and assessed value are typically equal.

To calculate real market and assessed values under Scenario 1, we consider the property's two key components. First is the existing building and remaining machinery and tools for which Microchip has paid approximately $184 million. Assuming the sale goes through, the Oregon Department of Revenue (DOR), which formally assesses the value of properties with high-technology uses, would review the sales agreement and assign a value to the property. The review process is both thorough and complex, but generally if DOR concludes that Microchip paid a fair price for the property, the sales price will become the property's real market value and—given this type of property—its assessed value as well. Going forward, it is not absolutely clear how the assessed value of the existing building and property would change over time, and trends in values would vary by the property's constituent parts (i.e., land, building, existing machinery). However, a DOR official said it would not be unreasonable to assume the property's assessed value—associated with the initial investment—would remain roughly constant at about $184 million[1].

As described above, Microchip intends to invest in the property over time, adding equipment and completing other site and facility work. To estimate the assessed values associated with those investments, we started with Microchip's investment schedule (Table 4-1) and depreciated each year's investment using schedules provided by the Oregon Department of Revenue.

Combining the values of the existing facilities and Microchip's projected investments in new equipment, we estimate that the property's assessed value under Scenario 1 would begin at $205 million in fiscal year 2004, rise to $455 million in fiscal year 2010, and then decline gradually to $376 million by fiscal year 2018 (see Table 4-2 following the discussion of the alternate use).

Under Scenario 2, assessed values are subject to an SIP cap during fiscal years 2004-2010. The agreement limits the property's assessed value to $100 million in the first year, and the cap increases by 3 percent each year thereafter. In the final year of the agreement, the SIP cap reaches $119 million. Beginning in fiscal 2011, Microchip would be subject to standard property tax rules and assessed values would equal those described above in Scenario 1.

---

[1] This assumes that most of the remaining machinery has already depreciated to their minimum levels (i.e., 10 percent of their original value).

ALTERNATE USE (SCENARIO 3)

As discussed previously, Multnomah County retained an appraiser to review and critique a variety of assumptions associated with SIP agreement. A key aspect of the appraiser's assignment was to determine the property's highest and best use if it no longer served as a chip-making facility.

The appraiser has concluded that because of the highly specialized design of the building, the existing building shell could *not* be put to an alternative use. Fujitsu designed low ceiling heights on several levels to hold specialized utilities. Moreover, floors directly below the buildings clean rooms are filled with a complex network of support beams that protect the clean rooms from seismic and man-made vibrations. Finally, the building has no regular HVAC system but rather employs a highly sophisticated air intake and cleaning system that would not be useful to a conventional office or industrial use.

Given the building's unique design, the appraiser predicts that—if not used in a chip-making function—the building's shell would be removed from the property and new development would start from scratch. The appraiser sees the next best use as an industrial park, which would combine a mix of warehousing, transportation, logistics, and industrial office uses. An industrial park use could make use of the more of the available land than does the current facility. Specifically, the appraiser estimates that 93 of the site's 199 acres are developable and could support 1.6 million square feet of building space. For the purposes of the estimate, we assume the construction of space would be phased-in during 2004-2007.

Finally, for Scenario 3, we assume that the first phase of the industrial park would be completed and join the tax rolls in fiscal year 2004. Space would lease for $51 per square foot in that year, which allows us to calculate a real market value for the property. Under Oregon property tax rules, however, the assessed value for this type of use would be roughly one-half of the real market value. Once the County determines the assessed value, the amount would increase by 3 percent annually. Given our assumption that the development would be phased in during 2004-2009, the assessed values would increase more rapidly in the early years.

Table 4-2. Assessed Values Comparison (in Millions of Current Year Dollars)

Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	205.05	100.00	26.73
2005	233.87	103.00	35.84
2006	263.46	106.09	45.48
2007	410.69	109.27	55.67
2008	515.89	112.55	57.34
2009	488.43	115.93	59.06
2010	455.46	119.41	60.83
2011	391.10	391.10	62.66
2012	365.18	365.18	64.53
2013	355.71	355.71	66.47
2014	357.32	357.32	68.46
2015	361.96	361.96	70.52
2016	366.63	366.63	72.63
2017	371.35	371.35	74.81
2018	376.20	376.20	77.06

Source: Microchip Technology Inc.'s Investment schedule and ECONorthwest's Alternate Use Model

PROPERTY TAXES

TAX RATES

In the most recent tax year, Fujitsu paid $16.79 in property taxes per $1,000 of assessed value. The $16.79 was composed of $13.12 associated with permanent tax rates for seven local taxing districts (see Table 4-3). The remaining $3.66 per $1,000 assessed value was associated with a variety of bond levies and a local option tax for the Multnomah County Library.

While the permanent rates are likely to be stable in the future, the requests of local governments for additional bond or local options, and the voters' willingness to approve them will cause the property's overall property tax rate to vary from year to year. For the purposes of estimating property taxes under Scenarios 1 and 2, we have assumed the overall tax rate would remain at $16.79 per $1,000 assessed value throughout the forecast period.

For Scenario 3, the property's owner would pay taxes at a slightly higher rate: $17.26 because the tax rates for the education districts would not be compressed under Measure 50 rules, as they would be under the chip-making use[2].

---

[2] Measure 50 rules limit property tax rates to $5.00 per $1,000 of *real market value.* On the existing Fujitsu site, three education districts have a combined permanent tax rate of $5.48. If Microchip locates on the property, real market value and assessed value are identical, so education-related taxes would be $5.48 per $1,000 of real market value, which triggers

Table 4-3. Assumed Property Tax Rates (per $1,000 of Assessed Value)

Tax District	Microchip Use	Alternate Use
Multnomah County	4.34	4.34
City of Gresham	3.61	3.61
Port of Portland	.07	.07
Metro	.10	.10
Gresham-Barlow 26J	4.13	4.53
Multnomah County ESD	.42	.46
Mt. Hood CC	.45	.49
Total District Rate	13.12	13.60
Bonds	3.66	3.66
Total Property Tax Rate	16.79	17.26

Source: Multnomah County Tax Assessor

TOTAL PROPERTY TAXES AND FEES

Having estimated the assessed values and property tax rates under each of the three scenarios, we turn to a calculation of property taxes. Table 4-4 shows that if Microchip were to locate in Gresham without the SIP agreement (Scenario 1), the company would pay $3.4 million in property taxes in fiscal year 2004. Given the company's anticipated investments in machinery during the upcoming years, property taxes would reach a high of $8.2 million in fiscal 2009 and then decline gradually thereafter.

With the SIP agreement in place (Scenario 2), Microchip's property tax payments would be capped at $1.7 million in fiscal 2004 and would remain at or below $2.0 million throughout the life of the agreement. In fiscal 2011 and thereafter, the company's property tax payments would be subject to standard rules and would be identical to those estimated in Scenario 1. The SIP agreement additionally calls on Microchip to pay community service fee equal to 25 percent of their calculated property tax savings. Community service fees would start at $0.4 million in fiscal 2004, rise to $1.7 million in 2008, and then drop to $1.4 million in the last year of the agreement. The company would pay no community service fees after fiscal 2010.

Under the alternate use, we estimate the property would generate $0.5 million in property taxes in fiscal year 2004. Assuming the gradual phase in of the new property use, property tax receipts would double, reaching $1.0

---

compression under the Measure 50 rules. Under those rules, each districts rate is reduced proportionately so that the total equals $5.00 per $1,000. By contrast, assuming the alternate use, the property's assessed value would be equal to only 54 percent of its real market value. Therefore, the property owner would essentially pay $2.96 per $1,000 of real market value (that is, the $5.48 combined permanent rates multiplied by 54 percent), which is well below the $5.00 limit.

million in fiscal year 2007. Thereafter, we assume the property's assessed value, and property taxes, would increase 3 percent annually.

Table 4-4: Property Taxes and Fees Paid under Alternative Scenarios (in Millions of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP			Alternate Use
	Property taxes	Property taxes	Community Service Fees	Total	Property taxes
2004	3.4	1.7	0.4	2.1	0.5
2005	3.9	1.7	0.5	2.3	0.6
2006	4.4	1.8	0.7	2.4	0.8
2007	6.9	1.8	1.3	3.1	1.0
2008	8.7	1.9	1.7	3.6	1.0
2009	8.2	1.9	1.6	3.5	1.0
2010	7.6	2.0	1.4	3.4	1.0
2011	6.6	6.6	0.0	6.6	1.1
2012	6.1	6.1	0.0	6.1	1.1
2013	6.0	6.0	0.0	6.0	1.1
2014	6.0	6.0	0.0	6.0	1.2
2015	6.1	6.1	0.0	6.1	1.2
2016	6.2	6.2	0.0	6.2	1.3
2017	6.2	6.2	0.0	6.2	1.3
2018	6.3	6.3	0.0	6.3	1.3

Source: ECONorthwest

By comparing the property tax and fee payments under the alternative scenarios, we can calculate the value of the agreement to Microchip and local taxing districts. The difference between taxes and fees paid with and without the SIP agreement represent the savings or benefit to the company (Scenario 1 minus Scenario 2). Tax savings start at $1.3 million in fiscal year 2004, increase to $5.1 million in fiscal year 2008, and then decline to $4.2 million in the agreement's final year. Assuming a 6.1 percent corporate bond rate to discount the stream of payments, we estimate the net present value of the agreement to Microchip is $17.3 million. The agreement produces no tax savings for the company after fiscal year 2010.

To calculate the benefit of the agreement to local taxing districts, we compare tax and fee payments under the SIP agreement to those that would be paid under the alternate use (Scenario 2 minus Scenario 3). With the SIP agreement in place, we estimate Microchip would pay $1.7 million more in property taxes and fees than the alternate use would pay in property taxes. The difference in property taxes and fees under the two scenarios reaches a high of $2.6 million in fiscal year 2008, which is a function of Microchip's investment schedule.

The benefit to local taxing districts increases sharply after the agreement ends. Beginning in 2011, the difference in property taxes paid under

Scenarios 2 and 3 jumps to $5.5 million and remains between $4.8 million and $5.0 million each year thereafter.

By discounting the stream of benefits by a 4.2 percent municipal bond rate, we calculate the net present value of the agreement to local taxing districts. Over the seven-year life of the agreement, the net present value of the increased taxes and fees is $12.2 million. If we assume Microchip remains in Gresham through 2018, the net present value of benefits total $37.2 million.

Table 4-5: Value of the SIP Agreement to Microchip and Local Taxing Districts (in Millions of Current Year Dollars)

Fiscal Year	Value of Agreement to Microchip	Value of Agreement to Local Taxing Districts
2004	1.3	1.7
2005	1.6	1.7
2006	2.0	1.7
2007	3.8	2.1
2008	5.1	2.6
2009	4.7	2.5
2010	4.2	2.4
2011	0.0	5.5
2012	0.0	5.0
2013	0.0	4.8
2014	0.0	4.8
2015	0.0	4.9
2016	0.0	4.9
2017	0.0	4.9
2018	0.0	5.0
Net Present Value (2004-2018)	17.3	37.2
Net Present Value (2004-2010)	17.3	12.2
Assumed Discount Rate	6.1%	4.2%

Source: ECONorthwest

In considering a tax abatement, policymakers want to know whether the benefiting company will pay taxes sufficient to cover the demands that the company and its employees will make on local governments. The company itself will use City and County police, fire, and emergency services and will turn to local institutions of education for skilled workers. Although many of Microchips employees will be individuals who lost their jobs at Fujitsu, additional workers locating here will place increased demands on schools, parks, and roadways.

One way to roughly assess how Microchip's entry into the community would affect the fiscal positions of local governments is to estimate the amount of *property taxes and fees that would be paid per worker* and compare the amount to the existing area average.

Table 4-6 divides the amount of property taxes and fees (reported in Table 4-4) by the number of direct Microchip jobs (reported in Table 3-2 from the previous section). Recall Microchip's projected employment starts at 204 in fiscal year 2004 and reaches a plateau at 401 in 2010. Given those job projections, Microchip's property taxes per worker would total $16,865 in fiscal year 2004, assuming Microchip did not receive the SIP. Under the no-SIP scenario, property taxes per worker would increase to $26,882 in fiscal year 2008 and would fall thereafter as the company's employment increased and assessed value gradually declined.

With the SIP, total property taxes and community service fees would fluctuate between $8,511 and $11,119 during the life of the agreement. Considering property taxes alone, Microchip would pay between $4,996 and $8,225 per worker during 2004-2010.

Table 4-6: Property Taxes and Community Service Fees per Worker

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP
2004	16,865	10,385
2005	17,211	9,987
2006	17,267	9,532
2007	24,093	10,831
2008	26,882	11,119
2009	22,764	9,743
2010	19,057	8,511
2011	16,364	16,364
2012	15,280	15,280
2013	14,884	14,884
2014	14,951	14,951
2015	15,145	15,145
2016	15,340	15,340
2017	15,538	15,538
2018	15,741	15,741

Source: ECONorthwest

Looking across Multnomah County, we estimate that commercial, industrial, and utility properties paid a total $279.8 million in property taxes in calendar year 2000. Covered employment for the same period totaled 453,254, so we estimate businesses on average paid $617 per worker, which is considerably lower than would be paid by Microchip. In short, this simple calculation suggests that, with or without the SIP, Microchip's entry into the community would likely have a positive effect on the fiscal position of local governments.

PROPERTY TAXES BY DISTRICT

For the local district analysis, we report property taxes that would be received by each local tax district. We estimate tax receipt by applying the

permanent tax rates reported in Table 4-3. For the tables listed below, we have chosen selected years that exhibit property tax receipts for each of the seven affected districts.

Table 4-7. Estimated Property Tax Receipts for Multnomah County (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	891	434	76
2010	1978	519	249
2018	1634	1634	315

Source: ECONorthwest

Table 4-8. Estimated Property Tax Receipts for City of Gresham Tax Revenue (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	741	361	64
2010	1646	431	207
2018	1359	1359	262

Source: ECONorthwest

Table 4-9. Estimated Property Tax Receipts for Metro (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	20	10	2
2010	44	12	6
2018	36	36	7

Source: ECONorthwest

Table 4-10. Estimated Property Tax Receipts for Port of Portland (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	14	7	1
2010	32	8	4
2018	26	26	5

Source: ECONorthwest

Table 4-11. Estimated Property Tax Receipts for Gresham-Barlow 26J (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	848	413	80
2010	1883	494	260
2018	1555	1555	329

Source: ECONorthwest

Table 4-12. Estimated Property Tax Receipts for Multnomah County ESD (in Thousands of Current Year Dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	86	42	8
2010	190	50	26
2018	157	157	33

Source: ECONorthwest

Table 4-13. Estimated Property Tax Receipts Mt. Hood Community College (in thousands of current year dollars)

Fiscal Year	Microchip W/O SIP	Microchip W/ SIP	Alternate Use
2004	92	45	9
2010	204	54	28
2018	169	169	36

Source: ECONorthwest

Section 5 Infrastructure Considerations

The planned use by Microchip Technology of the former Fujitsu Fab will have minimal infrastructure costs for the City of Gresham. The City of Gresham issues land use permits based on their ability to accommodate the use of the land. These uses include traffic and sewer needs. The Fujitsu fabrication plant received a land use permit in 1984 and was approved again in 1995. The land use permit takes into consideration proposed impacts on traffic and sewer infrastructure. Traffic studies and water capacity estimates are required for sites with new development or a change in use. The current permit would be transferable to new occupants given similar use. The land use permits are re-approved after 10 years. With the last permit approved in 1995 the next permit will need to re-approved in 2005.

The director of the City of Gresham's Community and Economic Development department, Max Talbot, confirmed, that the land use permit will be transferable for semi-conductor use and that no additional traffic study was necessary for the site. The immediate intersections have center turn lanes. There is access to I-84 from the 207th Avenue interchange via 223rd Avenue from Stark. Given that Microchip anticipates hiring fewer employees than were employed by Fujitsu, traffic impacts should be lower as well.

With respect to sewer connections, according to Talbot, the site currently contains twice as much capacity as was used by Fujitsu. Fujitsu had previously purchased the excess sewer capacity. Talbot did not expect new semi-conductor use to put strains on this infrastructure.

CITY OF GRESHAM | AGENDA

MAYOR CHARLES J. BECKER

COUNCIL PRESIDENT CHRIS LASSEN
COUNCILOR JACK HANNA
COUNCILOR LARRY HAVERKAMP
COUNCILOR JACK HORNER
COUNCILOR CATHY BUTTS
COUNCILOR VICKI THOMPSON

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND MULTNOMAH COUNTY BOARD OF COMMISSIONERS

COUNCIL CHAMBERS, PUBLIC SAFETY & SCHOOLS BUILDING
1333 NW Eastman Parkway, Gresham, OR 97030
TUESDAY, AUGUST 6, 2002
6:30 PM

		TIME ESTIMATE (Minutes)
1.	CONVENE MEETING - HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGIES, INC.	
2.	MAYOR BECKER OPENING - Introduce Council and City Staff	5
3.	CHAIR DIANE LINN - Introduce Commissioners and County Staff - Introduce Microchip Representatives	5
4.	CHAIR DIANE LINN - Purpose of Meeting - Outline Process for Testimony	5
5.	MICROCHIP - Company Background	5
6.	PUBLIC TESTIMONY	90
7.	GOOD OF THE ORDER	5
8.	ADJOURNMENT	

TOTAL ESTIMATED TIME: 115

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#1

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 08/06/02

SUBJECT

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Robert M Silverman

ADDRESS: 249 SE 46th DR

CITY/STATE/ZIP: Gresham Oregon 97080

PHONE: DAYS: 503-491-7211 EVES: 503 622-7402

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes____ no ____

SPECIFIC ISSUE: _____

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

#2

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 08.06.02

SUBJECT

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: _____ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Dave Shields

ADDRESS: 1026 SE 213th

CITY/STATE/ZIP: Gresham Or 97030

PHONE: DAYS: _____ EVES: _____

APPLICANT: yes _____ no _____ REPRESENTING THE APPLICANT: yes _____ no _____

SPECIFIC ISSUE: Strategic Investment Program

WRITTEN TESTIMONY:

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

c:forms/phear/mat REV 5/30/00

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#3

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 08.06.02

SUBJECT

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Dean Funk

ADDRESS: 121 SW Salmon St

CITY/STATE/ZIP: Portland

PHONE: DAYS: 464-8565 EVES: _____

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes ____ no ____

SPECIFIC ISSUE: Microchip

WRITTEN TESTIMONY: no

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

#4

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

SUBJECT Sip Application MEETING DATE 8/6/02

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Jerry Auvil

ADDRESS: 16600 SE Morrison

CITY/STATE/ZIP: Portland OR 97233

PHONE: DAYS: 503 701 5287 ✓ EVES: ✓

APPLICANT: yes ____ no X REPRESENTING THE APPLICANT: yes ____ no X

SPECIFIC ISSUE: Support w/ Apprenticeship Training Set Asides of 10% min

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

#5

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

SUBJECT MICROELECTRONICS TRAINING CENTER/MHCC MEETING DATE 8/6/02

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: ✓ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: PAUL MOLINO

ADDRESS: 26000 SE STARK

CITY/STATE/ZIP: GRESHAM

PHONE: DAYS: 491-7143 EVES: _____

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes ____ no ____

SPECIFIC ISSUE: SUPPORT SIP IN K-12

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#6

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

SUBJECT Strategic Investment Program for Microchip Technology MEETING DATE 8/30/02

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: Y AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Bill Lesh

ADDRESS: ~~4447 SE~~ 26000 SE Stark St

CITY/STATE/ZIP: Gresham, OR

PHONE: DAYS: (503) 491-7602 EVES: _____

APPLICANT: yes _____ no _____ REPRESENTING THE APPLICANT: yes _____ no _____

SPECIFIC ISSUE: _____

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

c:forms/phear/mat REV 5/30/00

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#7

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 8/6/2

SUBJECT

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: JEFF HIPP

ADDRESS: 1072 SW HUNZIKER

CITY/STATE/ZIP: TIGARD OR

PHONE: DAYS: 209-7285 EVES: SAME

APPLICANT: yes ____ no — REPRESENTING THE APPLICANT: yes ____ no —

SPECIFIC ISSUE: LIVING WAGE / SKILLED WORKFORCE

WRITTEN TESTIMONY:

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

#8

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 8-6-02

SUBJECT Microchip

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Tim Polsfoot

ADDRESS: 2157 SE Hale Dr.

