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GOVERNMENT

The High Cost Of Wooing Google

States and cities are dangling ever-bigger inducements to attract companies, and the digital giant knows how to drive a hard bargain



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Lenoir at first seems an unlikely place for a high-tech outpost of the hottest brand on the Web. Nestled beneath the Blue Ridge Mountains of western North Carolina and a two-hour drive from the nearest commercial airport, the quiet town and its neighboring communities have reeled from the closure of seven furniture factories and the loss of more than 2,100 jobs in the past three years. But down-on-its-luck Lenoir has just about everything mighty Google Inc. ([GOOG](#)) wants.

The digital titan, based in Mountain View, Calif., has been hunting for places to plant new server farms: vast, immaculate warehouses filled with row upon row of computers that allow Google to offer faster online searches and advertisements. Lenoir (pronounced like the woman's name Lenore) boasts resources at the top of Google's list: cheap, abundant electricity; excess water capacity to keep the computers cool; and lots of inexpensive land.

Just as Google has pushed the boundaries of its Internet business, it plays the real estate game aggressively. Beginning with an anonymous approach in late 2005, the company elicited a stream of promises from local and state officials in North Carolina, all frantic to lure a major tech company, even before they knew which one. During months of negotiations over Google's shifting requirements, the company never failed to remind those officials that it could go elsewhere. In

the end, the North Carolinians agreed to a package of tax breaks, infrastructure upgrades, and other goodies valued at \$212 million over 30 years, or more than \$1 million for each of the 210 jobs Google said it eventually hoped to create in Lenoir.

Some felt bullied. "It's simply unconscionable from an ethics standpoint for this company to go in from this very unfair bargaining position," says Robert F. Orr, a former North Carolina Supreme Court justice running for governor. "These are business decisions by the smartest businesspeople in the world, and it's just exploiting a desperate town."

But that's not the majority view in Lenoir. Most see Google's arrival as a vital morale booster, if not a full replacement for the lost furniture factories. "I would have voted for a 100% tax incentive if that's what it would have taken to land them," says Herbert H. Greene, a commissioner of Caldwell County, of which Lenoir is the seat.

THE SPOILS OF BIDDING WARS

Business-development incentives, while hardly new, are proliferating as never before, and the dollar values are soaring. Lenoir's courting of Google offers a case study of how elaborate the inducement ritual can get. Today it's not just carmakers promising thousands of jobs apiece that are getting rich deals. From New York to Washington State, IT, biotech, and financial-services companies have incited frenzied bidding for their business and the spirit-elevating buzz they bring. States and localities bruised by globalization view these knowledge-based fields as the foundation for economic rebuilding. Reliable current estimates of the number of deals don't exist, but those who study the field all agree that the total is rising. Peter S. Fisher, a professor of urban and regional planning at the University of Iowa, pegs the aggregate value of incentives at about \$50 billion a year.

Competitive anxiety compels the handouts: the fear that without lucrative enticements, companies will go elsewhere. And the bidding war is being escalated further by sophisticated corporate consultants expert at playing jurisdictions against each other and deploying databases that allow companies to compare the baubles offered by various suitors.

All of these factors came into play in Lenoir, population 17,000. It's a place that clings to tradition: Wednesday night outdoor movies in the main square, a blackberry festival each July, and a Civil War battle reenactment in August. But the world is changing, and Lenoir has been devastated by the departure to China of its core business, the manufacturing of bedroom sets.

Just two miles from downtown sits Bernhardt Furniture, one of the largest local employers, whose payroll has shrunk by half, to 3,000, in recent years. From the window of CEO G. Alex Bernhardt's office, you can see the shuttered factories. Two belong to his company; the other five, to friends and competitors. In 2000 the unemployment rate in Caldwell County was less than 2%; by 2005 it had hit 13%. Today it's 7.3%, three percentage points above the national average. "When our globalization came," says Bernhardt, "it came with lightning speed."

That's why the town fathers reacted with nervous excitement when they learned in December, 2005, that a major tech company was shopping for a place to build

a big new facility. The first of many auditions came two weeks before Christmas, when Caldwell's Economic Development Commission sent two representatives south to Charlotte to pitch Rhett L. Weiss. Google's top site negotiator, Weiss didn't identify himself as a company employee. In fact, it would be months before Google's name surfaced in North Carolina. At that first meeting, Weiss handed out business cards from Dealek Ltd., the Los Altos (Calif.) consultancy he founded in 1999 and has continued to run, though at a scaled-back pace, since joining Google in 2005.

"PROCESS OF SURVIVAL"

If any one person embodies the boom in business-incentive deals, it's Weiss, 46, a lawyer by training who wears button-down shirts, khaki pants, and wire-rim glasses. After working for Big Four accounting firm KPMG, he opened Dealek to focus on corporate site selection. The firm advises both migrating companies and localities seeking new business. It is one of about 200 firms that sell such services and have national reach. Dealek tries to differentiate itself in an increasingly crowded field by selling software--"a consultancy's proverbial 'Black Box,'" the firm calls it--which compares competing site-selection opportunities.

The Lenoir offer certainly had much to recommend it. Electricity, for one thing, costs only 4.5 cents to 5 cents per kilowatt-hour on average in North Carolina, vs. 6 cents to 11 cents in some comparable locales. With furniture makers gone or downsized, there was excess capacity. Duke Energy Co. ([DUK](#)), the utility hoping to sell the cheap power, hosted the introductory session in Charlotte.

