

# Will Amazon Fool Us Twice?

Why State and Local Governments Should Stop Subsidizing the Online Giant's Growing Distribution Network



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Why State and Local Governments  
Should Stop Subsidizing the Online  
Giant's Growing Distribution Network

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# EXECUTIVE SUMMARY

Amazon aggressively gained market share in part by long avoiding, and then minimizing, the collection of sales taxes. As it became less and less able to avoid collecting sales taxes—because it couldn't avoid locating warehouses in more states—it learned that it could sometimes extract lucrative taxpayer subsidies for them, and methodically started doing so in 2010–2011.

Now, with its massive Amazon Prime user base, the online giant is evolving into a premium-service, rapid-delivery business, which requires dozens more fulfillment and sortation centers closer to affluent communities. Yet again, Amazon is seeking a new round of favors from taxpayers. And all too often, state and local governments are bowing to the company's demands for economic development subsidies.

Indeed, since the start of 2015 alone, governments in two dozen places have committed at least \$241 million in subsidies to Amazon facilities: property tax abatements, tax increment financing (TIF) districts, infrastructure improvements, training grants, corporate income tax credits—even sales tax exemptions on building materials, machinery and equipment. There are likely more subsidies that can't be quantified here due to lack of disclosure. This followed some \$600 million in subsidies during the previous decade, a substantial portion of which was tied to deals involving sales tax collection.

Over the last decade, Amazon's warehouse presence has grown immensely as it has soared to be the #8 retailer by sales: from roughly six million square feet of space in just two states to nearly 100 million square feet scattered throughout roughly half the states. Some of the recent deals are relatively small, totaling less than a million dollars in property tax breaks. Others

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are quite costly: \$43 million in Baltimore, \$17 million for two facilities in Ohio, \$32 million in Kenosha, Wisconsin, and \$22 million for locating in Pennsylvania.

Public officials have been willing to subsidize Amazon despite the fact that its same-day delivery business plan is well known. It requires at least one and sometimes multiple facilities in or near every major consumer market in the U.S. Proximity to lots of Prime members and access to good road infrastructure to get goods in and then out on delivery are the site location variables that matter most to Amazon now.

In its haste to build the necessary capacity, Amazon leases many of its new logistics facilities, sometimes opening regardless of subsidy packages and at times possibly leaving subsidy dollars unclaimed from governments eager to give them away. Market forces are driving the company to open where it does and to do so with haste. And Amazon's warehouse spree is not yet complete.

*We conclude that elected officials would best serve the public interest by telling Amazon: no more deals.*

Public officials must recognize their communities' value. They need to recognize that the prize on the bargaining table isn't an Amazon facility: it's more access to the local market for another aggressive retailer growing at the expense of existing retailers. To their credit, some of the public officials we interviewed have a good sense of their bargaining power, informed by business basics, not incentives.

We conclude that elected officials would best serve the public interest by telling Amazon: no more deals.

# INTRODUCTION: THE RISE OF AMAZON

The rise of online retailing, led by Amazon, has completely altered the U.S. retail landscape. Consider this: during the 2015 Thanksgiving weekend, more consumers shopped online (103 million) than at physical locations (102 million).<sup>1</sup> The amount spent online during “Cyber Monday” (just after Thanksgiving) shot up by a half billion dollars over 2014 to \$3.1 billion, and 36 percent of that was spent at Amazon.<sup>2</sup> Before the Great Recession, the National Retail Federation ranked Amazon #25; by 2015, it was #8.<sup>3</sup>

In its early years, Amazon built its following by offering a much broader selection of goods—especially books, CDs and DVDs—than a “bricks and mortar” store could provide. Today, with a far wider array of products for sale, its focus is on convenience, particularly the promise of rapid delivery. Its Amazon Prime, a \$99 annual membership that provides free two-day shipping on many items, has become integral to the company’s growth, with a large (but undisclosed) number of subscribers.

In order to deliver goods on the same day (or eventually even in the same hour), Amazon must build or lease many more logistics facilities close to population centers. It has been doing so aggressively: spending \$13.9 billion between 2010 and 2013 and continuing to make large capital investments on an annual basis since then.<sup>4</sup> The company discloses little about its distribution network, but analysts estimate that as of late summer 2016, the number of large warehouses had grown by a factor of four between 2009 and 2015.<sup>5</sup> In 2016, Amazon is

also said to have 23 sortation centers; these are smaller facilities that bundle deliveries by ZIP codes.<sup>6</sup>

Prior to 2007, the company had a minimal presence along America’s densest population corridor from Boston to Washington, D.C., with small facilities in Delaware and New Hampshire. Today, it has two dozen much larger facilities serving the area, including six in eastern Pennsylvania, four in New Jersey, and four more in New England.