CITY/STATE/ZIP: Gresham, OR 97080

PHONE: DAYS: 503-666-7625 ~~EVES:~~ _____

APPLICANT: yes X no _____ REPRESENTING THE APPLICANT: yes _____ no _____

SPECIFIC ISSUE: conditions of tax break

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

#9

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

SUBJECT MICROCHIP TO GRESHAM, OREGON MEETING DATE 8-6-02

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: ✓ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: MICHAEL KLOENNE

ADDRESS: 2615 LEXINGTON TERRACE

CITY/STATE/ZIP: WEST LINN, OR 97068

PHONE: DAYS: 503 557-4904 EVES: _____

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes ____ no ____

SPECIFIC ISSUE: I SUPPORT THE MOVE OF MICROCHIP TO GRESHAM, OREGON.

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#10

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 8/6/02

SUBJECT SIP

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: ✓ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: SHANE BEMIS

ADDRESS: 969 SW Florence CT 97080

CITY/STATE/ZIP: Gresham, OR

PHONE: DAYS: 665-8839 EVES: _____

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes ____ no ____

SPECIFIC ISSUE: _____

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#1.1

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 8/6/02

SUBJECT SIP

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: X AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: BILL WILLMES

ADDRESS: 1825 SW ROYAL AVE

CITY/STATE/ZIP: GRESHAM OR 97080

PHONE: DAYS: 503-667-7809 EVES: _____

APPLICANT: yes _____ no _____ REPRESENTING THE APPLICANT: yes _____ no _____

SPECIFIC ISSUE: _____

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#12

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

MEETING DATE 8/6/02

SUBJECT SIP

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: ✓ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: HIROSHI MORIHARA

ADDRESS: 4140 SE AUGUSTA LOOP

CITY/STATE/ZIP: GRESHAM, OR 97080

PHONE: DAYS: 503-674-3222 EVES: 503-669-4250

APPLICANT: yes ____ no ____ REPRESENTING THE APPLICANT: yes ____ no ____

SPECIFIC ISSUE: _____

WRITTEN TESTIMONY: I support SIP to microchip.

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

JOINT MEETING BETWEEN THE GRESHAM CITY COUNCIL AND THE MULTNOMAH COUNTY BOARD OF COMMISSIONERS

#13

PUBLIC HEARING SIGN-UP

Please complete this form and return to the Recording Secretary.
*****This form is a public record.*****

SUBJECT Microchip MEETING DATE _____

PUBLIC HEARING REGARDING THE PROPOSED STRATEGIC INVESTMENT PROGRAM AGREEMENT WITH MICROCHIP TECHNOLOGY INC.

FOR: _____ AGAINST: _____ THE ABOVE PUBLIC HEARING ITEM

NAME: Maura Cioeta (See-oh-ta)

ADDRESS: PAL 5289 SE 17th Ter

CITY/STATE/ZIP: Gresham, OR 97080

PHONE: DAYS: _____ EVES: _____

APPLICANT: yes _____ no _____ REPRESENTING THE APPLICANT: yes _____ no _____

SPECIFIC ISSUE: :)

WRITTEN TESTIMONY: _____

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Address the City Council from the podium microphone. Please limit your comments to **3 minutes.**
3. State your name for the official record.
4. If written documentation is presented, please furnish one copy to the Recording Secretary.
5.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the Recording Secretary.
2. Written testimony will be entered into the official record.

c:forms/phear/mat REV 5/30/00

Gussie (Norma J.) McRobert

PO Box 310 • Gresham, Oregon 97030

503-665-4800 FAX 503-492-4470 E-MAIL gmcrobert@earthlink.net

August 6, 2002

To: Gresham City Council
Multnomah County Board of Commissioners

From: Gussie McRobert gm

RE: Microchip Technology, Inc. Strategic Investment Program

Thank you for your work on the SIP for Microchip Technology, Inc. I believe the agreement achieves the goals that Governor Neil Goldschmidt had in mind when he initiated the Strategic Investment Program.

The agreement also honors former Commissioner Tanya Collier's efforts to help workers succeed by providing housing, day care and transportation subsidies as well as Community Service fees.

While the job density per acre at start-up isn't as great as one might hope, the company has confirmed that most of its future growth will be in Gresham. So over time, the unused land will be put to a better use than growing a water intensive lawn. If we are to avoid unnecessary urban growth boundary expansions, it is important that these large industrial sites be fully developed.

Listening yesterday to Microchip representatives explain the company culture and the way they responded to questions from community leaders, made me believe that the Microchip Technology, Inc. culture and values are a good match for Gresham and Multnomah County. Microchip is not a high-flying, devil-may-care technology company out to make the quick buck for the next quarterly report. Their stability will be a long-term economic benefit to Multnomah County.

I ask you to support the Microchip Technology, Inc. SIP.

CENTER OAK properties, LLC.

August 5, 2002

Mr. Rob Fussell
City Manager
City of Gresham
1333 N.W. Eastman Parkway
Gresham, Oregon 97030

Re: **Microchip Technology Inc. S.I.P. Application**

Dear Mr. Fussell,

This letter is being written to convey my enthusiastic support for the S.I.P. application under consideration for Microchip Technology Inc. as a part of the purchase and reuse of the former Gresham Fujitsu facility.

The decision by Microchip Technology to locate in Gresham will result in numerous benefits to the community, ranging from increased tax revenues to the creation of high-paying local jobs. In addition, the presence of such a world-class company in Gresham will serve as a catalyst for further growth in the high-technology sector, creating even more meaningful career opportunities for our residents.

The work being done by the Center for Advanced Learning, Mount Hood Community College, and the new Oregon Science and Technology Park is setting the groundwork for a new wave of high-paying, high-technology jobs in the East Metro area, and these jobs in turn will assure the economic well-being of Gresham and her neighboring cities.

The S.I.P. agreement is a well-balanced, fair compromise between the governmental sector and private industry, and is absolutely essential in inducing Microchip Technology to make this investment in Gresham. I strongly encourage the City Council to approve this Agreement when they meet on August 6, 2002.

Kindest regards,

Fred W. Bruning
President
Center Oak Properties

649 NW 12th Street • Gresham, OR 97030
503.666.1233 • Fax 503.666.1404
www.centeroak.com

STRATEGIC INVESTMENT PROGRAM CONTRACT

BETWEEN

MULTNOMAH COUNTY, OREGON,

CITY OF GRESHAM, OREGON,

AND

MICROCHIP TECHNOLOGY INCORPORATED

August 15, 2002

TABLE OF CONTENTS

AGREEMENT

This Agreement is by and between Multnomah County (the "County"), the City of Gresham (the "City") and Microchip Technology Incorporated ("MCHP"), 2355 West Chandler Blvd., Chandler, Arizona 85224-6199.

I. RECITALS.

A. MCHP has requested that the County approve a partial property tax exemption for a project in Gresham, Oregon. MCHP has provided the following information to the County about MCHP and its operations:

Company Overview

Headquartered in Chandler, Arizona, Microchip Technology Inc. is a leading global semiconductor manufacturer with design, manufacturing and sales operations located throughout Asia, Europe, Japan and the Americas.

- *Founded in 1989*
- *Publicly held (NASDAQ: MCHP)*
- *$571 million in sales for fiscal year 2002 (ending March 31, 2002)*
- *Product lines: PICmicro® microcontrollers and development systems; stand-alone analog and interface, serial EEPROMs, and RFID*
- *Approximately 3,100 employees worldwide*
- *24 sales offices worldwide*
- *Manufacturing facilities: Chandler and Tempe, AZ; Puyallup, WA; Bangkok, Thailand*
- *Design centers: Bangalore, India; Lausanne, Switzerland; Mountain View, CA; Chandler, AZ*
- *MCHP's quality systems are ISO 9001 and QS-9000 certified*
- *Corporate headquarters: 2355 W. Chandler Blvd., Chandler, AZ 85224 USA*

MCHP was formed in 1989 when a group of venture capitalists acquired the semiconductor division of General Instrument. A new management team, lead by Steve Sanghi, was installed in 1990. The Company went public in 1993 with a highly successful initial public offering. By 1997, the Company ranked second in worldwide shipments of 8-bit microcontrollers (according to Dataquest). MCHP has acquired several companies and technologies to complement its growing product portfolio including: TelCom Semiconductor in 2001 and PowerSmart in 2002.

Products and Markets Served

MCHP manufactures the popular PICmicro® field-programmable RISC microcontrollers, which serve 8- and 16-bit embedded control applications, and a broad spectrum of high performance linear and mixed-signal, power management and thermal management devices. The Company also offers complementary microperipheral products including interface devices; microID®

RFID devices; serial EEPROMs; and the patented KEELOQ® security devices. This synergistic product portfolio targets thousands of applications and a growing demand for high-performance designs in the automotive, communications, computing, consumer and industrial control markets.

MCHP's products are found in hundreds of Fortune 500 companies serving thousands of applications worldwide. Sample customer companies include: Genie, Sanyo, Toyota, Delphi, Johnson Controls, Lexus, Apple Computer, IBM, Ericsson, Nokia, General Electric and Whirlpool. Typical applications can include: garage door openers, cordless tools, white goods appliances, remote-keyless-entry systems, automotive anti-lock braking and air bag sensors, computer mouse and keyboards, cellular telephones, pagers, motor control and robotics.

An embedded control system is typically buried or hidden within the application, providing the electronics intelligence to the end product. In many cases the consumer does not know there is a semiconductor device powering functions within a "smart" clothes washing machine, for example. With a microcontroller-based embedded system, the microcontroller would allow the washing machine to determine load size, type and color of fabric, and amount of dirt in the water. This system would automatically control water temperature and length of washing cycle. The user could expect clean clothes every time while the operating performance of the machine has been enhanced and energy costs lowered. With fewer parts (compared to mechanical timers and knobs), the appliance may be cheaper to buy and repairs or maintenance costs would be reduced.

Semiconductor Industry

The semiconductor industry is highly cyclical, marked by volatile swings in technology and market demand. The companies hardest hit in the current downcycle were those, such as Fujitsu Microelectronics, who manufactured commodity memory devices, including DRAMs and flash memory. The flash memory market has experienced a sharp and prolonged decline in this industry downcycle.

MCHP's business model is different from that of Fujitsu's. MCHP does not manufacture stand-alone flash memory devices or other devices that tend to be more susceptible to market swings. MCHP has a highly diversified customer base that better insulates MCHP from market downturns.

As a technicality (and to avoid confusion), MCHP does feature flash memory on a portion of its microcontroller products. However, these products compete in completely different markets than commodity, stand-alone flash memory devices. MCHP's products are based on a proprietary architecture, making them less susceptible to market swings than commodity devices.

Sales & Earnings Growth

MCHP is one of the best performing semiconductor companies in today's challenging business environment. The Company has announced it is currently seeing an upward trend in demand for its products, and has raised earnings guidance several times. MCHP was the best performing stock in the NASDAQ 100 index in May 2002 (up 91% year over year). The Company effected a 3-for-2 stock split in the form of a stock dividend in May 2002.

MCHP has more than 35,000 customers worldwide, with sales split evenly across the European, Asia/Pacific/Japan and the Americas regions. About 60% of sales are derived through the Company's distribution partners with the remaining generated by a direct sales force. No one customer makes up more than 1.5% of total sales, and the top 10 customers represent no more than 10% of total sales.

Employment Practices and Corporate Culture

At its inception in 1989, MCHP created a set of defining principles to produce a corporate culture that unleashes the potential of our substantial employee workforce. The diligent practice of these "Guiding Values" has been directly responsible for the Company's innovative new products, world-class quality and manufacturing yields and strong employee talent base. MCHP's corporate culture embraces employee empowerment and a team environment.

Employment Diversity

At MCHP, we believe that "Employees are our Greatest Strength." We acknowledge the right of all employees and applicants to be treated as individuals free from any discrimination. We provide a work atmosphere free of harassment, and we recognize that our success depends on the full use of abilities of all qualified people that work for and with our company, regardless of race, color, religion, sex, age, national origin, marital status, disability, or Veteran status.

Employment Outlook for Gresham, OR

Initial hiring is expected to reach approximately 60 people during pre-production phases. Over the period covered by this Agreement, MCHP believes that the facilities could employ more than 400 people as the facilities reach very high-volume manufacturing capacity during the term of the proposed SIP.

The Company is attracted to the highly trained and productive employees in the area who worked for Fujistu. MCHP is looking forward to engaging with these individuals as specific positions become available.

MCHP's anticipated staffing requirements are lower than the historical number of individuals employed at this facility by Fujitsu. MCHP runs highly efficient manufacturing processes and certain functional areas will be located at the Company's headquarters in Chandler, Arizona and other locations, reducing the number of positions required to support volume production.

Salary & Benefits

MCHP offers a highly competitive salary and benefits package, including medical, dental, 401K, tuition reimbursement and much more. Because management believes it is very important that the employees' interests are tied closely to those of our shareholders, every MCHP employee is eligible to participate in the Company's Employee Stock Purchase Plan, whereby employees can purchase MCHP stock at a discounted rate. Given the Company's stock price appreciation over time, these programs have been very beneficial for employee participants.

Environmental & Safety Record

MCHP is proud of its stellar record related to environmental and safety issues. MCHP's accident/injury rate is extremely low and our public environmental compliance track record is excellent. MCHP has a long history of meeting or exceeding local, state, federal and EPA

guidelines. The Company makes every effort to integrate recycling into its manufacturing processes.

Community Contributions

MCHP has an extensive track record of contributing to the communities in which MCHP operates in the USA. Around the world, MCHP's sales and manufacturing organizations regularly donate to many social service organizations, and its employees have spent considerable time volunteering in the local community.

B. ORS 285B.380 to 285B.392 describes the process for obtaining the Strategic Investment Program ("SIP") partial tax exemption which is described in ORS 307.123. The Strategic Investment Program exemption requires the owner to pay property tax on the first one hundred million dollars ($100,000,000) of value of the facilities which receives the exemption; that taxable base increases each year by three percent. The exemption is temporary, lasting no longer than 15 years.

C. The SIP exemption is available only if the governing body of the county in which the facilities are located requests the Oregon Economic and Community Development Commission to undertake the facilities as an "eligible project" after a public hearing, and (i) the county and the city in which the facilities is located have approved the special provisions relating to the property tax exemption, (ii) the firm benefited by the exemption has agreed to pay to the county a community service fee ("CSF") equal to 25% of the property taxes which are exempted, not to exceed $2 million each year, and (iii) the applicant has reached agreement with the county on any other requirements related to the project. In addition, ORS 285B.383 requires the benefited business firm to enter into a first source hiring agreement with a publicly funded job training provider that will remain in effect until the end of the tax exemption.

D. MCHP proposes to purchase the facilities of Fujitsu Microelectronics, Inc. ("FMI") in the City of Gresham. In 1995 the County approved a SIP exemption for FMI with the potential to exempt more than $1 billion of property value for a period of fifteen years. However, those facilities never received that exemption. Those facilities are not now in production, and have a tax value of approximately $175 million. Maintaining that level of value requires FMI to expend significant sums each month. If those expenditures are discontinued the value of the facilities would decline precipitously, and the jobs which currently exist at the facilities would be lost. FMI has solicited proposals to purchase the facilities. FMI received only one proposal from a company that would continue to operate the facilities. That proposal was made by MCHP. If the FMI facilities is not sold to MCHP all jobs at that facilities are highly likely to be lost.

E. MCHP has negotiated an agreement with FMI to purchase the facilities for $183.5 million, subject to obtaining tax-related cost reductions tied to a SIP and to other limited participation from the State of Oregon to cover the time period between when MCHP takes possession of the facilities and when the SIP takes effect. MCHP proposes to increase employment at the facilities from its projected level at August 15, 2002 of approximately thirty (30) to more than three hundred (300) by December 31, 2008, but only if MCHP receives the SIP exemption for a maximum assessed value of $490 million for a limited term of seven years, beginning with County fiscal year 2003-04.

F. MCHP has requested the County and the City to approve its project, which consists of the purchase of FMI's facilities in Gresham and the improvement and equipping of those facilities (the "Project"), but limited to a total assessed value of no more than $490 million and a term of seven years as provided in this Agreement.

G. The two SIP exemptions previously approved by the County have each been for more than one billion dollars of assessed value, and have had terms of 15 years. The MCHP SIP exemption is for a substantially smaller assessed value and for a substantially shorter period of time. However, that exemption is critical to the economics of the transaction and is a closing condition to the sale of the FMI facilities. MCHP considers the SIP exemption an essential inducement to MCHP's ultimate decision to select the County and the City in which to locate the Project.

H. The County and the City have approved the terms of this Agreement, which contains the special provisions relating to the SIP exemption for the Project.

I. On [date] 2002, the County held a public hearing and then requested that the Oregon Economic and Community Development Commission to determine that the Project is an "eligible project" under ORS 285B.380 to 285B.392, which will receive a SIP exemption.

J. MCHP intends to act as an exemplary corporate citizen. The County and City understand that, to be an exemplary corporate citizen, MCHP must be able to operate the Project in a competitive manner responsive to semiconductor industry conditions. This Agreement therefore adjusts or conditions certain of MCHP's obligations upon conditions in the semiconductor industry, demand for product produced at the Project, and other factors which are beyond MCHP's control. The parties acknowledge that, if doubt arises about the nature or extent of MCHP's obligations under this Agreement, this Agreement should be interpreted in a manner that allows MCHP to operate the Project competitively while meeting the County's goals.

Now therefore, in consideration of the following mutual promises, the parties agree as follows:

II. LIMITATIONS ON QUALIFICATION OF PROJECT FOR EXEMPTION; FUTURE EXEMPTIONS.

A. *Limitations.*

The Project consists of the purchase, improvement and equipping of FMI's facilities in Gresham, Oregon. Only $490 million of assessed value of the Project will be eligible for the exemption, and any assessed value at the Project during the term of this Agreement which exceeds $490 million shall not be eligible for the SIP exemption. The Project shall receive the SIP exemption for only seven fiscal years, commencing with County fiscal year 2003-04, and this Agreement and MCHP's SIP exemption shall terminate on June 30, 2010.

The maximum investments which MCHP expects to make, and the tax years in which those investments will appear on the tax rolls, are estimated to be:

County Tax Year	7/1/03 - 6/30/04	7/1/04 – 6/30/05	7/1/05 - 6/30/06
Projected Assessed Value/Lien Date	1/1/03	1/1/04	1/1/05
Initial Investment	$180,000,000	$180,000,000	$180,000,000
Facilities/Site Work	$4,450,000	$6,620,000	$8,540,000
Manufacturing Equipment	$17,400,000	$42,260,000	$66,345,000
Total Assessed Value	$201,850,000	$228,880,000	$254,885,000
SIP Floor	$100,000,000	$103,000,000	$106,090,000
Property Taxes	$1,679,580	$1,729,967	$1,781,866
CSF	$427,663	$528,564	$624,783
Total Payments by MCHP	$2,107,243	$2,258,531	$2,406,649
SIP Benefit to MCHP	$1,282,989	$1,585,691	$1,874,348

County Tax Year	7/1/06 - 6/30/07	7/1/07 - 6/30/08	7/1/08 - 6/30/09	7/1/09 - 6/30/10
Projected Assessed Value/Lien Date	1/1/06	1/1/07	1/1/08	1/1/09
Initial Investment	$180,000,000	$180,000,000	$180,000,000	$180,000,000
Facilities/Site Work	$7,570,000	$6,710,000	$5,960,000	$5,320,000
Manufacturing Equipment	$216,645,000	$304,823,000	$259,689,000	$239,256,000
Total Assessed Value	$404,215,000	$491,533,000	$445,649,000	$424,576,000
SIP Floor	$109,272,700	$112,550,881	$115,927,407	$119,405,230
Property Taxes	$1,835,322	$1,890,382	$1,947,094	$2,005,506
CSF	$1,238,448	$1,591,327	$1,384,484	$1,281,397
Total Payments by MCHP	$3,073,770	$3,481,709	$3,331,578	$3,286,903
SIP Benefit to MCHP	$3,715,343	$4,773,980	$4,153,453	$3,844,190

B. ***Schedule Shows Maximum Benefits; Exemption Approved under Extraordinary Circumstances, Future Exemptions.***

1. This schedule of investments is an estimate of the maximum level of investment which MCHP currently expects it will make at the Project. Actual investments at the Project may be substantially less, reducing the associated SIP benefit to MCHP.