Weiss gave half an hour each to three North Carolina counties that day and was done before noon. "This is a process of survival," says Alan Wood, senior development manager for the Caldwell County Economic Development Commission. "They look for reasons to eliminate sites." Wood had first met Weiss the previous April at MerleFest, a bluegrass festival in Wilkesboro, N.C. Local business-development scouts use the musical gathering as a chance to mingle with consultants like Weiss, who come at their invitation. Explaining that he hadn't given Weiss a hard sell at the festival, Wood says: "You don't usually ask someone to marry you on the first date."

Three months later, after touring North Carolina in a plane supplied by the state's Commerce Dept., Weiss asked a roomful of people from Lenoir gathered in a meeting room in Raleigh whether anyone could guess the corporation for which he worked. One tentatively suggested Google. When Weiss, smiling, confirmed it, Lenoir Mayor David W. Barlow recalls thinking: "There's no way in the world this will ever happen." Google's size and success seemed beyond the town's grasp.

But Weiss was serious, requiring everyone in the town and county who knew Google's identity to sign confidentiality agreements so rival companies wouldn't learn that Google was on the prowl. During negotiations over the next 10 months, Weiss combined a calm demeanor with an obsessive attention to detail, never committing Google to building in Lenoir. "He plays a good game of poker as well, I'm sure," says Barlow.

Despite his doubts, Barlow threw himself into the competition. A Realtor and part-owner of a car dealership, the mayor is married to a retired schoolteacher and lives doors away from their children and grandchildren. He saw the possibility of Google's arrival as a way to restore civic self-respect. "I didn't think there would be a lot of [economic] spin-off value," he admits. "Psychologically, the impact of this for our community would be greater than the reality." Google never

formalized its suggestion that it might one day employ 210 people in Lenoir; nor did the company say how many jobs might go to locals, as opposed to computer techs Google would bring in.

EXPANDING WISH LIST

To keep Weiss interested, the Lenoir City Council voted in closed session on Mar. 21, 2006, to expand the tax incentives then on the table. An initial offer of 100% off local property taxes and 75% off real estate taxes, both for 15 years, grew to 100% and 80%, respectively, for 30 years. Fine, said Weiss, but there were other issues.

When negotiations began, he had seemed satisfied with a 127-acre site that includes a former lumberyard. Now he demanded more. In March, Mayor Barlow and a fellow Realtor began to piece together a larger plot. Nights and weekends they knocked on doors, asking people to sell. One parcel was owned by 57 heirs, including a long-estranged couple. As part of the deal, the county paid for their divorce. "I never, ever thought this was going to work," says Barlow. He cobbled together a total of 216 acres out of 51 parcels. He took no commissions.

There wasn't much time to celebrate the real estate coup, because by June the deal seemed to be falling apart on another front. In Raleigh, the state legislature was working on a Google-driven bill that would exempt server farms from sales tax on the copious electricity they use. On June 13, Weiss sent an e-mail to Jim Fain, the state's commerce secretary, complaining that the legislation "has remained cursed with unfortunate and petty dicking from the legislative drafting side--mainly refusing to reinsert better word choice." If North Carolina didn't quickly enact "sales tax exemptions that make it competitive with other states in which the project could locate, the project simply will not come to North Carolina," Weiss wrote. He continued to let officials know he was talking to several other states, including South Carolina and New York, according to documents and interviews. The legislation passed in July.

Amazingly, Google's interest in coming to North Carolina surfaced in the press only once, in an article on July 21, in Charlotte's News & Observer. Weiss hit the roof over what he saw as a breach of confidentiality, according to e-mail and interviews. Fain himself mollified Weiss during a previously scheduled encounter at a McDonald's ([MCD](#)) on Interstate 95, where the commerce secretary met Weiss, his wife, and four children, who were finishing a vacation at the North Carolina shore.

One of the final issues, negotiated through the fall and into December, was water. Afraid that Google's plan would drain Lenoir's water capacity, Mayor Barlow wanted Google to commit to staying in town long enough to justify a \$24 million municipal upgrade. Several times, locals thought the deal would die over this point, though Weiss says he didn't think so. In the end, Google agreed to pay \$1.05 million toward the water expansion, but it never locked itself into operating in Lenoir for a minimum period.

In an interview, Weiss explains that the company's changing demands reflected evolving technological requirements and experiences at other company computer facilities. Google, he adds, will help the struggling town. The large construction project will provide temporary employment and produce tax revenue on building materials. In addition to helping pay for the municipal water upgrade and the closure of a rail line on its land, the company has offered to reimburse local

expenses related to the long negotiations, he says. (One memo puts those costs at more than \$300,000.)

Rather than focus on Google's expected annual tax rebate of \$5.87 million on a bill of \$6 million, Weiss points out that what the city will collect--some \$130,000--is a lot more than what it received on the property before the company's improvements. All told, Google plans to invest \$600 million in the Lenoir server farm.

Since the company's plans in Lenoir were announced in January, Weiss has struck similar deals for new computer centers in South Carolina, Oklahoma, and Iowa. Google won't say how many server farms it operates nationwide.

In Lenoir, some residents still resent the tactics used by the out-of-town technology giant. "There were 18 or 20 drafts of contracts, a lot of ticky-tacky stuff," says T.J. Rohr, an attorney and member of Lenoir's city council. "And a lot of the time it seemed like they were saying, 'It's our way or the highway.'"

But Rohr was the only member of the seven-person council to vote against the final deal. Mayor Barlow says the important thing "is that we were selected, and we have something to offer." Google, he adds, "put us on the map."

The Google site in Lenoir now bustles with tractors, bulldozers, and contract workers. A large silver-roofed building is going up behind fencing, a retaining wall, and a 200-foot buffer of trees. Visitors aren't allowed. As of early July, Google had hired one full-time employee: a site manager who came from out of town.

By Nanette Byrnes, with Coleman Cowan

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