

**AGREEMENT**

**STRATEGIC INVESTMENT PROGRAM**  
**(“SIP”)**

This Strategic Investment Program Agreement (the “Agreement”) is entered into as of August \_\_\_\_\_, 2006 between Washington County, a political subdivision of the State of Oregon (“County”), the City of Hillsboro, a municipal corporation (“City”), and Genentech Inc. (“Genentech”).

**RECITALS**

A. The 1993 Oregon Legislature established the Strategic Investment Program (SIP) to promote industrial competitiveness. The program was significantly revised by the 1995 Legislature, in particular to remove the requirement that State revenue bonds be issued in association with a SIP. Additional statutory refinements were made in 2003. The key provisions are codified at ORS 307.123 and ORS 285C.600 – 285C.620.

B. The SIP encourages counties and cities to enter into agreements with key industries to attract and retain industrial investment and employment. In exchange for limits on ad valorem property taxation, counties receive a community service fee and may negotiate such additional terms and conditions as are deemed to be in the public interest.

C. Genentech is a biotechnology company that discovers, develops, manufactures, and commercializes biotherapeutics that address significant unmet medical needs. These medicines have helped patients suffering from serious diseases and conditions, including cancer, rheumatoid arthritis, cystic fibrosis, heart attack, stroke, growth hormone deficiency, psoriasis, and asthma.

D. Genentech has received recognition for its strong corporate citizenship, including receiving the James D. Watson Helix Award of excellence for the biotechnology industry for scientific innovation, company growth, and corporate citizenship; ranking No. 2 in *Fortune’s* Most Admired Pharmaceutical Company List; being named a Top Corporate Citizen by *Business Ethic Magazine*; being selected as World’s Most Admired Biotech Company by *MedAdNews*; and receiving the California WRAP (Waste Reduction Awards Program) Award three times. In addition, Genentech has been consistently recognized as one of the top companies to work for in the United States by publications such as *Working Mother*, *Science* and *ESSENCE*, and in 2006 Genentech was named #1 on *Fortune’s* List of “100 Best Company to Work For.”

E. Genentech has filed with the County an application for SIP designation for property that Genentech intends to purchase in the City. The final SIP application will be submitted to the Oregon Economic and Community Development Commission (“OECD”) once the parties have fulfilled their requirements under State law and regulations. The intent of this Agreement is to extend to Genentech a competitive tax structure in Washington County that is essential for Genentech to provide high-value, family wage jobs in Oregon and to contribute to the state’s quality of life.

F. The OECDDC has issued administrative rules implementing the statutes (OAR 123-023-1000 through 123-023-2000).

G. The County and Genentech have provided public information and an opportunity for public input regarding Genentech's SIP Application, including a formal public hearing on this Agreement held on August 22, 2006.

## TERMS AND CONDITIONS

Now, therefore, in consideration of the following mutual promises, the parties agree as follows:

**1. Project Definition and Scope.** The Project shall consist of a fill and finish facility for the manufacturing of pharmaceuticals, including without limitation the building in which the facility is located, all machinery and equipment, 35-40 acres of land for this facility, personal property, and support facilities and office spaces within the building. It further includes repairs, replacements, modernization, renovations, and remodeling of the building, structures, machinery and equipment, fixtures and furnishings, and supplies as well as future additions to the building or structures. The Project will be located on land zoned and planned industrial at the time of development within the City of Hillsboro. The Project shall consist of a maximum of \$250,000,000 in investments.

The Project shall not include:

- a. an "existing project," defined as property previously owned or leased by Genentech at any location prior to commencement of the Project, or any property within or comprising a previously approved SIP project that received a SIP property tax exemption;
- b. any investment outside of the geographic confines described above;
- c. any property other than that within the Project definition;
- d. any investment deemed not to constitute a component of an "eligible project" pursuant to any rules or decisions of the OEDDC.

**2. SIP Exemption Period.** The SIP Exemption Period will begin on July 1 of the first year that the Project receives a SIP property tax exemption, which will be no earlier than July 1, 2008 and no later than July 1, 2010 and will end on June 30 of the last year that the Project receives a SIP property tax exemption, which will be no later than June 30, 2025, but in no event to exceed 15 years. As used in this Agreement, references to a year that the Project or Genentech receives a SIP property tax exemption means a year in which the property tax statements, payable November 15 of that year, reflect an exemption pursuant to ORS 307.123(1)(b) for any property included in the Project.

Either party may discuss with the other party in good faith an extension to the above dates for commencement of the exemption if it determines that, due to economic conditions or other factors, it is necessary to do so. It is understood, however, that State approval may be necessary.