2. This SIP exemption for MCHP is being approved under extraordinary circumstances: the economy has been in recession, jobs have been lost at FMI's facilities, and MCHP is asking for a substantially smaller, shorter SIP exemption than the County has approved in the past. MCHP may make significant improvements at the Project site which do not qualify for this SIP exemption. The County has no obligation to approve SIP exemptions for those improvements, and MCHP has no obligation to make those improvements. However, MCHP understands that, if MCHP seeks additional SIP exemptions, MCHP will be expected to make contributions toward the County's goals that significantly exceed the contributions required by this Agreement.

C. ***Verification of Factual Assumptions.***

MCHP has agreed to pay the County a SIP processing fee which is equal to the County's costs for consultants, but does not exceed $30,000. Those consultants will perform the following services to facilitate a Strategic Investment Program contract between MCHP and the County:

(1) Economist. Review Strategic Investment Program application and associated economic analysis. The analysis is to include impacts on jobs, tax impacts on County and City of Gresham, verify depreciation schedules used for tax calculations, verify impact on County and City of Gresham infrastructure. Provide information to Integra Services (appraiser) as needed. Appear before the County Board and the City Council to provide expert testimony.

(2) Appraiser. Appraise the land, personal property and facilities located at 21005 and 21015 SE Stark Street, Gresham, Oregon. Provide executive summary of a sales comparison appraisal to the County.

This sum shall be paid to the County by August 15, 2002.

III. STATUTORY OBLIGATIONS OF MCHP.

A. ***Payment of CSF.***

1. Amount.

For each year in which MCHP receives the Property Tax Abatement, MCHP shall pay to the County a Community Service Fee (CSF), as provided by ORS

285B.386(4)(b), equal to 25 percent of the property taxes abated in such tax year, but not exceeding $2 million.

2. By November 15.

The CSF payment shall be made to the County Finance Manager no later than November 15 of each year, commencing with November 15, 2003. However, MCHP shall not be required to pay the CSF before ten business days after MCHP receives the invoice described in Section III.A.3, below. Payment shall be made based on an invoice submitted by the County to MCHP in such form and according to such method as shall be agreed to by the parties prior to November 15 of the tax year in which the Project is assessed and taxed. The payment shall be sent to:

Name: David A. Boyer
Position Title: Finance Director
Address: Multnomah County, Oregon
501 SE Hawthorne Blvd, 4th Floor
PO Box 14700
Portland, Oregon 97293

3. Statement 30 Days in Advance

The County shall provide MCHP with a statement of the CSF due no less than 30 days prior to the due date.

4. Adjustments

If the assessed value of the Project is adjusted after November 15 of any tax year in such a manner that property taxes due from MCHP for that year are reduced, and the reduction reduces the CSF for that year, the County shall pay the amount of the reduction to MCHP, together with interest at the rate established by law for tax refunds (ORS 311.505(2)) from the date of payment of the CSF. If the County does not pay the amount by November 10 of the following year, MCHP may withhold the unpaid amount, plus interest as provided in this Section, from subsequent CSF payments due from MCHP under this Agreement. If the remaining CSF payments due from MCHP are less than the amount owed by the County to MCHP under this Section, the County shall pay the amount due to MCHP not later than December 15 of the year following the year in which the reduction occurs. An appeal of the assessed value does not defer the payment of the CSF. The CSF shall be paid as set out in paragraph 2 above. Any adjustments based on the outcome of the appeal shall be in accord with this paragraph.

5. Nonpayment of CSF.

In compliance with ORS 307.123(b)(6), if MCHP fails to pay the CSF fee required by ORS 285B.386(4)(b), by the end of the tax year in which it is due, the tax

exemption shall be revoked and the property shall be fully taxable for the following tax year for which the fee remains unpaid. It is agreed that MCHP shall pay the CSF for a total of seven years, and the property tax exemption will be revoked at the end of that seven year period. MCHP specifically agrees that it will not seek reinstatement of the property tax exemption by making CSF payments after the seven years contemplated by this agreement.

B. ***First Source Agreement.***

To target the County's unemployed and underemployed population and comply with the requirements of ORS 285B.383(3), MCHP shall enter into an Exclusive Full-Service First Source Hiring Agreement (FSA), with the Multnomah County or its designated contact agency(s) as defined in OAR 123-070-1100 . An executed copy of the FSA is attached to this Agreement as Exhibit A. Except as specifically provided in the FSA, MCHP's obligations under the FSA shall commence on July 1, 2003, the beginning of the County fiscal year in which MCHP first receives an SIP exemption.

IV. ADDITIONAL OBLIGATIONS OF MCHP TO MEET COUNTY SIP STANDARDS AND GOALS.

In consideration of the County's and City's actions to approve a SIP exemption for the Project, MCHP agrees to fill the role of an exemplary corporate citizen in Multnomah County as provided in this Agreement. Such a citizen helps prepare the unemployed and underemployed, including the emerging workforce from local high schools, community colleges, and universities, for entry level jobs which provide career paths, family wages, and excellent benefits, including childcare referrals and negotiations of group rates, which help assure the success of the employee in those jobs. An exemplary corporate citizen also leads the business community by progressing toward a goal to have no negative impact on the environment through state-of-the-art transportation and environmental programs. And, an exemplary corporate citizen positively affects the educational and economic well-being of the community in which it resides by directing its efforts and resources to the benefit of its community's citizens and businesses. By meeting the performance requirements specified in this Agreement, MCHP will meet its responsibilities as an exemplary corporate citizen.

A. ***Hiring, Wages, Benefits, Training and Retention.***

County goals:

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.

To provide educational opportunities to enhance upward mobility for both technical and management roles.

To minimize the number of contracted on-site jobs that pay low wages.

MCHP acknowledges these County goals and agrees to take the following actions in support of those goals:

1. Local Hiring.

   MCHP's goal is to hire many local candidates. MCHP intends to target as much as possible the workers who have been laid off by FMI for the open job opportunities MCHP will create. MCHP will focus on previous employees who have directly related semiconductor fabrication experience. Once MCHP has exhausted those rehiring possibilities, MCHP will work with the County to find more qualified candidates.

2. Retention of Existing Jobs and New Hires.

   a. Number of Jobs.

      MCHP currently projects that, at a minimum, the following jobs will be retained or created at the Project (totals refer to the total number of jobs at the Project including jobs retained and jobs created) in the following calendar years:

Total	Annual Salary Range ($K)	CY03	CY04	CY05	CY06	CY07	CY08	CY09
Engineering	47.0-76.2	27	30	33	36	40	44	48
Eng Techs	27.2-42.4	40	44	48	53	58	64	70
MFG	19.3-33.2	80	92	106	121	140	161	185
Mgmt/Admin	55.5-94.4	24	26	29	32	35	38	41
Facilities	37.2-59.2	23	25	28	31	34	37	40
Doc Control	26.4-38.2	1	1	2	2	2	2	2
Materials	24.6-38.2	9	9	10	11	13	14	15
Total		**204**	**228**	**256**	**286**	**321**	**360**	**401**

The preceding table shows the minimum number of jobs which MCHP expects it will create at the Project. If economic conditions support investments in the Project at the level shown in Section II.A, it is expected that jobs at the Project will exceed the minimum number of jobs shown in the preceding table. MCHP will report all jobs at the Project in accordance with Section V.

b. Timing.

MCHP shall create the total number of jobs at the Project set out in the preceding chart in each of the years shown in that chart. Each year's minimum number of jobs, as set out in the "Total" row of the chart shown above, shall be created by December 31 of the relevant year. A new job is "created" when someone is hired as a regular full-time employee. The number of employees may be deferred or reduced temporarily due to delays in commissioning equipment, inability of MCHP to recruit qualified employees, or economic circumstances, either in general or specific to MCHP, leading to a requirement for a deferral in recruitment or a reduction in employment. If such a deferral or reduction is necessary, MCHP shall notify the County in writing, specifying the reason for the deferral or reduction, the amount of the deferral or reduction, and the expected duration of the circumstances giving rise to the deferral or reduction. If the County believes that MCHP has deferred or reduced maintaining and creating jobs in violation of this Agreement, the County may commence dispute resolution proceedings under Section VII.A of this Agreement.

c. Additional Employment.

Total Project employees may be greater than those indicated in Section IV.A.2.a. While MCHP cannot commit to increases, the commitment to the Exclusive Full-Service First Source Hiring Agreement attached as Exhibit A of this Agreement shall apply throughout the term of this Agreement.

3. Temporary Employees.

MCHP anticipates it will use temporary employees in production tasks only to meet peak production loads and to cover temporary and extended leaves of absence. A Category One temporary employee, as defined in paragraph 5, below, shall not hold a position longer than six months unless the employee is filling a vacancy created by extended medical leave or a statutorily protected leave.

4. Retention of Employees.

MCHP intends to hire and retain these employees for many years, and to provide its employees with multiple opportunities to move progressively through the MCHP corporate organization with increasing responsibility. To carry out these intentions, MCHP shall maintain during the term of this Agreement a transfer policy and an internal posting policy which are substantially similar to the transfer policy and internal posting policy which are attached as Exhibit B to this Agreement.

It is the intent of the parties that employees hired in new jobs be retained either in the initial position or in progressively more responsible positions within MCHP. Beginning with the end of fiscal year 2003-04, MCHP shall demonstrate that at least 70% of all of its regular full time employees at the Gresham facilities except those described in the next sentence are retained for at least two years. The following employees will not be counted: 1) those terminated for cause; and (2) those who voluntarily terminate employment other than for reasons of inadequacy of child care, transportation or housing.

5. Advancement of Category One Employees.

MCHP will source as many Category One Employees as practicable for hire into entry-level production operator jobs. MCHP currently provides a weeklong training class for all production operators. In addition, MCHP continually offers in-house training and certification levels to improve performance and employee output. MCHP shall maintain these programs or substantially similar programs during the term of this Agreement. "Category One Employee" means a person holding a job which requires less than a two year college degree or certificate and which is not highly technical in nature.

In addition, MCHP shall:

a. offer supervisors of Category One Employees substantial training in dealing with employee issues, including workplace diversity.

b. maintain its current, multi–step disciplinary process, or a substantially similar process, in place to ensure all employees are given multiple opportunities to improve their performance as well as to receive guidance on any particular employee issues. MCHP's current Employee Performance Improvement Plan , which details MCHP's multi-step process for employee discipline, is attached as Exhibit C to this Agreement.

c. maintain its current policy of referring employees to multiple avenues for guidance, including but not limited to access to an employee assistance program which provides counseling. MCHP's current open door policy, which refers employees to several avenues for guidance, it attached as Exhibit D to this Agreement.

6. Promotional Practices.

Microchip's practice is to promote approximately 10% of the indirect labor force once per year to the next grade level responsibility. Approximately 40% of the new Gresham facilities will be direct labor employees. Once Microchip places an entry level or category one direct labor employee into grade 90, the following chart illustrates their path.

90---92 –First year promotion
92---94 -Second year promotion
94---96 -Third year promotion

Once a Category One employee has reached grade 96 they have had a promotion every year for three years and they have reached the highest grade available. To continue advancement an employee must take on additional responsibilities such as supervision or follow a technical path toward engineering.

Microchip provides tuition reimbursement as described in Exhibit G up to $10,000 a year for education. Microchip commits to continue with this level of promotions per year to the extent economic conditions permit, for all employees whose job performance justifies promotion.

"Direct labor" refers to anyone who touches the product or works on the wafer process. Direct labor positions are classified as "production specialists" whose costs are included in MCHP's cost per wafer analysis. "Indirect labor" refers to any labor positions except "direct labor."

7. Wages.

MCHP represents that its current wage structure, including base pay, bonus and stock option grants, are competitive with current industry standards. MCHP will continue to maintain competitive wages, and to compare its wages to the Radford Benchmark Survey annually, or its equivalent. A chart showing wages, benefits, shift differential, and overtime is attached as Exhibit H. MCHP commits to reviewing the Radford Benchmark and making any changes to salary ranges that apply, provided that economic conditions allow for such increases in salary ranges.

8. Employer Paid Benefits.

a. In General.

MCHP intends to fulfill its role as an exemplary corporate citizen by providing an attractive and competitive benefits package which enables MCHP to recruit and retain qualified employees. MCHP acknowledges that provision of excellent, competitive benefits is vital, not only to achieving MCHP's corporate objectives, but also to achieve the County's goals.

b. Specific Benefits.

MCHP currently provides all existing US employees at other locations with the benefits described in Exhibit E attached to this Agreement.

During the period of property tax exemption, MCHP may have to modify its benefits package in order to maintain costs in response to industry or

economic conditions or to remain competitive. The cost to MCHP's employees is the same for all employees regardless of job title or income level. Employees may choose to insure only themselves, employee plus spouse or employee plus family. Also included in the attached as Exhibit E is a cost analysis for benefit cost for the benefit plan year of May 1, 2002 through April 30, 2003.

MCHP shall report the benefits it provides for employees at the Project, and, prior to making any substantial reductions in MCHP's aggregate benefits package, MCHP shall provide reasonable notice to the County.

During the period of the property tax exemption, MCHP shall provide health insurance at least comparable to that provided under the Oregon Health Plan (OHP).

9. Child Care.

MCHP will work in good faith to attempt partnership relationships with local childcare facilities to provide discounts for MCHP employees. MCHP will provide a link to Oregon childcare commission website (http://findit.emp.state.or.us/occc/) on its internal website to facilitate employee access to childcare information.

B. *Transportation.*

County Goal:

To encourage employees to use transit, carpools, vanpools, or alternative modes of transportation.

MCHP acknowledges this County goal and agrees to take the following actions in support of this goal:

MCHP shall encourage use of alternative modes of transportation by maintaining its current Trip Reduction Program, or a substantially similar program. MCHP's current Trip Reduction Program is described in Exhibit F attached to this Agreement.

C. *Infrastructure and Public Services.*

County goal:

To eliminate adverse impacts on the level of service provided to existing residents of Multnomah County and the region.

MCHP acknowledges this County goal and agrees to take the following actions in support of that goal:

MCHP shall comply with all material provisions generally applicable under City, County and State of Oregon development requirements to mitigate adverse impacts on the level of services to existing residents of the County and City that involve transportation and utility infrastructure and public safety.

D. *Environmental Protection.*

County Goal:

> *To approve tax abatements only for firms that demonstrate a commitment to environmental protection.*

MCHP acknowledges this County goal and agrees to take the following actions in support of that goal:

To demonstrate its commitment to environmental protection:

1. MCHP shall identify by June 30, 2004, baseline conditions associated with full production in each of the following categories: (1) toxic and hazardous materials; (2) water conservation, reuse and waste water discharge; (3) air quality; (4) waste reduction and recycling; and (5) energy conservation. Additionally, MCHP will create an evaluation matrix to measure its progress toward the County's goal and shall strive to make progress toward that goal.

2. MCHP shall carefully evaluate participation in DEQ's Green Permits program and EPA's Performance Track program. Multnomah County agrees that successful application and participation by MCHP in the Green Permits program or EPA Performance Track program will constitute achievement of the County goal, however, other appropriate measures can also contribute to meeting the goal. MCHP shall make its determination regarding an application for the Green Permits or Performance Track programs by August 1, 2003. At this time, should MCHP decline to make application, MCHP will notify the County in writing, identifying the reasons for MCHP's decision and specifying alternative measures and pollution prevention or environmental management programs that MCHP will promptly pursue and implement to further the County's environmental protection goal.

3. If any person is determined by the appropriate environmental authority to have violated an applicable environmental law, MCHP shall cure or cause to be cured the damage in accordance with and as required by applicable laws to the reasonable satisfaction of the reviewing environmental authority..

E. ***Job Training.***

County Goals:

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

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.

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.

To provide educational opportunities to enhance upward mobility for both technical and management roles.

MCHP acknowledges these County goals and agrees to take the following actions in support of those goals:

1. MCHP shall work in good faith with the education community to support curriculum and career path options for obtaining jobs in the semiconductor field. This good-faith effort includes but is not limited to:

   (a) Assisting in the successful realization of the Center for Advanced Learning by serving on the C.A.L industry advisory committee; providing assistance and expertise with curriculum development, instructional assistance, development of internships and mentoring opportunities; consideration of financial and equipment donations to the C.A.L.

   (b) Working with MHCC and local high schools (Gresham, Sam Barlow, Reynolds, Centennial, Parkrose, David Douglas, and Marshall) to explore partnership opportunities including but not limited to: internships and mentoring programs, curriculum development, instructional assistance, scholarships, financial and equipment donations.

   (c) Designating a representative to serve on the Board of Directors of the Mt. Hood Community College Foundation, when a position becomes available.

2. MCHP currently offers 40 hours of on site training to all newly hired operators at no cost to the employee. MCHP commits to utilizing the Mt. Hood Microelectronics Training Center for elements of employee training. MCHP and Mt. Hood Community College will confer and determine the appropriate employee training to be conducted at the Mt. Hood Microelectronics Training Center (MTC). Such determination shall be made by July 1, 2003. At this time MCHP shall designate a representative to serve on the MTC budget committee. Each firm which has a SIP agreement with the County that requires that firm to contribute to MTC on substantially the same basis as MCHP (a "SIP Firm") shall be entitled to have a member on the budget committee for MTC. The budget committee for MTC shall consist of one member appointed by the County, one by Mt. Hood Community College, and one by each SIP firm.

a. The members of the Budget Committee shall approve a Training Center operating budget for each calendar year by majority vote. However, without the prior written consent of MCHP, the budget approved for annual operating costs shall not exceed $126,450, which is equal to 110% of the Training Center operating budget for 2001.

b. After the budget is approved in accordance with the preceding paragraph, the funding for the budget for each calendar year shall be apportioned among the SIP Firms, based on the number of personnel each SIP firm had at its project as of December 31 of the preceding calendar year. The apportionment shall be based on a ratio of the personnel at the Project (as shown in the following schedule) to the total number of personnel scheduled to be at all SIP Firm's projects. The schedule of personnel for the Project shall be:

Calendar Year ending December 31	Number of Personnel
2003	204
2004	228
2005	256
2006	286
2007	321
2008	360
2009	401

This schedule of personnel shall be amended to reflect actual employment in the event that actual employment differs by more than twenty-five percent from the above numbers.

Payment from each firm will be scheduled by the Budget Committee to coincide with the estimated need to pay costs of Mt. Hood Microelectronics Center related to education and training for the high technology industry.

In addition MCHP's tuition reimbursement policy, which is attached as Exhibit G, provides up to $10,000 per year reimbursement for classes and books to anyone who enrolls in classes at a certified university for job related classes or degree.

3. MCHP currently provides funds in departmental budgets to cover external training needs for employees to improve their skills.

4. MCHP currently maintains an extensive in house training department with an excellent portfolio of classes, see attached recent recognition from Training Magazine. MCHP will offer 15 training classes at the Project by July 1, 2003, and will increase training classes to include its full core curriculum as the Project reaches full production capacity.

5. MCHP shall continue to provide these educational programs, or substantially similar educations benefits for its employees.

6. MCHP agrees to evaluate the Fujitsu proprietary degree in good faith and allow its employees appropriate credit for having obtained that degree.

F. ***Procure Locally Produced or Sold Goods and Services***

County Goal:

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

MCHP acknowledges this County goal and agrees to take the following actions in support of this goal :

1. MCHP acknowledges this County goal and agrees to make best effort to purchase from local suppliers subject to MCHP's ability to find local suppliers whose products meet MCHP's specifications and quality standards, and whose products cost the same or lower that non-local goods and services.

2. MCHP will make good faith and reasonable efforts to procure for construction, installation and equipment maintenance services in a manner which recognizes and rewards responsible contractors based on the following factors: necessary technical qualifications (including licensure), past performance record (including safety, cost effectiveness, business location (per the local procurement goals of this Agreement) and other factors consistent with MCHP's stated mission, values, and record of operations.

