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## Fight to get Cat is pricey

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Under-promise and over-deliver is a well-worn business mantra.

Yet, in the case of economic development, striking the right balance can be the difference in not only landing a major project, but having it pay off in the long term.

Winston-Salem and Forsyth County are enveloped in an intense incentives battle with Montgomery, Ala., and Spartanburg, S.C.

The prize: A proposed \$426 million, 850,000-square-foot Caterpillar Inc. manufacturing plant with 392 employees tied to Caterpillar and 118 contract workers.

Caterpillar expects to announce a winner in August.

Winston-Salem and Forsyth County are offering a combined \$23.4 million in incentives: \$7.5 million upfront to buy a 100-acre site next to the Dell Inc. plant off Union Cross Road; and \$15.9 million over 10 years connected to performance-based criteria.

The N.C. Commerce Department is considering offering up to \$50 million in state incentives, according to sources who declined to be identified.

That the bids from Montgomery and Spartanburg, and their respective states, are unknown is not lost on Bob Orr, the executive director of the N.C. Institute for Constitutional Law.

"As long as it is a closed process, taxpayers are going to end up paying more because our officials are going to end up bidding more as these companies continue to play communities off each other for maximum benefit," Orr said.

Orr said that there would be more integrity in the process "if companies put their plans and parameters on eBay for seven days and said, 'Have at it.'"

Winston-Salem Mayor Allen Joines said the proposed contract for Caterpillar -- with strict incentives clawback clauses for not meeting work force, capital-investment and production criteria -- shows that the local community is a wiser incentives negotiator.

A sour taste developed from the 2004 recruitment of Dell in part because of the hype of its economic influence.

Dell was offered \$38 million in local incentives and \$267 million in state incentives while officials touted projections of 4,500 to 6,500 in indirect jobs along with 1,700 workers at the plant.

As it turned out, the peak of employment in Dell's plant was 1,400, including 1,150 Dell personnel and 250 contract employees. No more than 500 indirect jobs were believed to have been created as a result of the plant.

Although there have been no similar pledges of indirect jobs to the Caterpillar project, Michael Walden, an economic professor at N.C. State University, said it is reasonable to project about 400 supplier and 350 other jobs in the Triad.

Site selectors differ on the importance of incentives. Some say they typically are just icing on the cake, while others say they can be the tiebreaker if all other criteria are even.

"Many companies, especially Fortune 500 corporations like Caterpillar, do not necessarily want the final chosen location to be the one that offers them the most money," said John H. Boyd, the president of The Boyd Co. Inc., a site-selection company in Princeton, N.J.

"After the fact, they don't want to be in a position of being criticized for the incentive amount having driven their final decision. Dell clearly took a beating in the court of public opinion over the enormity of its incentive package."

Tony Plath, a finance professor at UNC Charlotte, said that although \$73 million in local and state incentives sounds high, landing the Caterpillar plant would be worthwhile because "it will create more jobs, better jobs, and jobs with greater staying-power in the market than a technology relocation or a finance relocation."

Public officials should not be in the position of "trying to cut risky side deals with individual, politically favored companies," said John Hood, the president of the John Locke Foundation, a libertarian policy-research group in Raleigh.

Too many local and state officials "are ignoring the empirical evidence of poor results with incentives," he said. "All they hear is corporations and site selectors whispering in their ear that 'You're off the list if you don't pony up,' and they become too anxious to say no."

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