**3. Administration of Tax Laws.** It is understood that ad valorem property taxation is administered by the County and the State Department of Revenue (DOR) and that County has no control over decisions of the DOR regarding assessments, valuation, tax exemptions, and related matters. Nothing herein shall govern the assessment, payment, or collection of ad valorem real property taxes on the first \$25 million of real market value of property in the Project, increased annually for growth at the rate of three percent (3%) or on property outside the definition of the Project

**4. Condition Precedent.** The obligations herein are conditioned on OECD, or its designee, determining that the Project is eligible for the tax exemption provided in ORS 285C.606, ORS 307.123, and Administrative Rules.

**5. Genentech Obligations.**

5.1 Ad Valorem Property Taxes. The first \$25 million in Project real market value, increased annually for growth at the rate of three percent (3%), shall be taxable at its assessed value as provided by law. Property qualifying under the Project in excess of this amount shall be exempt from ad valorem taxation as provided by State law and rules.

5.2 Community Service Fee (“CSF”). Each year that Genentech receives a SIP property tax exemption, it shall pay to County a CSF, as provided by ORS 285C.609 (4) (b) (B), equal to twenty-five percent (25%) of the property taxes exempted in each tax year, but not exceeding \$500,000 in any one tax year. On or about November 15, County shall provide Genentech with a statement describing its calculations and the amount due and Genentech shall pay within 30 days after Genentech’s receipt of such statement. Genentech may challenge the determination as provided in Section 8.

5.3 Additional Payment.

a. The parties recognize that the County's SIP policy requires that payment under the Strategic Investment Program not be less than the amount that otherwise would be payable in ad valorem property taxes on the land and building within the Project, regardless of whether such amounts exceed the statutory minimum. The parties further recognize that each party has a valid and important interest in certainty as to the amount due. Accordingly, the parties agree that the Additional Payment payable under Section 5.3.b below are a reasonable good faith estimate of the total ad valorem taxes that would have been due on the land and building in the Project without the SIP approval, based on current information and projections. As such, the payment obligations under this Section 5 constitute the total amounts that Genentech will pay to County for property taxes and in lieu of property taxes on the Project during the SIP Exemption Period.

b. Subject to the conditions set forth in Section 5.3.c. and 5.3.d. below, Genentech shall pay to County the following payment each year at the same time as the CSF ((i) and (ii) below are referred to cumulatively as “Additional Payment”):

- (i) the amount set forth in Exhibit 'A', plus
- (ii) the difference between the CSF due for a particular year and \$500,000 (the “Variable Payment”).

c. Notwithstanding anything to the contrary, Genentech shall have no obligation to pay any Additional Payment unless and until

- (i) Genentech receives a minimum two million dollars (\$2,000,000) Business Energy Tax Credit (BETC) for its facility as a Research, Development & Demonstration (RD&D) project under Oregon Administrative Rule (OAR) 330-090-0110 (49) from the Oregon Department of Energy. Genentech shall take reasonable steps to promptly apply for and otherwise cooperate with securing the credit; and
- (ii) Genentech receives the credit set forth in Section 5.3.d below.

d. In recognition of County having received a satisfactory commitment from the State of Oregon to provide County with a minimum of \$1,000,000 from the Immediate Opportunity Fund, County shall apply a one million dollar (\$1,000,000) credit against Genentech's Additional Payment obligation. No Additional Payment amount shall be due until this credit is exhausted.

5.4 First Source Agreement. Genentech shall enter into a first source hiring agreement with an appropriate third party in substantially the form attached hereto. County is to be designated a third party beneficiary of the agreement and is entitled to enforce its terms. The parties may designate a different provider for this service by letter agreement.

5.5. Community Support. Genentech’s current reputation as an exceptional corporate citizen, reflected by Genentech’s current corporate policies and programs benefiting the community is a factor in County’s decision to approve the SIP application. To the extent reasonable, Genentech shall support education within the local community, such as:

a. Financial and in-kind support of education, such as allowing the local community to participate in the Genentech biotechnology workforce initiatives and Genentech’s health science education grants programs;

b. Offering education programs for students in area educational institutions designated by Genentech;

c. Extending to local area professionals and researchers eligibility for participation in grants provided by Genentech Center for Clinical Research in Endocrinology and Genentech’s Postdoctoral fellows program.