V. MCHP Reporting Requirements.

A. *MCHP to Report Contract Compliance to County.*

1. MCHP shall prepare and submit to County SIP Manager the quarterly and annual reports described in paragraphs 5 and 6 below. The annual report shall include the quarterly report information on the jobs information for the quarter ending June 30. No separate quarterly report is required for the quarter ending June 30.

2. MCHP, County and the City will work together to determine the form of report necessary to track benefits of the "targeted population," as that term is defined in the First Source Agreement. To the extent possible, data compilations generated and used by MCHP in the ordinary conduct of its operations will be used for the report to the County.

3. The reports are to be sent to the following address:

   Duke Shepard
   Multnomah County Chair's Office
   501 SE Hawthorne Blvd. 6th floor
   Portland, OR 97293-0700

4. Confidentiality of Reports.

   MCHP proprietary information contained in the reports and documents submitted by MCHP to the County in support of the report is, and shall be, submitted in complete confidence. County shall treat MCHP's proprietary information in a confidential manner. The parties agree that any such proprietary information is exempt from public disclosure under, and the County agrees to assert in connection with any public records request that, such information is exempt from disclosure under the Public Records Law, ORS 192.502(4). This Agreement is MCHP's written request for confidentiality and is the County's assurance that it will treat MCHP's documents as confidential. The County acknowledges that MCHP documents that contain proprietary information may give competitors an undue advantage, and, therefore, that such documents are also entitled to nondisclosure protection under ORS 192.501(2). Additionally, employee survey information of a private nature is exempt from disclosure under ORS 192.502(2) and 192.501(5).

   MCHP understands and agrees that the County may, subject to the foregoing confidentiality obligations imposed upon the County, send portions of the reports to other Oregon governmental entities for review to ensure compliance with this Agreement. For example, the portion of the report on compliance with the County's environmental goals may be sent to DEQ for review. The confidentiality of the MCHP documents shall extend to such documents in the hands of all other governmental agencies and the County shall advise the other governmental

agencies of the confidentiality obligation when submitting MCHP documents to such other governmental entities. ORS 192.502(9) contemplates continued confidentiality for documents transferred by a public body to another public body.

Notwithstanding any other provision of this Agreement, MCHP shall not be required to report information to the County in a manner which violates the privacy rights of MCHP's employees. If the County discloses any information provided by MCHP to the County pursuant to this Agreement in any manner which violates the rights of any person or entity, the County shall indemnify and hold MCHP and its agents, directors, officers or employees harmless from and against any claim made against MCHP or its agents, directors, officers or employees based on the disclosure of that information by the County, including costs of attorneys' fees at trial and on appeal.

5. Quarterly Reports on Job Creation, Compensation and Retention.

Beginning with County fiscal year 2003-2004, MCHP shall prepare and deliver within 45 days of the close of each fiscal quarter (September 30, December 31, March 31 and June 30), a report containing the following information:

a. Hiring activity for the prior quarter for the Project, including day of hire, title, level, starting compensation and category of position (using the categories shown in the chart in Section IV.A.2.a).

b. Turnover rate for all employees at the Project, calculated in accordance with Section IV.A.4.

6. Annual Reports.

MCHP shall prepare and deliver by November 15 of the tax year following the tax abatement year, a report which addresses each of the reporting requirements listed below:

a. Wages.

MCHP shall provide a report of its total payroll and total number of employees, and shall calculate and report the average payroll for employees at the Project.

b. Benefits.

MCHP shall provide a statement of the benefits it provided during the tax abatement year to its employees, any changes in the benefits from the prior year.

c. Hiring Outside of FSA.

MCHP shall provide a statement of the covered employee hires which were not referred to MCHP by the County pursuant to the FSA during the tax abatement year. It shall include the date of hire, job classification, wage scale and residency (state, county, city) at, or just prior to, time of hire. A report form shall be created by County and/or City with MCHP.

d. Transportation.

MCHP shall provide a statement of its actions under Section IV.B for the tax abatement year.

e. Job Training.

MCHP shall provide a statement of its actions under Section IV.E for the tax abatement year period.

f. Local Procurement.

MCHP shall report annually:

(1) The amount of MCHP expenditures in Oregon.

(2) The amount of MCHP expenditures in Multnomah County.

(3) The percent change in expenditures over prior year.

g. Environmental Management Plan and Cleanup.

(1) MCHP shall report annually on its progress toward meeting the County's environmental protection goal stated in Section IV.D.

(2) MCHP shall report on any notices of violation of environmental laws at the Project which MCHP receives from an environmental authority having jurisdiction over the Project that were given in the prior County fiscal year (beginning commencing in County fiscal year 2004-05 for any notices of violation received in County fiscal year 2003-04) and, if there were any, whether the appropriate environmental agency approved the remedial measures.

7. County Report on MCHP Compliance.

The County shall also prepare an annual report to the public describing MCHP's compliance with the terms of this Agreement.

B. *Cooperation With Oregon Department of Revenue.*

MCHP and the County shall cooperate with the Oregon Department of Revenue to identify the property that receives the property tax exemption as described in this Agreement.

VI. OBLIGATIONS OF COUNTY AND CITY.

A. *Findings.*

In consideration of the actions of MCHP as described in this Agreement, the County and the City find that:

1. Granting an SIP exemption for the Project will foster the economic growth and legislative policy as set forth in ORS 285.310.

2. The Project will be consistent with all applicable laws and regulations.

3. The operation of the Project in the County and the City would be in the best interest of the citizens of Multnomah County and the City of Gresham.

B. *The County and City Agree as follows:*

1. Approval of Provisions Related to Property Tax Exemption.

   The County and the City approve the provisions of this Agreement related to the SIP exemption by execution of this Agreement. The County agrees to approve the application of MCHP and request the undertaking of the Project as an "eligible project" by official action of its governing body in compliance with ORS 285B.386(1).

2. Property Tax Exemption.

   Upon approval by of the Project as an "eligible project" by the Oregon Economic and Community Development Commission, the Project shall be subject to assessment and taxation as provided in ORS 307.123 beginning in fiscal year 2003-2004.

VII. BREACH; DEFAULT; REMEDIES OF THE COUNTY.

A. *Dispute Resolution Procedure.*

1. Multnomah County's designated SIP Manager shall have the duty to monitor compliance by MCHP with the terms of this Agreement.

2. If either County or the City has substantial evidence to believe that MCHP has failed materially to comply with any term of this Agreement and that such failure is not excused, County and the City shall confer, and shall involve persons in their

organizations whose job responsibilities relate to the noncompliance. County shall show the evidence of noncompliance to these representatives. If, after they examine the evidence, County continues to believe that MCHP has failed materially to comply with one or more terms of this Agreement and the failure is not excused, County shall notify MCHP of this belief and the basis therefor. In any event, MCHP shall not be deemed to have failed to comply with this Agreement if the failure is caused by a *force majeure*, as provided under Section VII.B, below, or if the alleged failure is a variance from numerically ascertainable terms which is described in Section VII.E.

3. Notice required by Section VII.A.2 shall be in writing and shall be sent to MCHP at the following addresses, both of which shall be required for notice to be effective:

Microchip Technology Incorporated
2355 West Chandler Blvd.
Chandler, Arizona 85224-6199

Attention: Steve Sanghi, President and CEO
With a copy to: Mary K. Simmons, General Counsel

If MCHP wishes to change the address(es) to which notice hereunder shall be given, it may do so by providing written notice to the County at the address indicated in Section V.A.3.

4. Upon receipt of the notice described in Section VII.A.2, MCHP shall have 45 days to respond in writing. MCHP's written response shall be delivered to County at the address shown in Section V.A.3. MCHP's response shall include such supporting documentation as is related to the issues raised by the notice described in Section VII.A.2 and that is within MCHP's control to provide for the sole purpose of allowing the County to substantiate MCHP's response. The County shall have 45 days in which to review and consider MCHP's response and to notify MCHP in writing if the County believes MCHP is not in compliance, and to state the basis for the County's belief. If the County does not give MCHP such written notice within 45 days, the matter shall be deemed closed.

5. If the County notifies MCHP pursuant to Section VI.A.4 that the County continues to believe that a failure of performance by MCHP has occurred, the parties will meet as soon as possible and confer with the objective that the issues upon which there is dispute are clearly defined and understood and that any misunderstanding of the essential factors of the dispute may be resolved. The County may retain an outside consultant, or the County Auditor may be used to verify MCHP's compliance. In the course of this process, if physical access to the Project premises is required, MCHP will allow the County or its designated consultant or Auditor such access at reasonable times and under conditions that will comply with MCHP's customary rules and procedures pertaining to safety,

property security, confidentiality, engineering, and intellectual property protection and so as to not interfere with MCHP's operations of the Project. The parties shall also exercise their respective best efforts to resolve all disputed issues, in a manner and result that is consistent with the provisions of this Agreement. A resolution so reached shall be documented in a written Compliance Agreement to the parties' mutual satisfaction.

6. If, following such efforts by the parties to amicably resolve their differences, a mutually satisfactory outcome is not achieved, the procedures in the order set forth below shall be followed:

   a. Subject to subsection b, below, senior management of both parties shall first mutually negotiate in good faith to resolve any dispute that arises between them. If such negotiations are unsuccessful the parties agree that, before any litigation can be initiated, except as provided in b, below, the dispute shall be submitted to non-binding mediation in front of a mediator who is an attorney who is both knowledgeable in the laws which govern this agreement and who has substantial experience in the semiconductor or electronics manufacturing industries, or a mutually acceptable person of comparable expertise and competence. Such mediation shall take place within 90 days' of a party's receipt of a request therefore, in a neutral location mutually acceptable to both parties. Each party shall be responsible for paying its own costs and expenses (including legal fees, if necessary) for the mediation. In the event that the mediation is unsuccessful, either party may initiate litigation to address the dispute.

   b. Notwithstanding the foregoing, any dispute in which specific performance or injunctive relief is sought need not be submitted to mediation, but may instead be immediately brought by the aggrieved party to an appropriate court.

   c. The prevailing party in any litigation proceeding arising out of or related to this Agreement shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses incurred in such action, including court costs and reasonable attorneys' fees and other legal fees and costs.

7. Breach.

   a. A "Breach" shall be deemed to have occurred if:

      (1) before or after mediation, MCHP acknowledges that is has failed to comply with its obligations under this Agreement (unless the parties have agreed that the failure to comply is not a Breach); or

(2) a court of competent jurisdiction in a final nonappealable judgment determines that MCHP has failed to comply with it obligations under this Agreement.

b. MCHP shall not be deemed to have failed to comply with this Agreement if the failure is caused by a *force majeure*, as provided under Section VII.B, or if the alleged failure is a variance from numerically ascertainable terms which is described in Section VII.E

c. Where this Agreement imposes an obligation on MCHP to act "in good faith," no Breach shall be deemed to occur unless the parties agree or a court determines in a final nonappealable judgment that MCHP failed to take any reasonable action to comply with that obligation, or that MCHP acted in bad faith.

B. *Force Majeure.*

If by reason of *force majeure*, MCHP is unable in whole or in part to carry out any of its obligations in this Agreement, other than obligations for the payment of money, a Breach shall not be deemed to occur during the continuance of such inability. The term "*force majeure*" as used herein shall mean, without limitation, any of the following: acts of God; strikes, lockouts or other industrial disturbances; acts of the public enemy; orders or restraints of any kind of the government of the United States of America or of the state wherein the County is located or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; volcanic eruption; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any similar or different cause or event not reasonably within the control of the MCHP. *Force Majeure* also includes any significant reduction in market demand for the products that are produced at the Project which makes it economically infeasible for MCHP to operate the Project in compliance with this Agreement. To excuse performance of any obligation of MCHP due to a *force majeure*, MCHP must notify the County as soon as reasonably possible after the *force majeure* has occurred and MCHP has had an opportunity to determine the effect of the *force majeure* upon MCHP's business and its obligations hereunder. The notice shall state the nature of the occurrence, the anticipated effect of the occurrence on MCHP's obligations, and when MCHP will be able to resume compliance with this Agreement. If the County, following consultation with the City, does not agree that MCHP shall be excused from performance in the manner stated in MCHP's notice, the County shall notify MCHP within 90 days and the parties shall commence dispute resolution procedures pursuant to Section VII.A.

C. *Failure to Comply with Numerically Ascertainable Terms.*

It is the intent of the parties that good faith efforts will be made to comply with all the terms of this Agreement. However, in such a large Project, it is difficult to anticipate all contingencies with accuracy. In a spirit of fairness and recognizing the cyclical vagaries of business, the County and City agree that variance from numerically ascertainable terms of

this Agreement by a plus or minus 5% will not constitute a failure of MCHP to comply with this Agreement. However, the variance is not cumulative.

D. ***Sanctions.***

The following sanctions shall apply if a Breach occurs:

1. Failure to Pay.

   If the Breach relates to a failure of MCHP to pay the CSF or any other fee MCHP is required to pay to the County under this Agreement, the County shall be entitled to the amount of the delinquency, plus the following penalties (subject to the following paragraph): (1) if the payment is made more than ten (10) business days after the payment is due and written demand has been made to MCHP for payment, the County shall be entitled to receive a penalty of ten percent (10%) of the delinquent amount; and, (2) if the payment is made more than 45 business days after the payment is due and written demand has been made to MCHP for payment, the County shall be entitled to receive a penalty of one hundred percent (100%) of the delinquent amount.

   If MCHP reasonably disputes the amount or timing of any payment which is alleged by the County to be due to the County under this Agreement, MCHP may tender the amount which is alleged to be due and thereby prevent any penalties from accruing, and may continue its dispute. Payment by MCHP shall not constitute a waiver by MCHP of any matter in dispute. If the dispute is resolved in favor of MCHP, the County shall refund the amount of overpayment to MCHP, with interest, within 30 days after the dispute is resolved.

2. Failure to Create and Retain Jobs.

   If the Breach relates to a failure of MCHP to meet the job creation or job retention requirements of Section IV.A.2.a of this Agreement, MCHP shall pay an amount equal to twice the average gross annual salary plus benefits for operators and technicians in the year of the breach for every job not created or job not retained.

3. Failure to Use FSA.

   If the Breach relates to a failure of MCHP to notify the County in accordance with the FSA of MCHP hiring needs for covered positions, or to hire qualified applicants for covered positions in accordance with the FSA, MCHP shall pay to the County an amount equal to twice the average gross annual salary plus benefits for operators and technicians in the year of the breach for every person who would have been hired though the FSA, but was not so hired because of MCHP's failure.

   If MCHP fails to act in good faith to meet its obligations under the FSA, and the failure results in effective abandonment of the FSA by MCHP, MCHP shall pay 75 percent of the Property Tax Abatement for each year the abandonment continues.

It shall not constitute an abandonment if MCHP's failure is due to nonperformance by the County of its obligations under the FSA.

4. Failure to Meet Reporting Requirements.

If MCHP fails to meet reporting requirements of Section V of this Agreement, MCHP shall pay twice the amount necessary to have an auditor investigate and prepare the report, or any portion thereof which has been omitted.

5. Environmental Crimes.

If MCHP is found to be responsible by a competent court in a final nonappealable judgment for conduct at the Project which constitutes felony criminal conduct under federal, state or local environmental law, MCHP shall pay seventy five percent of the tax abatement for the tax year in which the conduct is found to have occurred.

6. Failure to meet Other Requirements.

In the event a sanction for a Breach is not specified in the preceding paragraphs of this Section VII.D, MCHP shall pay to the County an amount equal to any benefit MCHP realized from the Breach, plus a 100% penalty (i.e. the total payment due is two times what MCHP should have spent to comply with the agreement).

E. ***Limitations.***

1. No Breach shall be deemed to occur and no sanction shall be imposed in connection with any action taken by MCHP during any tax year in which MCHP has paid ad valorem property taxes on the full market value of the Project.

2. No sanction or combination of sanctions shall exceed 75% of the total tax abatement for any single tax year. A tax year begins on July 1 and ends on the following June 30.

F. ***Allocation of Funds Paid by MCHP for Failure to Comply with Agreement.***

Any funds collected under Sections VII.D above, shall be paid to the County Finance Manager and held in a segregated fund. The funds shall be distributed by the Board of County Commissioners to a program or project in the area of public policy most directly related to the failure to comply.

VIII. REMEDIES OF MCHP.

If the City or County breaches this Agreement, MCHP shall be entitled to exercise any of its legal or equitable remedies, either through the dispute resolution process set forth in Section VI A or through administrative or judicial processes.

IX. TERM OF AGREEMENT.

This Agreement shall take effect on the date the Oregon Economic and Community Development Commission formally determines that the Project is an "eligible project" which will receive the partial property tax exemption described in ORS 307.123 and a deed is recorded conveying the existing FMI facilities to MCHP, and shall remain in effect until terminated as provided in this Section IX.

This Agreement shall terminate on June 30, 2010. However, termination of this Agreement shall not affect the obligation of any party to pay amounts which were due under this Agreement for the period prior to its date of termination.

X. MISCELLANEOUS TERMS.

A. *Discrimination.*

No persons shall be denied or subject to discrimination in receipt of the benefits of any services or activities made possible by or resulting from the Agreement on the grounds of sex, sexual orientation, gender identity, race, color, creed, marital status, age, national origin, mental health or physical handicap, disabled or Vietnam era veteran status (except where there are bona fide occupational qualifications). Any violation of this provision shall be considered a material violation of the Agreement.

B. *Public Contracts.*

All applicable requirements of the Oregon Revised Statutes Nos. 279.120 through 279.333 are incorporated herein by reference. This provision is intended to incorporate only those provisions which are required for all public contracts. The parties acknowledge that: other portions of ORS Chapter 279 do not apply; this Agreement is not one for a public improvement or public work; and the wages and other compensation paid by MCHP to its employees is not subject to ORS 279.348 through 279.365.

C. *Governing Law.*

This Agreement shall be governed by the law of the State of Oregon. Any actions or suits commenced in connection with this Agreement shall be in Circuit Court of Multnomah County or Federal District Court for Oregon.

D. *Complete Agreement.*

This Agreement and its attached exhibits are the complete and exclusive statement of the Agreement between the parties relevant to the purpose described above and supersedes all prior agreements or proposals, oral or written, and all other communication between the parties relating to the subject matter of this Agreement. No modifications of the Agreement will be binding on any party except as a written addendum signed by authorized agents of each party. MCHP's policies, some of which are exhibits to this Agreement, may be changed by MCHP at any time without consent of, or notice to, the

County or the City, and changes to those policies shall not be deemed an amendment of this Agreement.

All rights and remedies of each party shall be cumulative and may be exercised successively or concurrently. The foregoing is without limitation to or waiver of any other rights or remedies of either party according to law.

E. ***CSF Payments Not Property Taxes.***

The parties acknowledge that any payments required under this Agreement do not constitute property taxes and are not subject to the limits under Section 11b, Article XI of the Oregon Constitution.

F. ***Compliance Relevant to Future Approvals.***

MCHP acknowledges that its compliance with this Agreement will be an important consideration for local government approval of any future applications MCHP may make seeking property tax exemptions for other Projects.

G. ***Lease or Sublease of the Premises.***

While it is not contemplated that MCHP will lease or sublease the premises, if that were to occur, the property tax exemption may transfer under the provisions of ORS 285B.383(4) and ORS 307.123.

H. ***Successors and Assigns.***

This Agreement shall inure to the benefit of and bind the successors and assigns of the parties.

I. ***Good Faith Contests Permitted.***

Nothing in this Agreement shall be construed as: (1) preventing MCHP from contesting in good faith any tax, assessment or other fee imposed by the County or any other governmental entity; or (2) granting rights to any employee of MCHP. The obligations of MCHP in this Agreement are for the benefit of the County and the City, and for the general benefit of their citizens; no individual or entity not a party to this Agreement shall be treated as a third party beneficiary of this Agreement.

J. ***Validity of County Obligations.***

The County represents that this Agreement and its attached exhibits are valid and binding obligations of the County, and the County agrees to be bound by their terms. The County agrees that its obligation to indemnify and hold MCHP harmless is a contractual obligation of the County.

K. ***Counterparts.***

This Agreement may be signed in counterparts; when each party has signed a counterpart all parties shall be bound by this Agreement.

