

[Print Article](#)[Print This Story](#)

Incentives and Dell: Company's plan to leave after less than five years reignites debate on how far government should go to lure private business

By Richard Craver | Journal Reporter

The creation of a Dell Inc. plant in Forsyth County put the company and Forsyth County in the national spotlight.

Many groups named the incentives-laden deal as their national economic-development project for 2004.

But just five years later, with the clock ticking on the expected end of desktop production on Jan. 20, the plant is center stage again as 905 mostly blue-collar employees prepare to find new work in a tough job market.

"We expect the plant closing to re-open the debate over the propriety of incentives," said John H. Boyd, the president of The Boyd Co. Inc., a site-selection company in Princeton, N.J. "The Dell project was the poster child of this debate."

Proponents and opponents of incentives both expressed vindication over their stances last week. Proponents cite the clawbacks in the Dell incentive contract as proof that the strategy works.

"If there is a bright side to this, it's the way the contract was structured," said Dave Plyler, the chairman of the Forsyth County commissioners. "The good news is all is not lost. The whole package has to come right back to us."

Opponents, however, charge that Dell's inability or unwillingness to adapt the \$115 million plant to its rapidly changing business model -- increased focus on laptops, servers and software -- is a prime example of why elected officials shouldn't use incentives to lure corporations.

The state's incentive package, valued at as much as \$267 million over Dell's stay in North Carolina, was offered based in part on projections of 1,700 Dell jobs and from 4,500 to 6,500 indirect jobs being created related to the plant.

The package was also tied to the number of computers the plant churned out.

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 being here.

"Public officials ought to focus on broad policies that boost the prospects of all businesses, large and small, rather than 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.

"The problem is local governments, other firms, and workers all made costly decisions -- about relocations, services and investments -- based on the assumption that there was a long-term deal with Dell. You can't

claw all those costs back, because they aren't in the original contract."

One reason why local and state incentives for Dell drew support was that most analysts felt that there were few better corporate bets in 2004 than the world's top computer-maker.

"Its sales/production model was the envy of all," said Michael Walden, an economics professor at N.C. State University. "It was very logical for North Carolina to want a Dell presence."

Although the trend toward laptops and away from desktops had begun by the time the plant opened in October 2005, Walden said that "very few people predicted the severity of the 2007-09 recession and what it has done to desktop sales."

A major worry is whether the clawbacks will be honored by Dell.

Because Dell is not keeping the plant open for five years, it is obligated in its contract to repay 100 percent of the payments and incentives that it has received from the local community.

It would have had to pay back just 50 percent if the plant stayed open past October 2010.

The local community expects about \$26.1 million in paybacks -- \$15.5 million to the city of Winston-Salem, \$7.9 million to Forsyth County and \$2.7 million to the Millennium Fund.

As long as Dell owns the building, it will continue to pay county property taxes. Dell paid about \$745,000 in 2008, according to Ed Jones, the deputy county manager. Jones said that the county payback is \$6 million for site preparation and \$1.9 million for three years of incentive payments.

Local officials expect to request the repayment soon after the plant is closed. Dell is contractually obligated to make the payback within 30 days of the request.

"The agreement is very clear in this regard," Winston-Salem Mayor Allen Joines said. "We do plan on asking for all."

Gov. Bev Perdue has expressed a similar plan for state incentives.

The state has paid out a total of \$8.5 million in grants and tax incentives, and expects to get back \$1.5 million that it gave to Dell for job creation.

It's not clear if the state will recoup money for its other tax credits and incentives.

Joines said he has received repayment assurances from Kip Thompson, the vice president for facilities of Dell. Some officials point out that Thompson is the same Dell executive who played hardball with state officials in 2004 in negotiating the state incentive package.

"I'm going to decline to speculate at this point as Dell officials will meet with the appropriate governmental entities to review the agreements," David Frink, a spokesman for Dell, said. "Again, we'll continue to comply and honor the terms of agreements in place."

Tony Plath, a finance professor at UNC Charlotte, said that there will be plenty of interested bystanders of any negotiations.

"Everyone over there kept talking about how definitive and ironclad the incentives contract with Dell was,

but now we're about to put that assertion to the test," Plath said.

One key missing part of the incentives puzzle is how much will it cost Dell to close the plant, including paying the employees eight to 12 weeks of severance pay and other benefits.

Most companies declare those costs in announcing the closing of a plant or operation to give shareholders a heads-up of a potential charge to earnings. Dell did not do so on Wednesday.

"We include expense items in the quarter in which they are incurred, reporting when we issue our quarterly financial results announcement," Frink said. "We announce our fiscal third quarter on Nov. 19."

N.C. Sen. Pete Brunstetter, D-Forsyth, said he continues to back the use of incentives in recruiting businesses. Brunstetter was one of the architects of the Dell project as chairman of the county commissioners.

"A community needs to continually get out there and compete for business and industry," he said.

Dan Lynch, the president of the Greensboro Economic Development Alliance, said he hopes that the Triad "isn't too hard on ourselves as it relates to Dell's decision to close."

"Winston-Salem and the Triad won the Dell project for all the right reasons -- access to markets, available labor and competitive operating costs," Lynch said. "Our economic-development strategies are sound, and we should not let short-term market fluctuations sidetrack our well-focused industry cluster strategy.

"Education and advanced training will -- and should -- continue to define the Triad," Lynch said. "We continue to invest heavily in our education assets, and that will have the greatest impact over the long term."

rcraver@wsjournal.com

727-7376

Staff reporter Kim Underwood

contributed to this article