It is recognized that Genentech may from time to time implement new corporate-community initiatives and modify existing ones and, as such, the foregoing programs may be modified, cancelled, or replaced. Failure to implement the obligations is not a statutory disqualification of Genentech from the SIP. The purpose of this paragraph 5.5 is to reflect Genentech's commitment to provide initiatives and community support commensurate with its presence in the community and comparable to that provided in other Genentech communities.

5.6 Development Impacts. Nothing in this Agreement is intended to modify Genentech's obligations arising through the City of Hillsboro's land use process, application of SDC, TIF, or other laws addressing development. In addition to such obligations, however, Genentech shall participate in the Tri-Met PASSport Program by making annual mass transit passes available to all local employees at no or nominal charge.

5.7 SIP Application. Genentech shall be responsible for filing an application with the state as provided for in ORS 285C.612 and the applicable administrative rules. Genentech shall file the application within 60 days of execution of this Agreement.

## **6. County Obligations.**

6.1 Within 15 days of approval, County shall request that OECDD determine that the real and personal property constituting the Project, as defined herein, be granted an exemption from ad valorem property taxation for a period of 15 years from the beginning of the tax year after the earliest of the following dates, as provided in ORS 307.123:

- o The date the Project is certified for occupancy or, if no certificate of occupancy is issued, the date the property is used to produce a product for sale; or
- o The expiration of the exemption for commercial facilities under construction under ORS 307.330.

6.2 County shall be solely responsible for payment of any CSF due the City or any other jurisdiction.

## **7. Joint Obligations.**

In addition to the other obligations set forth in this Agreement, the parties shall:

7.1 Cooperate with OECDC and the DOR to secure approval of the SIP and take such steps as may be necessary to maintain the tax exemption.

7.2 Provide information and resources to each other as may be reasonably necessary to ensure proper calculation of the amounts due under this Agreement.

## **8. Remedies of Genentech.**

8.1 Genentech may challenge the CSF or the Variable Payment calculation by filing a written objection on or before the due date for the payment. The objection shall be

accompanied by payment in full of the amount claimed by the County to be due and a statement of the basis for the challenge. County shall deposit the amount in a trust and agency account and shall have 15 days to review the objection and issue a determination, together with any refund it concludes is required. Failure of the County to respond shall be deemed a denial. This process shall be a prerequisite to Genentech exercising any other remedies for contesting the amount due to County.

8.2 Genentech may institute proceedings in the Circuit Court for Washington County, or the Oregon Tax Court as appropriate, to challenge the amount due to County or to seek specific performance of this Agreement in the event of breach by County. In the event that the Court determines that a refund is due Genentech, County shall pay the amount due, together with interest at the rate actually earned by County during the interim.

8.3 Nothing herein shall limit or restrict Genentech from challenging its assessed valuation or amount due for ad valorem property taxes in the same manner as any other taxpayer.

8.4 Genentech shall not be required to pay the CSF or Additional Payment for any year that it has paid ad valorem property taxes on the full assessed value of the Project due to cancellation or disqualification of the SIP property tax exemption.

## **9. Remedies of County.**

9.1 Late Payment of CSF or Additional Payment. Failure to pay in full the CSF or Additional Payment by the due date shall result in penalty and interest being charged on the past due balance in the same amount as is provided by law for late payment of ad valorem property taxes.

9.2 Failure to Pay the CSF. The parties acknowledge that payment of the CSF is a statutory prerequisite to approval of a tax exemption. If Genentech fails to pay the CSF by the end of the tax year in which it is due, the tax exemption for the Project shall be revoked and the property shall be fully taxable for the following year and for each subsequent tax year for which the fee remains unpaid. If an unpaid CSF is paid after the exemption is revoked, the property shall again be eligible for the exemption, beginning with the tax year after the payment is made.

9.3 Failure to Pay the Additional Payment. The parties acknowledge that payment of the Additional Payment is not a statutory prerequisite to continuation of the tax exemption. County's recourse shall be an action in Washington County Circuit Court to enforce the terms of this Agreement.

**10. Submittals.** Genentech shall be responsible for timely submitting ad valorem real property tax returns and such other documentation as County may reasonably require to enable County to calculate the property taxes, CSF, and Additional Payment due under this Agreement.

**11. Tax Limitations.** The parties acknowledge that the CSF is required by law and that the CSF does not constitute property taxes and are not subject to the limits under Section 11 or 11b, Article XI of the Oregon Constitution. Any increase in the CSF due, resulting from a change in property values, shall not be considered a change in tax or tax rate. Genentech

waives any claim, known or unknown, that these property tax limitations, or their implementing statutes, apply to the CSF.

**12. Termination.** This Agreement shall commence on the date of execution and shall terminate on the completion of the obligations of the parties.