[The remainder of this page intentionally left blank.]

DATED this 15th day of August, 2002.

MULTNOMAH COUNTY

Chairperson,
Board of Commissioners

Date: August __, 2002

MICROCHIP TECHNOLOGY INCORPORATED (MCHP)

Authorized Officer

Date: August __, 2002

REVIEWED:

Assistant County Counsel

Date: August __, 2002

CITY OF GRESHAM

Mayor

Date: August __, 2002

City Manager

Date: August__, 2002

REVIEWED:

City Attorney

Exhibit A

First Source Agreement

COMPANY FULL SERVICE FIRST SOURCE HIRING AGREEMENT

I. Parties

This First Source Agreement (FSA) for recruitment, referral and placement of employees into covered positions is between Multnomah County, hereinafter referred to as "County", and COMPANY (Address, Gresham, Oregon) hereinafter referred to as "COMPANY." Under this Agreement, EMPLOYER will use County and/or its designated contact agency(s) as defined in OAR 123-070-1100 as its exclusive first source for recruitment, referral and placement of personnel in covered positions except as provided under B.,1 of this FSA. The City of Gresham (City) is a Third Party Beneficiary (TPB) of this FSA and is entitled to enforce its terms. By executing this agreement, City accepts TPB status.

II. Recitals

A. The County, Company, and City have entered into negotiations of a SIP contract. A provision of the SIP contract requires that Company enter into an FSA with a publicly funded job training provider per ORS 307.123.

B. County has consolidated SIP program management and FSA management within the County in order to achieve greater efficiencies in costs and operations associated with fulfillment of County SIP goals.

C. Therefore, in meeting the statutory FSA requirement and per the provisions of OAR 123-070-1100, County has designated itself as the lead contact agency for its SIP agreements. County, as lead agency, will serve as the primary point of contact for fulfillment of Company hiring needs related to covered positions as defined in Section III. A. 3, and associated reporting requirements contained within this FSA.

D. The County seeks to link the job creation benefits of industrial expansion to disadvantaged residents, ensuring access to well paying jobs and careers for that population. The County also recognizes that at the time of this agreement, severe economic dislocations have resulted in unemployment for thousands of workers throughout Multnomah County. The County places the re-employment and economic recovery of these workers among its highest priorities, in particular the recent former employees of the Gresham campus of Fujitsu Microelectronics Inc. (FMI).

E. This FSA contains three phases of increasing mutual commitment in order to ensure the most timely and cost effective re-employment of recent former employees of FMI, while ensuring continued achievement of County goals for economic opportunity and career advancement for all of its residents.

E. County and Company commit to work together and in partnership with all relevant agencies, including but not limited to Mt. Hood Community College (MHCC), the federally funded Dislocated Worker Program at MHCC's Workforce Connections, SE Works Inc., the Gresham

Branch of the Oregon State Employment Department, Worksystems Inc., and other community and faith-based organizations to identify, train, and refer targeted populations of potential Company employees to Company for regular employment with career advancement opportunities.

F. The target population includes recent former employees of the Gresham campus of Fujitsu Microelectronics Inc., unemployed and underemployed residents of east Multnomah County and outer Southeast Portland, local high school graduates, and graduates of Mt. Hood Community College and other Oregon institutions of higher education.

G. The Parties commit to a strong, collaborative, and performance-based effort for recruitment, referral, and training in order to ensure that local, targeted populations benefit from the employment, career, and educational opportunities created by this agreement.

THEREFORE THE PARTIES AGREE TO THE FOLLOWING

III. TERMS AND CONDITIONS

A. Definitions

1. Applicant: Persons who apply for employment with Company, whether referred by County, another referral source, or self-referred.

2. Contract Worker: Persons hired on a temporary or prolonged basis who are self employed or employees of a business other than Company who perform under a contract for services.

3. Covered Positions: Regular Jobs of Company at the Project in the following two categories

(1) Category One: Direct Labor Production Specialist that require zero years manufacturing experience.

(2) Category Two: All salaried, non-exempt regular jobs within the technician classification of the SIP agreement which require no more than a two year degree.

4. Category Three: All other Regular Jobs.

5. Internal Hire: Company positions which are filled by Company regular employees by internal promotion, transfer or recall of a laid off employee.

6. Potential applicant: Anyone who is a member of the target population or any other person who applies for a position through the FSA.

7. Qualified Applicant: Applicants who meet the minimum employment qualifications as determined by Company.

8. Regular Employee: Full time, benefited employee of Company at Project.

9. Targeted Populations: Recent former employees of the Gresham campus of Fujitsu Microelectronics Inc. (FMI), unemployed and underemployed residents of east Multnomah

County and outer Southeast Portland, local high school graduates, graduates of Mt. Hood Community College and other Oregon institutions of higher education.

10. Recent former employees of the Gresham Campus of FMI: Any individual formerly employed on a continuous basis at the Gresham, Oregon campus of Fujitsu Microelectronics Inc. during the last two years.

11. Underemployed: Persons employed for under 35 hours per week, who desire full-time employment, and or/persons working full-time at a position below their skill level.

12. Unemployed: Persons without a job that pays compensation or who are receiving unemployment compensation.

13. FSA Phase One: Phase One of the FSA begins upon mutual acceptance of this agreement by parties and terminates December 31, 2003.

14. FSA Phase Two: Phase Two of the FSA is defined as the period between January 1, 2004 and December 31, 2004.

15. FSA Phase Three: Phase Three of the FSA begins January 1, 2005 and is in effect for the remainder of the duration of the SIP agreement between Company, County, and City.

B. Recruitment

1. Exclusive recruitment through Multnomah County and/or its designated contact agency(s) for Category One Covered Positions.

a. FSA Phase One: County waives exclusivity provisions of FSA during this phase for all positions at Company, including Category One covered positions. Company may utilize multiple methods of recruitment and sources of referral for potential applicants as determined by Company to best fulfill as many Category One positions as possible with recent former employees of FMI, Gresham. However, Company commits to include among its recruitment sources: County, Mt. Hood Community College (MHCC), the federally funded Dislocated Worker Program at MHCC's Workforce Connections, SE Works Inc., the Gresham Branch of the Oregon State Employment Department, and Worksystems, Inc.

b. FSA Phase Two: County asserts exclusivity for FSA recruitment effective January 1, 2004 for the duration of the SIP agreement between County, Company, and City. Company shall recruit potential applicants for Category One Covered positions exclusively through County and/or its designated contact agency(s), except for internal hires, staff referrals and hires of persons previously employed at the Project by FMI.

(1). Company shall give County as much notice as possible of all openings for covered positions, and the required start dates for those positions to enable County to have the greatest chance of success in providing a sufficient number of qualified applicants for the openings. Company commits that,

within two weeks following entrance into Phase Two of this FSA, it will meet with County to discuss hiring projections for Category One covered positions for the next 12 months. These projections will not be binding on the Company, but will serve as a guide to County for timely recruitment and training of a sufficient number of qualified candidates for open positions. Henceforth, it is agreed that whenever reasonably possible, Company shall give County notice of openings of category one job openings four (4) weeks prior to the anticipated hire date. If County is unable to refer the requested number of applicants by two (2) weeks prior to the anticipated hiring, Company may recruit independently for Category One covered positions if it has provided the required notice. If it is not reasonably possible to provide said notice, County and Company shall work together to assure Company meets its hiring requirements in the most effective manner. During FSA phase two, no fees shall be charged to Company by County for FSA recruitment, screening, and referral services.

d. FSA Phase Three: Company shall give County as much notice as possible of all openings for covered positions, and the required start dates for those positions to enable County to have the greatest chance of success in providing a sufficient number of qualified applicants for the openings.

(1) Company commits that, within two weeks following entrance into Phase Three of this FSA, and annually thereafter, it will meet with County to discuss hiring projections for Category One covered positions for the next 12 months. These projections will not be binding on the Company, but will serve as a guide to County for timely recruitment and training of a sufficient number of qualified candidates for open positions. Henceforth, it is agreed that whenever reasonably possible, Company shall give County notice of openings of category one job openings four (4) weeks prior to the anticipated hire date. If County is unable to refer the requested number of applicants by two (2) weeks prior to the anticipated hiring, Company may recruit independently for Category One covered positions if it has provided the required notice. If it is not reasonably possible to provide said notice, County and Company shall work together to assure Company meets its hiring requirements in the most effective manner.

(2) For the duration of FSA Phase Three, Company will be charged FSA qualified hire placement fee according to the procedure described in F. and as previously established by Multnomah County policy in other SIP agreements. Further, Company will, in the spirit of partnership and in an effort to recruit local talent, notify County of availability of Category two positions. This notification is not exclusive, and takes effect only during FSA Phase Three.

e. During all phases of FSA (One, Two, and Three), Company shall provide job descriptions, position qualifications, wages offered, shifts needed and other

relevant information necessary for recruitment as soon as Company becomes aware of the need for employees, or in the event that the information substantively changes.

f. County, or its designated contact agency(s), will share as soon as is possible Company openings for all covered positions with Mt. Hood Community College (MHCC), the federally funded Dislocated Worker Program at MHCC's Workforce Connections, SE Works Inc., the Gresham Branch of the Oregon State Employment Department, and Worksystems, Inc.

2. County Outreach to Target Populations.

a. County shall work with Mt. Hood Community College (MHCC), the federally funded Dislocated Worker Program at MHCC's Workforce Connections, SE Works Inc., the Gresham Branch of the Oregon State Employment Department, Worksystems Inc., and other community and faith-based organizations to identify, train, and refer targeted populations of potential Company employees to Company for regular employment with career advancement opportunities.

b. County and/or its contact agency(s) shall develop and implement recruitment processes for all covered positions.

3. Screening, Referral, and Hiring.

a. Company will designate human resources staff to work with County and/or its designated contact agency(s) in the creation and perfection of screening and assessment processes and tools for covered positions. Company will provide timely feedback as to the sufficiency in number and quality of FSA referred applicants.

b. County and/or its designated contact agency(s) shall process for referral any qualified applicant who applies or is referred for any covered position when an opening exists at Company.

c. County and/or its designated contact agency(s) shall screen applicants for covered positions according to Company criteria which defines "qualified applicant."

d. County and/or its designated contact agency(s) shall refer only qualified applicants to Company who meet Company employment criteria after Company notifies County of openings for covered positions.

e. Company shall make all final decisions as to qualifications, interviewing, and hiring of FSA referred applicants but during FSA Phases Two and Three shall select for Category One covered positions from among the qualified persons referred by County and/or its designated contact agency(s).

f. For Category Two and Three position openings, Company agrees to consider qualified applicants referred by County and/or its designated contact agency(s) and

to make a good faith effort to maximize recruitment and hiring of qualified local residents.

g. County and/or its designated contact agency(s) shall not be responsible for an applicant's actions during any portion of the referral, interview, or employment process.

h. Nothing in this FSA overrides Company's standards and terms for employment as set by Company's personnel policies and procedures. Neither employees from this targeted population nor any other employee hired under this FSA shall have special or additional rights arising from the FSA. Company is an at will employer.

i. If County determines that it and/or its designated contact agency(s) are unlikely to be able to provide sufficient applicants to fill openings for which Company has given notice, County may authorize Company in writing to recruit independently for such positions. Independent recruiting by Company in response to such an authorization shall not be considered a violation of this FSA.

C. Reporting Requirements

1. Data Elements.

a. During FSA Phase One, Company shall report on a quarterly basis the number of employees hired, position, wage, zip code of employee residence, and status as a recent former employee of FMI Gresham.

b. During FSA Phases Two and Three, the Company shall provide on a quarterly basis the number of employees hired, position, wage, and zip code of employee residence. By mutual agreement of both parties, an alternative reporting schedule may be implemented at anytime, so long as the new reporting period is no longer than 12 months.

c. Under no circumstances will Company be required by County to collect additional demographic information, such as employee income information or target population status (with the exception of status as recent former FMI employees as provided above during FSA Phase One).

d. County and Company shall work together to create electronic format for the reporting requirements set out above. All FSA reporting shall be conveyed electronically, unless otherwise mutually agreed by both parties.

D. Controlling Laws and Regulations

1. Company and County shall comply with all federal, state, and local laws, regulations, and ordinances relative to employment. If this FSA conflicts with any labor laws or other government regulations, the laws or regulations hall prevail.

2. Company and County agree to comply with the applicable provisions of Title VII of the Civil Rights Act of 1964, as amended, and section V of the Rehabilitation Act of 1973, as

amended or with any successor statutes. No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration or in connection with this agreement because of race, color, religion, sex, marital status, sexual orientation, national origin, age, disability, application for Workers Compensation benefits, political affiliation or belief, expunged juvenile record or association with any person of a particular race, color, sex, marital status, sexual orientation, age, or religion.

E. Assignments and Modifications

1. If, during the term of this FSA, Company should transfer control of the Project, as defined in the SIP contract, as it is affected by this FSA to any other party by lease, sale, or assignment or otherwise, Company, as a condition of transfer shall require the party taking control to agree, in writing, to the terms of the FSA.

2. This FSA may be assigned to another publicly funded job training provider upon mutual agreement of Company and County.

3. Company and County may mutually modify this agreement in order to improve the working relationship described herein.

F. Payment for Services

1. Compensation

a. FSA Phases One and Two: There shall be no charge to Company for FSA services described herein during these FSA phases.

b. FSA Phase Three: Company shall pay to the County $450 for each qualified hire which occurs during the phase. A "qualified hire" means the hiring by Company of any person into Category One or Two positions referred to Company by County and/or its designated contact agency(s). County will bill the Company on a semiannual basis (June 30, December 30). Company will remit payment within thirty days after billing. Hiring fee applies only to "qualified hires". County will charge no additional fees nor impose any additional human resources costs (such as administrative or posting fees).

G. Dispute Resolution

1. A material breach of this FSA by Company is a breach of the SIP contract. The sanctions set forth therein are applicable. If County or City reasonably believes that Company has failed to comply with any material obligation under this FSA, the parties shall follow the dispute resolution procedures set out in Section VII of the SIP contract.

2. ***Force Majeure***

If by reason of *force majeure*, Company is unable in whole or in part to carry out any of its obligations in this Agreement, other than obligations for payment of money, a Breach shall not be deemed to occur during the continuance of such inability. The term *force majeure* as used herein shall mean, without limitation, any of the following: acts of God; strikes, lockouts or other

industrial disturbances; acts of the public enemy; orders or restraints of any kind of the government of the United States of America or the state wherein the County is located or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any similar or different cause or event not reasonably within the control of Company. *Force Majeure* also includes any significant reduction in market demand for the products which are produced at the Project which makes it economically infeasible for Company to operate the project in compliance with this Agreement. To excuse performance of any obligation of Company do to *force majeure*, Company must notify the County as soon as reasonably possible after the *force majeure* has occurred and Company has had an opportunity to determine the effect of the *force majeure* upon Company's business and its obligations hereunder. The notice shall state the nature of the occurrence, the anticipated effect of the occurrence on Company's obligations, and when Company will be able to resume compliance with this Agreement. If the County, following consultation with the City, does not agree that the Company shall be excused from performance in the manner stated in Company's notice, the County shall notify Company within 90 days and the parties shall commence dispute resolution procedures as contained within the SIP contract.

H. Incorporation of the SIP Contract.

1. The SIP contract is incorporated into this FSA by this reference. To the extent there are any conflicts between the SIP contract and the FSA, the SIP contract controls.

2. However, this FSA is intended to implement the job creation and retention provisions of the SIP contract by providing further specificity regarding the Company's efforts to hire from County targeted populations.

3. To the extent that this FSA places additional obligations on Company, it is not inconsistent with the SIP contract.

I. Effective Date.

This FSA shall take effect when the Multnomah County Board of Commissioners approves and all the parties execute the SIP contact and this FSA contract, and the deed conveying the FMI facilities to MCHP is recorded.

J. Term.

This FSA shall be in effect until the end of the property tax abatement period for Company which is expected to include tax year 2010, ending June 30, 2010.

K. Confidentiality.

The Company's proprietary information contained in the reports and documents submitted by the Company to the County in support of this FSA is, and shall be, submitted in complete confidence. County shall treat the Company's proprietary information in a confidential manner. The parties agree that any such proprietary information is exempt from public disclosure under, and the County agrees to assert in connection with any public records request that, such

information is exempt from disclosure under the Public Records Law, ORS 192.502(4). This Agreement is the Company's written request for confidentiality and is the County's assurance that it will treat the Company's documents as confidential. The County acknowledges that the Company documents that contain proprietary information may give competitors an undue advantage, and, therefore, that such documents are also entitled to nondisclosure protection under ORS 192.501(2). Additionally, employee survey information of a private nature is exempt from disclosure under ORS 192.502(2) and 192.501(5).

The Company understands and agrees that the County may, subject to the foregoing confidentiality obligations imposed upon the County, send portions of the reports to other Oregon governmental entities for review to ensure compliance with this FSA. The confidentiality of the Company documents shall extend to such documents in the hands of all other governmental agencies and the County shall advise the other governmental agencies of the confidentiality obligation when submitting the Company documents to such other governmental entities. ORS 192.502(9) contemplates continued confidentiality for documents transferred by a public body to another public body.

Notwithstanding any other provision of this Agreement, the Company shall not be required to report information to the County in a manner which violates the privacy rights of the Company's employees. If the County discloses any information provided by the Company to the County pursuant to this Agreement in any manner which violates the rights of any person or entity, the County shall indemnify and hold the Company and its agents, directors, officers or employees harmless from and against any claim made against the Company or its agents, directors, officers or employees based on the disclosure of that information by the County, including costs of attorneys' fees at trial and on appeal.

L. Counterparts.

This Agreement may be signed in counterparts; when each party has signed a counterpart all parties shall be bound by this Agreement.

IT IS SO AGREED:

MULTNOMAH COUNTY

_____

Chairperson,
Board of Commissioners

Date: August __, 2002

MICROCHIP TECHNOLOGY INCORPORATED (MCHP)

_____

Authorized Officer

Date: August __, 2002

REVIEWED:

_____

Assistant County Counsel

EXHIBIT B

Transfer Policy and Internal Posting Policy

Internal Postings

Policy No.: HR-120

Issue Date: 09-30-91

Revised: 03-01-02

In recognizing that "Employees are our Greatest Strength," appropriate consideration is given to employees when filling job vacancies. In support of this philosophy, job openings are posted internally to help identify qualified candidates and to encourage employees who want to grow professionally.

1. When a position becomes vacant or is created due to business requirements, opportunities to promote or transfer from within will be explored consistent with the goal of filling positions with the most qualified individuals available.
2. Most vacant or new full-time positions will be posted unless there are compelling business or job-related circumstances not to post.
3. Job openings will be posted on the company bulletin boards located by cafeterias and on ChipNews and will remain posted for a minimum of 7 calendar days.
4. Employees who are eligible and qualified for an open position are encouraged to apply.
   - Internal Application forms are available from the Human Resources Department. A copy of the form is on the next page. Employees may apply for more than one job, but are required to fill out a new form for each job.
   - Employees must be in their present job for at least 12 months before they can apply for a new position. Exceptions can only be made upon the approval of the releasing department and Human Resources.
   - After accepting a transfer to a facility in another state, the employee must remain in their present job for at least 24 months before they can apply for a position (in a different state). Exceptions exist for sales offices and by the approval of Human Resources.
   - Internal applications will not be accepted from employees if they are currently on an Attendance Notice or Performance Improvement Plan.
   - The current supervisor's signature is not required on the internal application form unless the 12-month eligibility requirement has not been met. The current supervisor will be contacted prior to an offer being extended.
5. All applicants will be evaluated on the basis of ability, performance, related training, education and job experience. In the case where ability, performance and experience are relatively equal, seniority may be considered as a determining factor.
   - Human Resources will pre-screen all applications for eligibility.
   - The hiring manager is responsible for keeping the process timely.
6. Any individual posting may be representative of a job series and not necessarily a specific position. In such cases, the placement of an internal candidate may result in a lateral salary move. (see Promotions policy no. HR-150)
7. The selected employee will be released from their current job within 2-4 weeks. The release date may be extended depending on the circumstances and with the approval of the gaining department and the Human Resources.
8. The hiring manager will notify applicants who are not interviewed or selected.

