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## Why Intel jilted the Golden State

■ The efforts to lure the semiconductor giant to build a plant in Folsom were none too enticing.

BY REBECCA SMITH  
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Twice in the past 15 months, Intel Corp. announced a decision to bypass California and build a giant computer chip factory in New Mexico or Arizona.

Each time, disappointed California officials swore they had waged a vigorous recruitment campaign. But they refused to disclose what incentives they had offered Intel, one of the rich-

est companies in the world, to build a billion-dollar factory on an Intel site in Folsom.

The answer is: not much.

In fact, of the \$300 million worth of incentives claimed by the state, \$259 million stemmed from regional transportation projects not directly tied to development of an Intel site.

The Mercury News obtained a copy of the state's proposal as a result of a

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# State made Intel an offer it could refuse

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lawsuit against the California Trade and Commerce Agency, settled out of court last month.

Although it is arguable whether the state's actual \$40 million incentives package was too much, too little or just right, this much is undeniable: The state's response to Intel's Request for Proposal (RFP) graphically shows how the selection game is played.

California is pitted ruthlessly against other states in blind bidding, eager to show it is competing aggressively for the kind of jobs that once flowed automatically to the Golden State.

It doesn't matter whether the subject, Intel, has more than \$1 billion in the bank. The issue of need is not discussed — nor is the state's financial plight overtly addressed.

No doubt about it, Intel is a tough bargainer, says Julie Wright, the head of the California Trade and Commerce Agency in Sacramento. "Intel is very experienced at this process," she says. "They know what they want. This was probably the most detailed proposal we've handled."

Intel began the horse race in April 1992 by giving the commerce agency a list of 104 demands, politely characterized as an "ideal incentive matrix," against which the state's final offer was measured. Oregon, Arizona, Texas, Utah and New Mexico received the same list.

It's not like Intel is a stranger to California. It was born here, in 1968, and already employs 7,000 Californians.

The incentives dream list covered big-ticket items — like free utility service and roadways — and surprisingly little things like

a reduction in apartment security deposits, a 1,000 square foot office at each

## Prohibitions

Many of the enticements sought by Intel — such as a 50 percent price break on employee moving expenses — were for things the State of California could not offer because of a legal prohibition on the giveaway of state funds.

"There wasn't a lack of will as much as a lack of statutory authority," says Brooke Bassett, attorney for the Trade and Commerce Agency in Sacramento.

To stay in the bidding, the Trade and Commerce Agency assembled a "Red Team" with two dozen public agency participants and 18 private organizations representatives. Its job was to come up with a credible offer, garnering as many price breaks, tax waivers and procedural shortcuts as possible.

The Wilson administration offered its Red Teams as proof it was vigorously pursuing projects like the Intel factories.

"When local people see the direct benefits of expansion, they come to the table with offers of their own," says Wright, a Wilson appointee and architect of the Red Team approach.

Examples of the incentives it wrangled:

■ A \$1,000 price cut on moving expenses and a 2.5 percent discount on the purchase of a new home in the Folsom area, the expense borne by local home builders.

■ A \$700 discount on mortgage costs, paid by local mortgage bankers.

■ More than \$11.4 million worth of employee recruitment,

screening and training incentives, coming from a variety of public and private sources.

■ Discounted hotel and car rental rates coming from local businesses.

■ A \$12.7 million Prairie City interchange provided by the California Department of Transportation, as well as a \$1.2 million Iron Point Road.

■ Waiver of all fees associated with obtaining expedited permits. The cost of the waivers and the team to coordinate the effort: \$8.1 million, absorbed by public agencies.

■ Special rates for electricity and water consumption, provided by local utilities.

## No waiver on sewer fees

Intel didn't get everything it wanted, of course. For example, it wanted sewer fees waived for 10 years. The state agreed to take care of sewer-connection fees but said Intel would have to pay discharge fees.

It asked that employees and their dependents instantly be granted resident status for lower, in-state college tuition. The state is prohibited from cutting such a partisan deal. But the state made moves where it could.

Intel's "ideal incentive matrix" was supplemented by scores of answers to questions seeking information on such things as wage rates, unions, work stoppages, utility capabilities, transportation, housing, the labor pool and education.

The demands, offers and counteroffers fill a large three-ring binder.

"This is the most important piece of documentary evidence I've seen, showing how companies like Intel hold a gun to the heads of officials and say, 'Com-

ply or else,'" said Ted Smith, attorney for the Silicon Valley Toxics Coalition, a longtime critic of the chip industry. "I am pleased, though, that California wasn't into much of a giveaway mode."

## Can't win 'em all

The state realizes it can't land every plant for which it competes, said Wright, head of the Trade and Commerce Agency.

"At the state level, we've focused on incentives that can be applied across the board for all companies," she said. "The governor has been quite a taskmaster, wanting to know the exact cost and wisdom of each incentive."

New Mexico, for example, agreed to finance debt stemming from Intel's plant at Rio Rancho with 30-year bonds. The state bought the land and is leasing it back to Intel, eliminating property taxes. But most industry watchers believe the factory will have a useful life of only 10 to 15 years, by which point the plant will be out of date.

For their part, Intel officials say it's unfair to depict them as demanding or greedy. After all, the Santa Clara chip maker didn't become the biggest semiconductor company in the world by lazy negotiating.

"Many states say to us, 'Tell us what you'd like to have,'" said Chuck Pawlak, head of corporate real estate and site selection for Intel. "We never expect to get all we ask for, and they know that. But it gives us a way of comparing different offers."

The main thing for Intel is to shorten the approval process.

"The one thing we can't abide by is a lengthy process," says Pawlak. "Time is money. If it takes us longer to get up and running on Site A than Site B, that

## INTEL'S LIST OF DEMANDS

Intel's request for incentives	California's offer
Low or zero income tax	9.3 percent
Increase air-pollution emissions by 100 tons per year	No
No protection of flora and fauna	Minor review. No cost to Intel.
Guaranteed three-month permit timetable	6.5-month guarantee; fees and staff paid
Off-site roads to meet needs with no cost to Intel	Free interchange
Air fare, hotels, car rental 10-20 percent below corporate rate	Yes
Employee moving and storage at 50-60 percent less than standard rate	\$1,000 when new home purchased
Employee moving-the-title fees discounted at 1-2 percent of the home purchase price	\$700 discount on mortgage cost
Apartment rental discounts of 5-10 percent; 50 percent deposits	No
In-state tuition status for employees and dependents	State statutes prohibit this

Source: State of California

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can cost us billions in lost revenue."

The selection process, which pits states against each other, is a concern of the National Governors' Association. In March, it issued a report suggesting that states not get coerced into offering more than they can afford.

The report recommends that governors exchange information if they feel a company is involved in "counterproductive interstate competition in order to increase the value of a subsidy package."

Rather than giveaways benefiting single companies, states should focus on creating a business climate that helps existing businesses as much as new businesses, said the governors' association.

Subsidies should take the form of investments in people, result-

ing in a better educated and more highly skilled work force. Physical improvements should benefit whole communities, not just single sites. By those measures, California's proposal stands up well.

In the past year, the state made permanent the research-and-development tax credit, reinstated loss carry-forwards to benefit money-losing start-ups, made manufacturing equipment exempt from sales taxes and reformed the unitary tax, so corporations now are taxed only on U.S. profits.

Ultimately, Intel picked New Mexico and Arizona for its next two "fabs" because it already had chip factories at its Rio Rancho and Chandler sites — a consideration the state didn't know mattered until after the competition was completed.