**14. Miscellaneous Provisions.**

14.1 The laws of the State of Oregon shall govern this Agreement. Any action or suit commenced in connection with this contract shall be in the Circuit Court of Washington County, Oregon, Tax Court, or the Federal District Court for Oregon.

14.2 No person shall be denied or subjected to discrimination in receipt of the benefits of any services or activities made possible by or resulting from this Agreement on the grounds of race, color, religion, gender, sexual orientation, national origin, disability, age, or marital status.

14.3 The terms herein shall be given their normal and customary meaning, except that terms relating to the payment of property taxes and fees in lieu of taxes shall be construed consistently with the tax laws and rules of the State of Oregon. No provision shall be construed against a party on the basis that the party drafted the provision.

14.4 City is a signatory of this agreement; however, nothing herein gives City any claim or right to the proceeds of this Agreement except as provided by law. Distribution of the proceeds shall be governed by a separate Agreement between the County and the City. Nothing in this Agreement is intended to give or shall be construed to give or provide any benefit or right, whether directly, indirectly, or otherwise, to third persons unless such third persons are individually identified by name herein and expressly described as intended beneficiaries of the terms of this Agreement.

14.5 Time is of the essence of this Agreement. The failure of either party to enforce any provisions of this Agreement shall not constitute a waiver by that party of that or any other provision.

14.6 This Agreement shall bind the successors and assigns of the Parties.

**15. Change of Law.** It is acknowledged that, due to the length of this Agreement, federal or state laws and administrative rules, including those relating to the SIP and ad valorem property taxation, may be enacted, repealed, or amended so as to impact the terms and conditions of this Agreement or otherwise alter the authority, rights, or responsibilities of the parties or the benefits anticipated from this Agreement. Neither party shall be liable to the other for damages or costs resulting from such changes.

The parties shall negotiate, in good faith, amendments that conform to such legal changes while, to the extent feasible, retaining the essential features and relative benefits of this Agreement. If the parties are unable to come to terms within 30 days, the parties shall select a Portland based professional mediator and shall diligently and in good faith participate in negotiations for not less than 90 days. The parties shall equally split mediator expenses. If, the parties remain unable to

come to terms, the parties shall, in good faith, and with the assistance of the mediator, negotiate and effectuate winding down and termination of this Agreement with the objective of minimizing disruption and hardship to either party.

**16. Memorandum of Understanding.** The parties shall work with the DOR to address administration of the SIP, including but not limited to:

16.1 Definitional details relating to what property qualifies as directly related personal property and directly related support facilities and office buildings.

16.2 Reporting requirements.

16.3 Valuation methodology.

Nothing in this provision authorizes the parties to agree to terms that would be inconsistent with this Agreement or that modify or conflict with the Project definition.

**17. Merger.**

THIS AGREEMENT CONSTITUTES THE COMPLETE AND EXCLUSIVE STATEMENT OF THE CONTRACT BETWEEN THE PARTIES AS REGARDS THE PROJECT AND SUPERSEDES ALL PRIOR AGREEMENTS OR PROPOSALS, ORAL OR WRITTEN, AND ALL OTHER COMMUNICATION BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER OF THIS CONTRACT. NO WAIVER, CONSENT, MODIFICATION, OR CHANGE OF TERMS OF THIS CONTRACT WILL BE BINDING ON EITHER PARTY EXCEPT AS A WRITTEN ADDENDUM SIGNED BY AUTHORIZED AGENTS OF BOTH PARTIES

**GENENTECH INC.**

**WASHINGTON COUNTY**

\_\_\_\_\_  
By: Genentech

\_\_\_\_\_  
By: Tom Brian, Chairman  
Board of County Commissioners

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**CITY OF HILLSBORO**

APPROVED AS TO FORM:

\_\_\_\_\_  
By: Tom Hughes, Mayor

\_\_\_\_\_  
By: Dan R. Olsen, County Counsel

Date: \_\_\_\_\_



**EXHIBIT A**  
**Additional Payments**

<b>Year</b>	<b>Additional Payment</b>
Year 1	\$326,189
Year 2	\$348,665
Year 3	\$371,814
Year 4	\$395,659
Year 5	\$420,219
Year 6	\$445,515
Year 7	\$471,571
Year 8	\$498,408
Year 9	\$526,050
Year 10	\$554,522
Year 11	\$583,847
Year 12	\$614,053
Year 13	\$645,164
Year 14	\$677,209
Year 15	\$710,215
Total Payments	\$7,589,099