INTENT

To provide an impartial and effective process for allowing an employee to transfer.

DEFINITION

- A Shift Transfer is a shift change from one shift to another (i.e. A shift to C shift).
- A Plant Transfer is a transfer from one plant to another (i.e. Chandler to Tempe).
- An FTE Transfer is a change in regular hours (i.e. full-time to part-time).

POLICY

1. A Transfer Request Form must be completed and submitted to the employee's supervisor or shift manager for all requests.
2. An employee must have worked in their present shift/plant for 6 months to be eligible for a Shift, Plant, and/or FTE Transfers.
3. An employee may apply for more than one type of transfer on a single form (i.e. shift and plant). Employees may not submit more than one transfer of the same type at the same time.
4. Once the supervisor or shift manager receives the form, the employee's name will be added to the appropriate transfer list(s).
5. If you change your transfer request, you will be placed at the bottom of that specific transfer list.
6. If an employee is on a Performance Improvement Plan or Attendance Notice, they are not eligible for any type of transfer until they have successfully fulfilled the performance or attendance improvement criteria. If an employee goes on a Performance Improvement Plan or Attendance Notice while on the list, their name may be placed on hold until they have fulfilled the criteria of the plan. This allows them to retain their place on the list.
7. When an opening becomes available for a transfer, the shift manager will refer to the transfer list(s) to fill the position. The selection will be made based on a match of employee qualifications and operational needs, and chronological order of the request date. Whenever possible priority will be placed on employee preferences; however, during periods of high growth and/or turnover or when the balance in production shifts is threatened a temporary hold of internal transfers may be required.
8. Once a transfer is offered, whether accepted or declined, the employee's name will be removed from that specific transfer list.
9. All employees on a transfer list may be queried periodically to see if they still want to be on the list.
10. When an employee accepts a transfer, they will be released as soon as a suitable replacement is trained and put in place. Typically, transfers will be completed within two months of the acceptance date.

11. If a transfer results in a downgrade of an employee's classification, their pay will be adjusted accordingly. If a transfer results in a change in shift, pay differential will be adjusted accordingly.

12. If an employee's name is selected while they are on an approved leave of absence, the next name on the list will be chosen. The employee on leave will be eligible for the next transfer available following their return to work.

Cross Reference	HR Policy No.
Employee Performance Improvement Plan	HR-410
Attendance Notice	HR-440
Internal Application	HR-120
Part-time DL Work Prg	HR-170
Differential Pay	HR-220
FMLA & Other Leaves	HR-290

EXHIBIT C

Performance Management Policy

INTENT

We believe that every employee has responsibilities to the company and to fellow employees pertaining to their level of performance, conduct and relationships. Therefore, it is our intent to insure that actions that interfere with company operations or that negatively affect others in their jobs are not continued. We support honest, frank and fair communications with employees in an attempt to resolve such matters. However, depending on the seriousness or the circumstances surrounding any issue, we may have to implement disciplinary measures, which could include termination.

DEFINITIONS

Verbal Warning - A documented discussion between a supervisor and employee intended to address a performance or behavior issue that if not corrected could lead to further disciplinary action. The date and subject involved should be recorded and filed by the supervisor. It is recommended that the supervisor use the Verbal Discussion Planner included in this policy.

Performance Improvement Plan (PIP) – A formal and final written plan of action which gives notice to the employee that he/she will be terminated if the problem continues. The supervisor completes a Performance Improvement Plan and has it reviewed by the department manager and Human Resources before it is given to the employee. The employee reads and signs the document. If there is a disagreement, the employee can note it on the Plan and may choose to address the issue(s) using the Open Door Policy. A PIP is normally in effect for 6 months. As outlined in this policy, some performance or conduct issues are serious enough to warrant a PIP or termination of employment even if a verbal warning was not previously issued. If a performance problem recurs in a rolling 12-month period after the expiration of a PIP, the employee may automatically be terminated.

Termination - If satisfactory improvement cannot be achieved and sustained or a violation is serious enough (see examples cited in this policy) to warrant immediate separation from the company, the supervisor, department manager, and Human Resources representative will meet, agree and sign the necessary paperwork. The notification will be given to the employee by the supervisor. The employee may be sent home first and directed to return to the Human Resources Department at a later date. The employee will have a chance to respond in writing to the termination notification.

POLICY

1. Unsatisfactory performance and the violation of work/conduct rules may result in the following form of action:

   Verbal Warning → PIP → Termination

   These violations include, but are not limited to, the following:

   - Production or quality of work falling below the minimum acceptable standards as defined by management.
   - Insubordination (refusal to follow a supervisor's request or instruction) or poor teamwork.

- Misuse or disregard of safety devices or equipment, refusal to conform to safety rules or instructions, or any behavior which may endanger someone even if it does not result in injury.
- Failure to call a supervisor to report an absence no later than 30 minutes prior to starting a shift..
- Abusive/offensive remarks to other employees while on company property. This includes, but is not limited to, remarks about one's race, sex, religion or national origin and harassment through unwanted comments or jokes and displays of offensive objects, pictures, cartoons or gestures.
- Dangerous practical joking which may result in personal injury or property damage.

2. Certain actions cannot be tolerated because of their adverse impact on other employees or the company or because they are contrary to the manner in which we run our business (our Guiding Values). These violations may result in the following form of action:

PIP AND/OR Termination

These violations include, but are not limited to, the following:

- Drinking, possessing, or consuming liquor or illegal drugs on company property. Reporting for work under the influence of alcohol or drugs (see the Substance Abuse Policy).
- Falsifying records, including any false statements on the employee application, time cards, preventative maintenance or calibration records, or other company documents.
- Removing property that belongs to another employee or to Microchip without proper authorization.
- Criminal conduct.
- Assaulting, fighting, threatening, intimidating or coercing other employees.
- Willful or gross negligence causing the loss or destruction of property that belongs to another employee or to Microchip.
- Negligently operating equipment, tools or other devices used to perform a job; committing acts that may endanger life or limb of any employee.
- Refusal to cooperate with a security investigation.
- Divulging Microchip confidential or personnel proprietary information to unauthorized company employees or to people outside the company.
- Sexual harassment (see the Sexual Harassment Policy).
- Possessing, threatening or endangering other employees with weapons

3. Examples of violations that may result in disciplinary actions are merely guidelines. Not all actions that require an Employee Performance Improvement Plan are included, and in individual circumstances may suggest a change in the recommended action steps. However, any decisions that deviate from this policy must be discussed and approved by Human Resources before they are carried out.

Cross Reference	HR Policy No.
Transfers	HR-140
Attendance	HR-210
Performance Appraisals	HR-400
One-on-One	HR-420
Attendance Notice	HR-440
Open Door	HR-500
Confidentiality	HR-600
Sexual Harassment	HR-610

One on Ones

Policy No.: HR-420

Issue Date: 09/30/91

Revised: 02/15/94

INTENT

We support continuous improvement by providing regularly scheduled private meetings between employees and their supervisors to discuss both personal and work-related issues and activities, and to review progress according to the annual performance appraisal.

POLICY

1. You will have a One-on-One meeting with your supervisor at least once per quarter. If appropriate, your supervisor may wish to call the meeting more frequently. Topics for the meeting include personal issues, work issues, project updates and improvements.
2. Before the scheduled performance review, you should complete the Employee One-on-One form. Make 2 copies so you can give one to your supervisor to help direct the meeting.
3. All supervisors will conduct One-on-Ones in a fair and objective manner in accordance with our Guiding Values.

Cross Reference	HR Policy No.
Performance Appraisals	HR-400

Performance Appraisals

Policy No.: HR-400

Issue Date: 09-30-91

Revised: 08-06-98

INTENT

We support the continuous improvement of all employees by providing an appraisal system based on helping you develop your full potential. The system is designed to promote open communications between you and your supervisor and provide constructive and honest self-criticism and feedback so you can monitor your own progress.

POLICY

1. You will receive a performance appraisal from your supervisor once a year at a focal point determined by the company (typically July of each year). Associated merit increases for new hires will be pro-rated based on actual their actual start date during the year.
2. The appraisal is a vehicle for your supervisor to discuss your general performance in areas such as the quality and quantity of work, improvements to your job, teamwork, and internal and external customer satisfaction. The appraisal will cover your strengths as well as ways in which you may be able to improve. It is also an opportunity for you to discuss your job concerns and career development goals.
3. Before the scheduled performance review, you will be given the opportunity to complete a Self Assessment form. You should complete the form and give it to your supervisor before the meeting so s/he can combine your perceptions with the other observations and data used to compile the Performance Appraisal form. During the review, your supervisor will show you the completed Performance Appraisal form and explain the conclusions. You are invited to write your comments on the form before it is submitted to Human Resources.
4. At the end of the review, both you and your supervisor should sign the form. You have the right to refuse to sign a review you don't agree with. If this happens, Human Resources will intervene to investigate your situation in an effort to resolve any problems in a timely manner.
5. The original completed appraisal form will be forwarded to Human Resources. Your supervisor will make a copy for his/her file and a copy will be given to you.
6. The continuous development strategies created in the performance review will be supported throughout the year during your One-on-One meetings with your supervisor.
7. All supervisors will conduct performance appraisals in a fair and objective manner in accordance with our Guiding Values and the EEO policy.

Cross Reference	HR Policy No.
Promotions	HR-150
Employee Performance Improvement Plan	HR-410
One-on-Ones	HR-420

INTENT

We believe that every employee has responsibilities to the company and to fellow employees pertaining to their attendance. Good attendance and punctuality are essential to achieving our Guiding Values. Therefore, it is our intent to handle attendance problems by following this policy's disciplinary measures, which could include termination.

DEFINITIONS

Attendance Notice I (AN I) - A formal written plan of action for correcting an attendance problem. The supervisor completes an Attendance Notice (a copy is included in this policy) and has it reviewed by the department manager and Human Resources before it is given to the employee. The employee reads and signs the document. If there is a disagreement, the employee can note it on the Notice and may choose to address the issue(s) using the Open Door Policy. The AN I normally is in effect for 90 days. If a problem recurs in a rolling 12-month period after the expiration of an AN I, the employee may be placed directly on an AN II.

Attendance Notice II (AN II) – A formal and final written plan of action which gives notice to the employee that he/she will be terminated if the problem continues. The procedure is the same as for the AN I. An AN II is normally in effect for 6 months. If a pattern of absenteeism or tardiness recurs in a rolling 12-month period after the expiration of an AN II, the employee may automatically be terminated.

Termination - If satisfactory improvement cannot be achieved and sustained and warrants immediate separation from the company, the supervisor, department manager, and Human Resources representative will meet, agree and sign the necessary paperwork. The notification will be given to the employee by the supervisor. The employee may be sent home first and directed to return to the Human Resources Department at a later date. The employee will have a chance to respond in writing to the termination notification.

A multiple occurrence is a series of absences that are counted, for the purposes of the Attendance Policy, as one "shift equivalent" occurrence of absence. (Not applicable to Personal Absence Pay) In order to qualify as a multiple occurrence all of the following criteria must be met.

1. The employee must not have had a previous multiple occurrence in a rolling six-month period immediately preceding the series of absences.
2. The employee must not be on an Attendance Notice.
3. The absences must be for medical reasons only for either the employee, their spouse, their child(ren), or their parents.
4. The absences must be within the same workweek
5. The absences must either be consecutive or not separated by more than two working days.

POLICY

1. Most attendance problems (excessive absenteeism and tardiness as outlined in the Attendance Guidelines) may result in the following form of action:

   AN I → AN II → Termination

   - AN I Status – Typically issued if your absenteeism exceeds 40 hours (for compressed workweek employees it's 46.4 hours or 48 hours based on assigned shift) in a rolling six month period (pro-rated for Part-time); or if you are tardy (as defined in the Attendance Policy) more than twice in a rolling period of 20 working days. (1 tardy for Part-time).
   - AN I to AN II Status – An AN I may be escalated to an AN II if you incur additional absences exceeding 8 hours (or equivalent according to shift assignment) or more than 1 additional tardy during the 90-day period covered by an AN I. The "multiple occurrence" provision is not available to employees who are on an Attendance Notice or a Performance Improvement Plan. If while on an AN I for attendance your performance is determined to be unsatisfactory or you violate work/conduct rules you may be placed on a Performance Improvement Plan (PIP).
   - AN II to Termination Status – Termination of employment may occur if you are absent for more than 8 hours (or equivalent according to shift assignment) during the period covered by the AN II. More than 9 tardies (4 tardies for Part-time) in a rolling 12 month period may result in disciplinary action up to and including termination.

Cross Reference	HR Policy No.
Transfers	HR-140
Attendance	HR-210
Performance Appraisals	HR-400
Employee Performance Improvement Plan	HR-410
One-on-One	HR-420
Open Door	HR-500
Confidentiality	HR-600
Sexual Harassment	HR-610

EXHIBIT D

Open Door Policy

Open Door

Policy No.: HR-500
Issue Date: 09/30/91

Revised: 02/15/94

INTENT

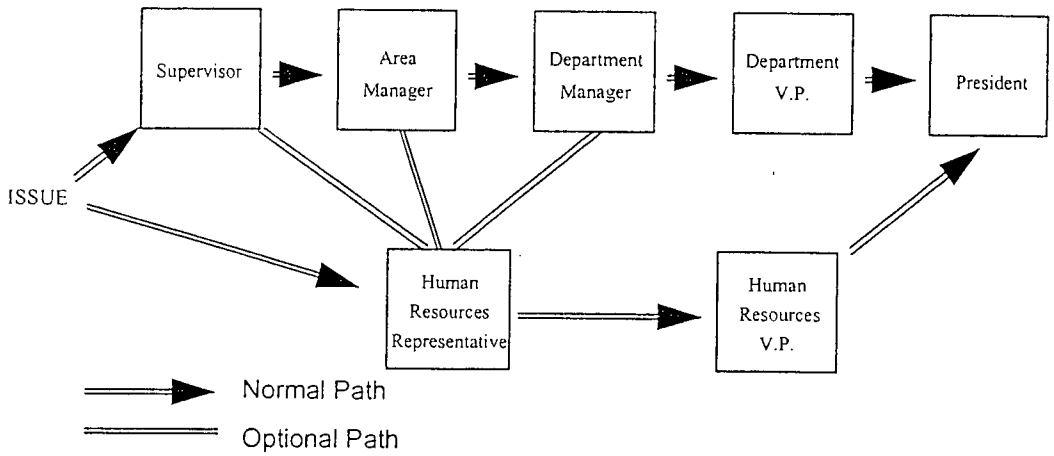
We believe "Communication is Vital" and we encourage open, honest, constructive, and ongoing communication to resolve issues. Therefore, we encourage all Microchip employees to raise work-related issues at the level they think is the most appropriate for quick and fair resolution.

DEFINITION

Work-related issues include any questions or problems you may have with your job, wages, performance reviews, disciplinary actions, job conditions, supervision, management, harassment, or with the application of any Microchip policy or system.

POLICY

1. You should try to resolve your problems and concerns through discussions with your supervisor. However, if you feel you must talk to someone else about the problem, you can bring your issue to any level in the organization at anytime. The recommended course of action is as follows:



2. Once you discuss an issue with a Supervisor or any level of management, that person will decide if an investigation is needed and what action should be taken. They will communicate the action/plan/resolution with you as quickly as possible. If you are not satisfied, you can try another Open Door. The President's decision is final.

Cross Reference	HR Policy No.
Performance Appraisals	HR-400
Employee Performance Improvement Plan	HR-410

Promotions

Policy No.: HR-150

Issue Date: 09-30-91

Revised: 02-15-94

INTENT

We believe that "Employees are our Greatest Strength," and provide opportunities for qualified employees to grow into positions of greater responsibility and recognition.

POLICY

1. When a position becomes vacant or is created due to business requirements, all opportunities to promote from within will be explored consistent with the goal of filling positions with the most qualified individuals available.
2. Most vacant or new full-time positions will be posted consistent with the Internal Application policy. As stated in the policy, some positions may not be posted due to special job-related circumstances. If you are interested in applying for a posted position, follow the guidelines as outlined in the Internal Application policy.
3. Applying for a similar position in another department is considered a transfer, not a promotion. You must first discuss the transfer with your supervisor. Requests for transfer will be considered on the basis of your qualifications for the other position and in the best interest of the company. Except in unusual circumstances or for business reasons, you must be in your present position for at least 12 months.
4. In recognition of your performance and contribution, you may receive an increase in your responsibilities and job grade within the same job family. This is recognized as a time in grade promotion and doesn't require a job posting.
5. If you are promoted, you maintain no rights to your previous position.
6. All promotion decisions are made in a fair and objective manner in accordance with our Guiding Values.

Cross Reference	HR Policy No.
EEO	HR-100
Internal Application	HR-120
Transfers	HR-140
Performance Appraisals	HR-400

EXHIBIT E

Benefits and Cost Analysis

Health & Retirement Benefits

Policy No.: HR-330
Issue Date: 09-30-91
Revised: 03-05-02

INTENT

Microchip offers a variety of benefits and options designed so that you can select a plan to best meet your specific needs. As needs change, you can adjust your benefits each year to meet your new situation.

DEFINITION

A regular full-time employee is eligible to participate in the Flexible Benefit Program on the first day of work.

A **regular part-time employee** is eligible for "employee only" participation in the Flexible Benefit Program on the first day of work. (see your benefits representative for detailed eligibility)

The Flexible Benefit Program includes the following coverages:

Medical	Dental
Employee Life	Short Term Disability (non exempt employees)
Alternative Health Care (AZ only)	Long Term Disability Income
Health Care Reimbursement Account	Dependent Care Reimbursement Account
Accidental Death & Dismemberment (full time employees only)	Vision

POLICY

It is an employee's responsibility to be aware of and adhere to the terms and conditions of all benefit plans and programs offered by Microchip.

Microchip provides the following Summary Plan Descriptions and publications that employees should refer to in using the coverages provided through the **Flexible Benefit Program**. In addition, you may talk to the Benefits Representative in Human Resources.

Your Flexible Benefits Program Guide	Your Group Medical Plan
CCN Provider Directory	Your Group Life Insurance Plan
Your Group Disability Insurance Plan	Your Short Term Disability Plan (non-exempt employees)
Your Group Dental Plan	Your Personal Accident Insurance Plan

Microchip also provides the following benefits. Eligibility for these benefits may be based on the amount of time with the company and/or your status (i.e. full time, part-time, etc.). Refer to your summary plan descriptions, policies or see your Benefits Representative for specific eligibility.

- Tuition Reimbursement
- Employee Stock Purchase Plan (ESPP)
- Direct Deposit Banking
- Travel Accident Insurance (business travel)
- U.S. Savings Bond Purchase
- Patent & Publications Awards
- Group Universal Life (GUL)
- ARAG Group Legal Plan
- 401(k) Retirement Savings Plan
- Employee Cash Bonus Plan (ECBP)
- Credit Union Membership
- Costco & SAMs Club Membership
- Employee Referral Program
- Health Club Reimbursement
- Employee Assistance Program (EAP)

In addition to the above benefits, Microchip appreciates the contribution that employees make during their time with the company. Though it is the employee's primary responsibility to plan for their financial futures through such programs as 401(k) and Stock Purchase Plans, it is the company's intent to acknowledge this contribution when an employee reaches retirement age. To be considered as a "retiring" employee you must have reached 55 years of age and completed at least 5 years of service with Microchip. If eligible, the company will provide $250 in appreciation of the employee's service.

All plans are subject to change. The summary plan descriptions in Human Resources are the controlling documents for all plans and programs

INTENT

1. Microchip Technology recognizes that employees occasionally need to take time away from work to care for important family, medical, and personal needs. This policy is designed to meet those needs in a manner that is beneficial to employees, their families, and the Company. It also represents the intent of Microchip Technology to comply with the requirements and purposes of the Family and Medical Leave Act of 1993 (FMLA) which provides eligible employees 12 weeks of unpaid leave in a 12-month period measured backward from the date an employee uses any FMLA leave for qualifying family and medical reasons.

POLICY - FAMILY AND MEDICAL LEAVE OF ABSENCES

2. Reasons for Leave

   Eligible employees may be entitled to take a leave of absence for the following reasons:

   a) New Child Leave - The birth of a child, or the placement in your home of a child for adoption or for foster care and in order to care for such child in the first 12 months after childbirth or placement. (Microchip can require that leave be taken all at one time.)

   b) Family Medical Leave - The need to care for your spouse, child or parent who has a serious health condition. (Intermittent or reduced leave is permitted if certified medically necessary.)

   c) Employee Medical Leave - A serious health condition that prohibits an employee from performing the essential functions of their employment position. (Intermittent or reduced leave is permitted if certified medically necessary.)

3. Eligibility

   To be eligible for a FMLA leave under this policy, you must have:

   a) been employed by the company for at least twelve (12) months for an EMPLOYEE MEDICAL LEAVE (non-FMLA Employee Medical Leaves are allowed if you have been employed by the company for at least six (6) months), and twelve (12) months for a NEW CHILD LEAVE and FAMILY MEDICAL LEAVE; and

   b) worked at least 1,250 hours during the 12-month period preceding the start date of the leave.

   c) work at a location where the employer within a 75-mile radius employs at least 50 employees.

4. Duration of Leave

   a) If you meet the FMLA eligibility requirements, you may take up to 12 weeks of leave during a 12-month period for qualifying events. A request for a FMLA leave of absence will not be approved if you have already used 12 weeks of leave under the policy during the 12 months preceding the date you requested to begin your leave.

   b) The department manager and Human Resources may approve additional leave for EMPLOYEE MEDICAL LEAVES (generally, limited to 14 additional weeks). However, provisions of the FMLA will not be applicable to medical leaves beyond 12 weeks. Generally, an employee is subject to termination after 26 weeks of Employee Medical Leave in any 12-month period, unless further leave is appropriate under individual circumstances and required by law.

Microchip may elect to handle individual circumstances on a case-by-case basis at the sole discretion of the company.

5. Leave Limitation for Spouses

   a) If both spouses are employed by Microchip, both spouses' combined FMLA leave during the 12-month period is limited to 12 weeks total for birth or placement for adoption or foster care.

   b) This limitation does not apply to either spouse to care for the other who is seriously ill and unable to work, to care for a child with a serious health condition, or to care for a parent with a serious health condition, or for his or her own serious illness.

6. Requesting Leave of Absence

   a) Foreseeable Events - You are requested to complete and submit the Request for Leave Application form to Human Resources at least 30 days in advance of foreseeable leaves, such as leaves for planned medical treatment or for your child's birth.

   b) Unforeseeable Events - For unforeseen events, such as accidental injury causing a serious health condition, premature birth, or a sudden change in your health, you are requested to give notification of your need for leave as soon as it is possible and practical to do so. You can generally notify Human Resources of an unforeseen leave within *one day* of when you find out you will need the leave. For unforeseeable leaves, the Human Resources Department will mail the Request for Leave Application form to you. (Note: The FMLA requires that the employer designate leave as "FMLA" within two (2) business days of employee's return to work. Failure to notify Human Resources of your leave within these two days will result in leave being designated as non-FMLA.)

   c) Failure to Comply - Failure to follow these practices may result in delay or denial of your leave. In the case of foreseeable leaves, the Company may delay your leave for up to 30 days from the date you notify the Company of your intention to take a leave of absence.

7. Medical Certification

   If you are requesting an EMPLOYEE MEDICAL LEAVE or a FAMILY MEDICAL LEAVE, you must provide a certification from a qualified health care provider to verify the serious health condition causing the need for a leave of absence. The certification forms are available in Human Resources and must be submitted no later than 15 days following your request for leave.

   a) Second and Third Opinions - If the Company has reason to doubt the medical validity of the certificate, it may require, at it's expense, that you obtain the opinion of a second health care provider approved by the Company. If the opinion of the employee's and the company's health care providers differ; a third mutually agreeable health care provider shall be selected, at the Company's expense. That provider's opinion shall be binding.

   b) Additional Certifications - The Company reserves the right to request periodical or additional certification during the term of a leave of absence.

   c) Employee Medical Leave - You may qualify for an Employee Medical Leave only if the Medical Certification states that you are not able to perform the essential functions of your employment position.

   d) Family Medical Leave - You may qualify for a Family Medical Leave only if the Medical Certification states that you are needed to care for your covered family member and an estimated time needed is specified.

   e) Failure to Comply - If you fail to follow these guidelines or if you falsify any information related to the Medical Certification, your leave may be delayed or denied and discipline up to and including termination may result.

8. Use of Vacation, Sick & Personal Pay

   a) Leaves of absence under the FMLA are generally without pay. However, you will be *required* to use your available unused accrued-to-date sick and personal pay. You will have the *option* to use your remaining annual allotment of sick/personal and/or vacation pay. Pay for vacation time (if elected) and sick and personal time must be used at the start of the leave and is limited to the first 14 consecutive days of a non-exempt Employee Medical Leave (waiting period for Short Term Disability). Note: Vacation and sick pay are accrued each month as long as you work at least 15 days during the month. If you are out on a leave of absence and don't work 15 days during that month and any additional months you are on leave, you lose the accrual for those months.

   b) Regardless of whether you receive vacation or sick and personal pay during the FMLA leave, the full amount of leave will be counted toward the 12-week maximum available in a 12-month period.

   c) Under Employee Medical Leaves of absence that are non-FMLA you will be *required* to use your available unused accrued-to-date sick/personal and vacation pay during your waiting period for Short Term Disability (non-exempts only). The use of your remaining annual allotment of sick and/or vacation is not allowed for this type of leave.

9. Other Compensation During Employee Medical Leave

   Eligible non-exempt employees are covered with short-term disability compensation for leaves for *their own medical disability* subject to the terms of the STD coverage. Eligible exempt employees are covered with salary continuance for *their own medical disability* in accordance with Company policy. Salary continuation will be coordinated with any state disability received by the employee. Salary continuation may be authorized up to a lifetime maximum of 26 weeks.

10. Continuance of Insurance During Leave

    During any FMLA or non-FMLA medical leave under this policy, you will continue to be covered by Microchip's Flexible Benefits group insurance plan as long as you satisfy the requirements of this policy and the insurance plan.

    a) <u>You Pay Your Portion</u> - An employee who is granted an approved leave of absence under this policy is responsible to make arrangements to pay their share of the costs during the period of unpaid absence (i.e. premium payments during leave or double deductions upon return to work).

    b) <u>Not Returning to Employment</u> - Coverage may stop if the Company learns you do not intend to return to your employment or if you do not return to your employment. In these cases, the Company may request reimbursement of any premiums it has paid on your behalf during the leave unless the reason you did not return was because of a continued serious health condition or for other reasons beyond your control as identified in the FMLA.

    c) <u>Failure to Comply</u> - If you fail to comply with these requirements, your coverage may lapse. You will be offered COBRA continuation coverage as provided by law.

11. Return to Work After Employee Medical Leave

    Prior to returning to work, you must obtain a release to work from your health care provider that specifies you are able to resume work and list any restrictions that may apply. You must contact Human Resources to submit your medical clearance and to determine when to report for work. Failure to follow these procedures may result in delay when you are ready to return to work.

12. Restoration of Same or Equivalent Position

a) Return from Leave - When you return from an FMLA leave under this policy, you will be restored to the same or equivalent position. You will not lose any benefits accrued before your leave, although you will not accrue any additional vacation, sick or other benefits during the period of leave. When you return from a non-FMLA leave under this policy, you may not be restored to your same position if it is not available. You may be placed in an equivalent position, if available. Note: When you return to work, payroll will adjust your paycheck for any over-utilization of sick and/or vacation pay used during your leave. The adjustment will first affect any accrued-to-date sick or vacation pay available, followed by regular earnings. If necessary, adjustments will overlap into additional payrolls.

b) "Highly Compensated" Exception - The Company is not required to guarantee job restoration to certain highly compensated employees. You will be notified at the time you request your leave if you fall within the FMLA definition of a highly compensated employee.

13. Definitions

a) Covered Relations

1. Child - includes biological, adopted and foster child, as well as stepchild, legal ward or a "child" of a person acting in the capacity of a parent provided the child is under 18 years of age or over 18 years of age but unable to care for themselves because of a physical or mental disability.

2. Spouse - a husband or wife as defined or recognized under state laws for purposes of marriage, including common law marriage in states where it is recognized.

3. Parent - the biological parent of an employee as well as a person that acted in the capacity of a parent toward the employee.

b) Serious Health Condition - Illness, injury, impairment, or physical or mental conditions that involves:

1. Any period of incapacity or treatment in connection with or consequent to in-patient care (i.e. an overnight stay) in a hospital, hospice, or residential medical care facility.

2. Any period of incapacity requiring absence from work, school or other regular daily activities, of more than three calendar days, that also involves continuing treatment by (or under the supervision of) a health care provider.

3. Continuing treatment by (or under the supervision of) a health care provider for a chronic or long-term health care condition that is incurable or so serious that, if not treated, would likely result in a period of incapacity of more than three calendar days; or for prenatal care

c) Qualified Health Care Provider

1. A doctor of medicine or osteopathy who is authorized to practice medicine or surgery.

2. Includes podiatrists, dentists, clinical psychologists, optometrists and chiropractors (limited to treatment consisting of manual manipulation of the spine to correct a subluxation as demonstrated by x-ray to exist).

3. Nurse practitioners and nurse-midwives who are authorized to practice under state law and who are performing within the scope of their practice.

4. Christian Science practitioners listed with the First Church of Christ, Scientist in Boston, Massachusetts.

d) Intermittent Leave

Is taken in separate blocks of time due to a single illness or injury, rather than for one continuous period of time, and may include leave of periods from an hour or more to several weeks.

e) Reduced Leave Schedule

A leave that is a change in the employee's schedule for a period of time, normally from full-time to part-time by reducing the number of working hours per work week or hours per work day.

14. Miscellaneous

a) Time Off for Industrial Injuries - If you are absent from work due to a job-related incident, you may also be covered by the FMLA policy in which case the full amount of time off will be counted toward your FMLA entitlement. (Reference Industrial Injury Pay Policy, HR-260.

b) Alternate Position - The Company may require you to work in a different position or on a different schedule during the period of an intermittent or reduced schedule leave that will better accommodate the necessities of your schedule. The alternative position will have the same pay and benefits as the position you held prior to commencement of the leave.

c) Exempt Classification - Docking of Pay - Exempt employees on a reduced or intermittent leave schedule can be "Docked" for less than a full day without loss of their exempt classification, providing that the reason for leave falls under FMLA.

d) Requirement to Minimize Disruption for Planned Medical Treatments - For all leaves involving planned medical treatments, including intermittent and reduced schedule leaves; you are obligated to plan for treatments so that they will cause the least disruption to the Company's operations. Your earliest possible notice to the Company and your flexibility in scheduling will assist to make certain that minimal disruption occurs.

e) Multiple Qualifying Events - An employee with more than one qualifying event (e.g. adoption and care of a seriously ill parent) within a 12-month period is not entitled to a separate 12-week period for each event.

f) Seeking Other Employment - During a leave of absence a person may not engage in gainful employment. Accepting other employment may result in termination of employment and/or discontinuance of disability benefits (i.e. short-term disability or salary continuance benefits).

g) Applying for Posted Positions - You cannot apply for a posted position until you return from your leave of absence.

POLICY - Other Unpaid Leave of Absences (The provisions of the FMLA do not apply to the following types of leaves.)

1. Personal Leave - Personal leave may be granted in the sole discretion of the Company for compelling personal reasons, such as non-medical emergencies or hardship. Personal leave may not be used to engage in any moneymaking activity or to start a business. You must have at least 1 year of service before you can apply, and your leave will not be approved if you are on a Performance

Improvement Plan. Personal leaves may be granted for up to 12 weeks. While on leave, you do not qualify for employee benefits.

2. Military Leave - Military leave is for active duty or training in the United States Armed Forces, including annual military duty for reservists. This type of leave is treated as if the employee remained on the job in terms of seniority for vacation and other accrued benefits. Also, the employee is guaranteed a job at a grade and rate established at the time of re-employment. Microchip will adhere to the terms of the Uniformed Services Employment and Reemployment Rights Act (USERRA). Employees on their annual military duty for reservists leave, will receive 80 hours of base compensation during the leave. Payroll will adjust against their wages received during the leave on their next available paycheck. A Leave of Absence Request Form, a copy of the Orders, and a copy of wages received is required for this type of leave.

3. Educational Leave - Educational leave may be granted for employees who need to attend school full-time to complete a course of study that directly supports a current position or a future assignment consistent with identified company career goals or needs. You need 1 year of continuous service before your leave will be approved, and your leave will not be approved if you are on a Performance Improvement Plan. Leaves may be granted for one semester. Extensions may be granted for additional semesters, but the maximum educational leave is 1 year. While on leave, you do not qualify for a tuition refund or employee benefits (see Tuition Refund Policy).

4. Non-FMLA Medical Leaves - If you have been employed less than one year you are not eligible for a FMLA Employee Medical Leave, however, if you have been employed for at least six months you may be eligible for a Non-FMLA Employee Medical Leave. Moreover, even if you have not been employed six months you may be eligible for leave depending upon your individual circumstances and mandates of Federal and State law. See your Human Resources representative.

   If you are within your first six (6) months of employment and are not eligible for leave under any Federal and State law and are not currently on a PIP and if time off is needed for your own medical condition; you may be provided with up to two (2) weeks to return to work before your position will be terminated. The two (2) weeks of time off is at the discretion of management and if approved the time off will be subject to the terms of the Attendance Policy (HR-210) which may include termination of employment. You will be paid your unused accrued-to-date sick/personal and vacation pay only.

Cross Reference	HR Policy No.
EEO	HR-100
Transfers	HR-140
Attendance	HR-210
Personal Absence Pay	HR-250
Industrial Injury Pay	HR-260
Vacations	HR-300
Bridging of Service	HR-340

Microchip may elect to handle individual circumstances on a case-by-case basis at the sole discretion of the company.

INTENT

Microchip provides for employee health and welfare by giving vacation time off for rest and relaxation. We also recognize employees' long-term contributions by increasing vacation time as years of service accumulate.

DEFINITION

Full time employees work a minimum of 32 hours per week.

POLICY

1. Paid vacation time is earned through an employee's years of service. Vacation accrues as follows:

Company Service	Hours per Month	Annual Hours
0 years but, less than 2 years	6.67	80*
2 years but, less than 3 years	7.33	88
3 years but, less than 4 years	8.00	96
4 years but, less than 5 years	8.67	104
5 years but, less than 6 years	9.33	112
6 years and over	10.00	120
9 years and over	10.67	128
10 years and over	11.33	136
11 years and over	12.00	144
12 years and over	12.67	152
13 years and over	13.33	160

- Vacation years change on the anniversary of the date of hire by Microchip. Part-time employees and full time employees working less than a 40-hour week earn a prorated amount based on the number of hours the employee regularly works.
- Vacation does not accrue when an employee is no longer active on the payroll system due to an approved leave of absence. (Refer to Family and Medical Leave of Absence & Other Leave of Absence policy, HR-290).
- Vacation accrues monthly from January 1 through December 31. Employees are allowed to "borrow" vacation that will accrue for the current calendar year.
- Vacation time can not be carried over for use in the next year so all vacation must be used by December 31st or forfeited. An exception would be made in the case of an important business requirement of the company that would prohibit an employee taking a planned vacation, but any vacation carried over must be used in the first quarter of the next year. (A different rule applies for California residents, who should refer to #7 for carry over specifics.)
- *Employees on a compressed work week schedule will accrue additional hours of vacation pay during each of the first two years of employment to allow the employee to take two consecutive weeks of vacation without loss of pay (one 3 day week and

one 4 day week). After that, vacation accrual will be as noted above (88 hours after two years, etc.

2. Vacation pay is paid at an employee's current base rate plus applicable differentials.

   - There is no payment in lieu of vacation time except upon termination. At that time, only unused accrued vacation time is paid out.

   - If an employee leaves the company and has used more vacation time than accrued, the final paycheck will be adjusted to deduct this time. If more is owed than the total of the final paycheck (more vacation time used than hours worked in the last pay period), the employee will be required to pay the amount owed to Microchip at the time of separation.

3. New hires, for the first calendar year of employment accrue and can borrow vacation based on the following schedule:

DATE OF HIRE	ANNUAL HOURS
Jan. 01 - Jan. 15	80.0
Jan. 16 - Feb. 15	73.3
Feb. 16 - Mar. 15	66.7
Mar. 16 - Apr. 15	60.0
Apr. 16 - May 15	53.3
May 16 - June 15	46.6
June 16 - July 15	40.0
July 16 - Aug. 15	33.3
Aug. 16 - Sept. 15	26.7
Sept. 16 - Oct. 15	20.0
Oct. 16 - Nov. 15	13.3
Nov. 16 - Dec. 15	6.6

4. In order to satisfy employee preferences as well as meet the staffing needs of departments, vacation plans should be discussed and approved by the employee's supervisor at least 24 hours before the beginning of your shift. It is recommended that an employee try to give as much notice to their supervisor as possible when scheduling vacation.

   Although an attempt is made to grant vacation requests, there may be an occasion where a request is denied based on business requirements.

   The practice at Microchip is that vacation time is taken in minimum of half-shift intervals. (Exception for compressed workweek employees that elect to use vacation pay in conjunction with a holiday to receive a whole days pay.) If at yearend, an employee has final vacation hours remaining that do not equal a half shift, they may take the balance of hours to deplete all vacation time.

   If more than one employee in an area requests the same vacation time, priority will be given in chronological order of the requests.

   The company may in certain instances schedule an employee to use vacation at its discretion (i.e. shutdown).

5. If you were hired prior to January 1, 1991 and you have unused vacation time accrued between June 1, 1990 through December 31, 1990 you will be paid for these days at the time of your separation.
6. All employees who were actively employed at TelCom Semiconductor, Inc. on the date of the acquisition (1/16/01) were grandfathered for vacation accrual under their existing policy.
7. For employees that reside in the State of California, Microchip will allow employees in CA to carryover and accrue up to a maximum of thirty (30) days (240 hours). Once an employee reaches this level no new vacation will be earned or accrued until the accrued unused balance falls below 240 hours.
8. It is the employee's responsibility to ensure that their timecard is accurate when submitted to payroll. Any discrepancies on timecards with respect to vacation pay will be corrected on the next regularly scheduled payroll processing.
9. It is up to an employee and their supervisor to track used and accrued vacation time.
10. This policy will be enforced with respect to all Federal and State laws.

Cross Reference	HR Policy No.
FMLA & Other L0As	HR-290
Bridging of Service	HR-340

Holidays

Policy No.: HR-310

Issue Date: 09-30-91

Revised: 03-05-02

INTENT

Time off is provided to employees in conjunction with company observed holidays.

DEFINITION

Employment is considered full time if the employee works 32 or more hours a week. Employment is considered part time if an employee works less than 32 hours a week.

POLICY

1. Paid time off is provided for all **regular full-time employees (excluding interns)** at their current rate of pay plus applicable differential for the following 10 holidays:

   Standard Shifts
   - New Years Day
   - Good Friday
   - Memorial Day
   - Independence Day
   - Labor Day
   - Thanksgiving Day
   - Day after Thanksgiving
   - Christmas Eve
   - Christmas Day
   - Floating Holiday (assigned by the company)

   Compressed Workweek (CWW)
   - New Year's Eve
   - New Year's Day
   - Easter
   - Memorial Day
   - Independence Day
   - Labor Day
   - Thanksgiving Day
   - Day after Thanksgiving
   - Christmas Eve
   - Christmas Day

2. The date of observance of the holidays will be determined annually and published on a fiscal workweek calendar available to all employees at the beginning of the year.

3. If the date set to observe the holiday falls on a day an employee was not scheduled to work, the employee will be paid 8 hours holiday pay. If an employee was scheduled but does not work on a day on which the holiday falls due to a plant shutdown, holiday pay will be equal to the number of hours regularly scheduled to work. If an unpaid shutdown is imposed employees will only receive 8 hours of holiday pay.

4. If an employee is required to work on a scheduled holiday, double time (holiday worked pay) will be paid for each hour worked (full and part time employees). In addition, full time employees will receive 8 hours of holiday pay.

5. In order to qualify for holiday pay, the standard shift immediately before and after the holiday must be worked unless the employee's supervisor has approved a personal absence or vacation day.

6. In order to qualify for holiday pay for the CWW shifts, the scheduled shift day(s) immediately bordering the holiday must be worked unless the employee's supervisor has approved a personal absence or vacation day.

7. If an employee is on an approved vacation day when the holiday occurs, 8 hours holiday pay will be paid. Employees on a compressed workweek (CWW) schedule will receive the 8 hours of holiday pay and have the ***option*** to only use enough hours of vacation pay to cover the additional hours needed to equal their regular shift OR may use vacation pay equivalent to their regular shift and still receive the additional 8 hours of holiday pay. The decision on which option is elected must be clearly identified by the employee on their timecard.

8. For fulltime employees that work less than a 40-hour week, holiday pay will be equivalent to their regularly scheduled hours. The holiday must also fall on their regularly scheduled workday. Holidays that fall on non-scheduled workdays will not be paid. Example:

   Scheduled Monday-Friday 6 hours per day = 6 hours of holiday pay.

   Scheduled Tuesday-Friday 8 hours per day = 8 hours of holiday pay for holidays that fall on Tuesday-Friday only.

9. It is the employee's responsibility to complete their timecard accurately. Supervisors must note "approved" for any personal absence or vacation pay used in conjunction with a holiday for the employee to receive the 8 hours of holiday pay. Any discrepancies on timecards will be corrected on the next regularly scheduled payroll processing.

10. Holidays count as hours worked for the purpose of computing overtime pay.

Cross Reference	HR Policy No.
Overtime	HR-230
Personal Absence Pay	HR-250
Vacations	HR-300

PLAN YEAR 2002/2003 BIWEEKLY BENEFIT COSTS

Medical/Dental	Employee Only	Employee Plus Spouse	Employee Plus Child(ren)	Employee Plus Family
CCN Preferred PPO				
Employee Premium	$17.14	$51.43	$43.42	$70.87
Employer Premium	*$77.26*	*$177.84*	*$145.32*	*$244.44*
High ($150) PPO/Indemnity				
Employee Premium	$20.02	$55.16	$43.64	$75.72
Employer Premium	*$77.26*	*$177.84*	*$145.32*	*$244.44*
Medium ($500) PPO/Indemnity				
Employee Premium	$14.54	$40.86	$32.26	$55.62
Employer Premium	*$77.26*	*$177.84*	*$145.32*	*$244.44*
Basic ($1000) PPO/Indemnity				
Employee Premium	$4.67	$12.93	$12.88	$14.03
Employer Premium	*$77.26*	*$177.84*	*$145.32*	*$244.44*
MetLife Low Dental				
Employee Premium	$0.00	$4.32	$4.11	$12.29
Employer Premium	*$8.77*	*$14.49*	*$14.00*	*$18.69*
MetLife High Dental				
Employee Premium	$2.74	$6.91	$6.21	$18.60
Employer Premium	*$10.83*	*$22.15*	*$22.06*	*$29.60*
Alternative Health Care				
Employee Premium	$1.85	$2.19	$2.42	$3.12
ARAG Group Legal Plan				
Employee Premium	N/A	N/A	N/A	$8.28
EyeMed Vision Plan				
Employee Premium	$2.29	Employee + 1 $4.25	N/A	$6.66

PLAN YEAR 2002/2003 BIWEEKLY EMPLOYEE COST

Medical/Dental	Employee Only	Employee Plus Spouse	Employee Plus Children	Employee Plus Family
CCN Preferred PPO	$17.14	$51.43	$43.42	$70.87
High ($150) PPO/Indemnity	$20.02	$55.16	$43.64	$75.72
Medium ($500) PPO/Indemnity	$14.54	$40.86	$32.26	$55.62
Basic ($1000) PPO/Indemnity	$ 4.67	$12.93	$12.88	$14.03
Alternative Health Care	$ 1.85	$ 2.19	$ 2.42	$ 3.12
MetLife Low Dental	$ 0.00	$ 4.32	$ 4.11	$12.29
MetLife High Dental	$ 2.74	$ 6.91	$ 6.21	$18.60
ARAG Group Legal Plan				$ 8.28
		Employee + 1		
Eyemed Vision	$ 2.29	$ 4.25	N/A	$ 6.66

5/02

BIWEEKLY EMPLOYEE COST INCREASE ONLY FOR 2002/2003 PLAN YEAR

Medical/Dental	Employee Only	Employee Plus Spouse	Employee Plus Children	Employee Plus Family
Preferred CCN PPO	$0.66	$1.98	$1.67	$2.73
High ($150) PPO/Indemnity	$0.77	$2.12	$1.68	$2.91
Medium ($500) PPO/Indemnity	$0.56	$1.57	$1.24	$2.14
Basic ($1000) PPO/Indemnity	$0.18	$0.50	$0.50	$0.54
MetLife Low Dental	$0.00	$0.23	$0.21	$0.64
MetLife High Dental	$0.14	$0.36	$0.32	$0.97

5/02

EXHIBIT F

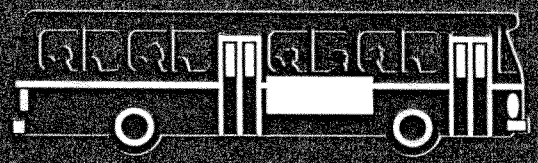
Trip Reduction Program

MICROCHIP

Trip Reduction Program

- Preferential parking for Car Pool or Van Pool Drivers
- Bicycle Racks

- Microchip pays half of the bus fare you use for commuting



- Guaranteed Ride Home
  - **If you or your carpool partner are ill or you must work overtime MCHP will pay for your ride home.**
- Questions?

Please contact Alan Abbott at ext 7444

EXHIBIT G

Tuition Reimbursement Policy

Tuition Reimbursement

INTENT

In recognizing that "Employees are our Greatest Strength," we encourage employees to improve their job skills and knowledge in an effort to enhance their capabilities and increase their opportunities for growth with the company.

DEFINITION

Continuing Education applies to both full and part-time regular employees:

Employees are eligible for reimbursement for all courses leading toward an **undergraduate degree** at an accredited post-secondary institution that relates to a current/future position within Microchip consistent with company identified career goals or company needs. We may require verification that you are enrolled in an **undergraduate degree** program before approving reimbursement for a specific class. This reimbursement is non-taxable (subject to IRS limitations).

In accordance with IRS regulations, reimbursement for **graduate courses** of any kind that lead to a business, law, medical, or other advanced degree must be treated as a taxable reimbursement to employees, as they can prepare an employee for another position. The reimbursement for **graduate courses** that either a) maintain or improve skills required in the employee's current position, or b) are a requirement for continued employment will not be taxed (subject to IRS limitations).

Both full-time and part-time employees are eligible for reimbursement for all courses related to a current position or a future assignment/promotion consistent with identified career goals or company needs.

POLICY

1. Your request for a refund will only be considered if you were a regular part-time or full-time employee and you were actively working for Microchip at the start and at the completion of the course(s) to be reimbursed.

2. If on an Attendance Notice II (ANII) or a Performance Improvement Plan (PIP) you can not be approved for reimbursement for any future classes until you've successfully completed the terms of your ANII &/or PIP. If you are currently attending an approved class at the time you are placed on an ANII or PIP, that class will still be eligible for reimbursement, subject to the terms of the policy.

3. After successfully completing a continuing education class, you will be reimbursed for all tuition, registration fees, lab fees, and books.

   - You must receive a passing grade of "C" or better or a Pass if no grade is issued. Failures or incomplete will not be reimbursed, except in the case where an incomplete is caused by the company.

   - Student activity fees, parking fees and other indirect expenses will not be reimbursed.

   - If you receive assistance from any other sources, such as from a scholarship or from the military, we will pay the difference between the amount you receive and the total cost. This information must be disclosed on the Tuition Reimbursement Form.

4. To receive your reimbursement, you must submit the "Tuition Reimbursement" form (form attached and available under ChipNews, HR Forms Bin), proof of satisfactory completion of the course, and all receipts to the Human Resources Department.
   - The "Tuition Reimbursement" form must be completed, signed and submitted to Human Resources BEFORE the first class session. Failure to remit the form for approval prior to commencing courses may result in a denial for reimbursement.
   - Once approved, a copy of the form will be returned to you. When you complete the class, submit the course completion documentation and receipts to Human Resources for reimbursement. Reimbursements are processed weekly.
5. We will reimburse you for taking up to 2 courses at any one time (full-time regular). Full-time employees attending Community College may be reimbursed for taking up to 3 Community College courses at any one time. We will reimburse you for taking up to 1 course at any one time (part-time regular).
6. Employees are responsible for any tax liability resulting from benefits paid under this policy.
7. * Full-time (FT) employees work 32 or more hours per week.
8. * Part-time (PT) employees work 20 - 31 hours per week.

TRAINING
THE HUMAN SIDE OF BUSINESS MARCH 2001

training TOP 50 ABOUT THE TOP 50 & COMPANY INDEX

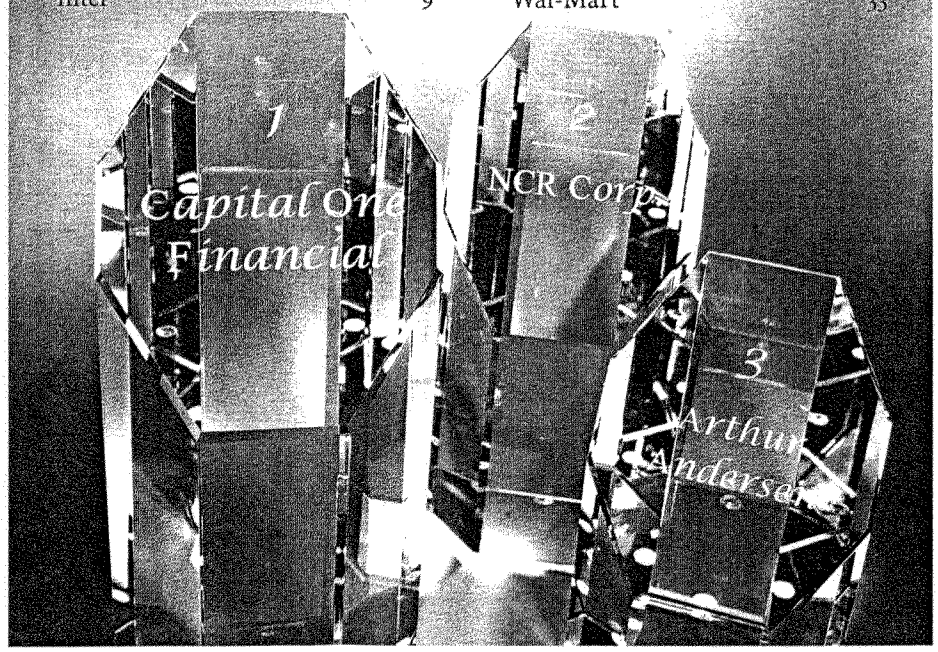
Top 50 Index

COMPANY	RANK	COMPANY	RANK
A.G. Edwards & Sons	47	Intl. Truck & Engine Corp.	22
AFLAC	14	J.D. Edwards & Co.	15
Allstate Insurance Co.	24	Kinko's	34
ALLTEL	49	LensCrafters	50
AMD	45	Lucent Technologies	21
American Standard	37	Merck	35
Arthur Andersen	3	Microchip Technology	18
BORN Inc.	19	NCR Corp.	2
Boston Scientific	31	Oakwood Worldwide	42
Buckman Laboratories	38	Plante & Moran	28
CDW Computer Centers	26	Porsche Cars North America	46
Capital One Financial Corp.	1	QUALCOMM	12
Cisco Systems	7	Quantum Corp.	10
Continental Airlines	11	Qwest	25
Dell	41	Ritz-Carlton	8
Delta Airlines	40	SAS Institute	32
Dow Chemical Co.	6	Scotia Bank	48
Edward Jones	5	Solectron	44
Fannie Mae	43	Synovus Financial Corp.	23
Footstar	30	Target Corp.	29
Ford Motor Co.	20	TDIndustries	27
Great Plains Software	13	The Limited	36
Hewlett-Packard	16	USAA	17
IBM	4	Vision Service Plan	39
Intel	9	Wal-Mart	33

About the Top 50

Training magazine conducted extensive research for the 2001 Top 50 Training Organizations through a multi-tiered nomination, application and interview process. In many cases, these companies were either nominated by their peers, employees or training suppliers. Others responded to mass mailings and marketing initiatives targeted at *Training* magazine's 50,000-plus circulation base. The companies answered a detailed questionnaire including both quantifiable and qualitative data. Our editorial staff evaluated the applications, using a point-based scale for the statistical information provided, and conducted follow-up interviews on the many qualitative questions.

If you would like to be included in next year's Top 50, please visit our Web site at *www.trainingmag.com* and click on the Top 50 logo. You will be directed to a FAQ section, detailing how to contact our staff and be considered for next year's ranking.



Contributors

Tammy Galvin, Martin Delahoussaye, Kathleen McLaughlin, Jeff Barbian, Dannah Baynton, Andie Evans, Linda Hagan Kvanbeck, Nancy Eato, Amanda Moeller, Susan Branstad, Jeremy Stratton, Matt Bolch and Rebecca Ganzel.

Exhibit H

Chart showing wages, benefits and related information.

SIP Salary Projections

Positions w/ Career Ladder	Grade	MCHP Avg Salary	Est. Fringe Benefits	Total Salary
Engineering				
Associate Eng	56	$46,269	$11,567	$57,836
Engineer	57	$57,765	$14,441	$72,206
Sr. Engineer	59	$70,723	$17,681	$88,404
Principal Eng	61	$81,867	$20,467	$102,334
Tech Staff Eng	62	$94,217	$23,554	$117,771
Sr. Tech Staff Eng	63	$99,715	$24,929	$124,644
Principal Tech Staff	64	$105,405	$26,351	$131,756
Engineering Mgmt				
Group Leader	62	$92,451	$23,113	$115,564
Engineering Mgr	63	$102,414	$25,604	$128,018
Sr Engineering Mgr	64	$105,405	$26,351	$131,756
***Eng Techs**				
Eng Tech I	51	$28,144	$7,036	$35,180
Eng Tech II	52	$31,342	$7,836	$39,178

Eng Tech III	54	$36,247	$9,062	$45,309	
Sr. Eng Tech	55	$43,782	$10,946	$54,728	

***MFG**

Production Specialist	90	$20,030	$6,009	$26,039	No Exp
Production Specialist	92	$23,152	$6,946	$30,098	1-1.5 yrs
Production Specialist	94	$25,313	$7,594	$32,907	2-2.5 yrs
Production Specialist	96	$28,905	$8,672	$37,577	3+yrs
Lead Prod Specialist	97	$31,454	$9,436	$40,890	3+yrs

MFG Mgmt

Production Supervisor	56	$38,482	$9,621	$48,103
Sr. Production Supervisor	57	$55,436	$13,859	$69,295
Production Shift Mgr.	60	$59,850	$14,963	$74,813
Sr. Manufacturing Mgr.	62	$81,054	$20,264	$101,318

Administrative Sppt

Clerical I	50	$24,470	$6,118	$30,588
Clerical II	51	$28,271	$7,068	$35,339
Admn Assistant	52	$30,891	$7,723	$38,614

Sr. Admn Assistant	53	$31,861	$7,965	$39,826
Exec Admn Assistant	54	$37,672	$9,418	$47,090
***Facilities**				
Facilities Tech I	52	$30,919	$7,730	$38,649
Facilities Tech II	54	$34,339	$8,585	$42,924
Sr. Facilities Tech	55	$43,936	$10,984	$54,920
Facilities Mgmt				
Facilities Maint. Supv	57	$71,242	$17,811	$89,053
Facilities Manager	60	$78,400	$19,600	$98,000
Sr. Facilities Manager	62	$89,619	$22,405	$112,024
Doc Control				
Doc Control Clerk	50	$24,470	$6,118	$30,588
Sr. Doc Control Clerk	51	$30,785	$7,696	$38,481
Doc Control Coord	53	$31,861	$7,965	$39,826
Doc Control Admin	54	$37,672	$9,418	$47,090
***Materials**				
Material Spec I	50	$24,470	$6,118	$30,588

Material Spec II	51	$26,763	$6,691	$33,454
Material Spec III	52	$31,080	$7,770	$38,850
Material Mgmt				
Material Control Supv	56	$47,120	$11,780	$58,900
Material Control Mgr	58	$58,966	$14,742	$73,708
Human Resources				
HR Admn	52	$27,000	$6,750	$33,750
Sr. HR Admn	54	$29,859	$7,465	$37,324
HR Admn Specialist	55	$40,053	$10,013	$50,066
HR Representative	56	$39,998	$10,000	$49,998
Sr. HR Representative	57	$52,765	$13,191	$65,956
HR Manager	58	$58,966	$14,742	$73,708
Manf Training				
Mfg. Training Instructor	52	$27,241	$6,810	$34,051
Sr. Mfg. Training Instructor	53	$32,467	$8,117	$40,584

Mfg. Training Supv	56	$43,350	$10,838	$54,188
Sr. Mfg. Training Supv	57	$46,339	$11,585	$57,924
Mfg. Training Mgr.	58	$51,000	$12,750	$63,750

IS

Systems Ops Spec	52	$25,606	$6,402	$32,008
Sr. Systems Ops Spec	53	$34,850	$8,713	$43,563
Systems Ops Analyst	54	$35,293	$8,823	$44,116
Desktop Support Analyst	55	$41,244	$10,311	$51,555

Supply Mgmt

Purchasing Coord	52	$22,880	$5,720	$28,600
Associate Buyer	55	$30,738	$7,685	$38,423
Buyer	56	$37,997	$9,499	$47,496
Sr. Buyer	57	$47,126	$11,782	$58,908
Purchasing Specialist	58	$51,000	$12,750	$63,750

***Est.Shift Structure & Differentials** **Est Shift Diff** **Swing Days**

FD = Front End Days	Sun, Mon, Tues, (Wed)	5%	Wed
BD = Back End Days	(Wed) Thur, Fri, Sat	5%	Wed
FN = Front End Nights	(Sat) Sun, Mon, Tues	15%	Sat
BN = Back End Nights	Wed, Thur, Fri, (Sat)	15%	Sat

***Final shift structure and differentials have yet to be determined.**

History of Merit Increases:

DL on annual merit review process (anniversary date)

IDL on annual "focal" merit review in August

Merit 2002	5% Budget	12% promos or adj	
Merit 2001	5% Budget	12% promos or adj	Merit Increases converted to stock options Option Price $15.86 (6/1/01) Current Avg $29.49 (5 day avg 6/14-20) Growth in value to date 86%

Merit 2000	6.4% Budget	12.5% Promos/5% Adj

Position	Description	MCHP Ave Salary
Materials/Shipping	Manager	55,589.00
Materials/Shipping	Shipping/Receiving	26,763.00
Materials/Shipping	Stores/Materials	26,763.00
Materials/Shipping	Logistics	26,763.00
Admin.	Manager	110,000.00
Admin.	Industrial Engineer	54,920.00
Admin.	Admin.	30,891.00
Yield Eng.	Manager/Engineer	75,711.00
Yield Eng.	Technician	31,342.00
Process Eng.	Manager	91,957.00
Process Eng.	Process Eng/GL	

		68,926.00
Process Eng.	Process Techs	31,342.00
Equipment Eng	Manager	78,458.00
Equipment Eng	Parts Supervisor	53,000.00
Equipment Eng	Parts Techs	37,451.00
Equipment Eng	Equip. Eng	65,982.00
Equipment Eng	Equip GL/Sup	58,296.00
Equipment Eng	Equipment Techs	34,598.00
Prod/Mfg Training	Manager	60,000.00
Prod/Mfg Training	Supervisor	46,339.00
Prod/Mfg Training	Lot Control	24,394.00
Prod/Mfg Training	Spec Writer	30,785.00
Prod/Mfg Training	Specialists	23,712.00
Facilities		55,000.00

Doc Control		30,785.00
Human Resources		52,765.00
Prod/Mfg Training	Trainer	49,987.00
Finance		55,000.00
Information Systems		60,649.00