The global consulting firm McKinsey sees a fundamental shift: “[Amazon] has altered its strategy of building its warehouses in states with lower labor costs and sales tax advantages, and is moving new warehouses closer to the major metropolitan areas, even though this is more expensive.”<sup>7</sup> McKinsey explains: “Same-day delivery is a consolidation play. A large network with sufficient volume will benefit from significant economies of scale and outperform smaller networks,” emphasizing that areas with

at least 500 inhabitants per square kilometer provide ideal environments for the company's strategy.<sup>8</sup> In other words, Amazon is now willing to accept higher costs for space, labor and taxes; the critical variable is proximity to dense urban markets.<sup>9</sup>

The other key variable is good roads. To cite Amazon's own press release for a new fulfillment center in Shakopee, Minnesota (a Minneapolis suburb), the location won because it has "market access, transportation infrastructure and superior workforce quantity and quality."<sup>10</sup> A fulfillment center in Eastvale, California is noted for being at the junction of two major freeway exchanges with a road network designed to handle traffic to a warehouse.<sup>11</sup> And Haslet, Texas' analysis of its competitive advantages for the fulfillment center now located there notes that it is adjacent to an airport where UPS and FedEx operate, and also close to major trucking hub.<sup>12</sup>

Amazon uses fulfillment centers and sortation centers of varying size and functionality. Fulfillment centers are about 1 million square feet in size and presently require between 1,000 and 2,500 workers. They receive shipments from suppliers and fill customer orders. Sortation centers are much smaller facilities, usually about 200,000 to 300,000 square feet with about 100 to 300 workers. They are located close to fulfillment centers and they group shipments from fulfillment centers for delivery into specific zip codes around the region.

Until recently, deliveries to home and businesses were made by a mix of the U. S. Postal Service (40 percent), United Parcel Service (20 to 25 percent), and FedEx (15 to 20 percent).<sup>13</sup> However, Amazon has recently started to add its

own contractors and make some of these "last mile" deliveries in small trucks displaying the Amazon "smile" logo.<sup>14</sup>

Amazon's same-day delivery option is not available to everyone. McKinsey notes that it targets those who most favor convenience and/or have the most disposable income: younger generations, smaller households in denser neighborhoods, people who work long hours, and high-income consumers.<sup>15</sup> Those biases made headlines in April 2016 when the company rolled out same-day service in new areas and a Bloomberg investigation found it excluded predominantly African-American ZIP codes.<sup>16</sup> Amazon stated that it launched the service in areas with the highest concentration of Amazon Prime members, suggesting that Prime membership skews white as well as affluent.

## From Sales Tax Avoidance to State and Local Subsidies

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For years, Amazon relied on a controversial tactic to keep its prices lower than bricks-and-mortar competitors: avoiding the collection of the sales tax.<sup>17</sup> While retail stores are required to collect sales taxes when consumers purchase products, online retailers could legally avoid charging sales tax as long as they avoided having a physical presence in a state, such as a store or warehouse. The legal term for such presence is "nexus."<sup>18</sup> This explains why Amazon first located its fulfillment centers in states that have either small populations or no sales tax, or in the case of states such as Delaware and New Hampshire, both. In 2010, Amazon operated in 17 states but collected sales taxes in only four.<sup>19</sup>

Such sales tax avoidance has grown very costly for state and local governments. In 2007, it was estimated to cost governments around the country \$7.2 billion, growing to \$9.9 billion in 2010.<sup>20</sup> By 2012, the National Conference of State Legislators estimated, states were losing some \$11 billion a year from the online sales tax loophole.<sup>21</sup> That is 4.5 percent of the \$242.7 billion in sales and gross receipts taxes that all U.S. states collected in 2012,<sup>22</sup> with Amazon the single largest driver of that loss. Amazon's precise share isn't known, but a later estimate (by which time Amazon was more often collecting sales tax) put the cost of Amazon's sales tax avoidance at \$625 million in 2014, most notably in Missouri, Colorado, Louisiana, Alabama, and Oklahoma.<sup>23</sup> Absent federal action on the issue, states were left to consider their options and fix these losses through legislation and administrative rules.

During the Great Recession, state and local sales tax revenues plummeted as purchases of discretionary goods declined. Legislators were forced to reduce the quality of public services or increase taxes, and often did both. Closing the Amazon sales tax loophole became one proposed way to shore up budgets and also level the playing field for merchants crying foul over Amazon's tax-avoiding business model. In some states, it had been operating, in its view, without nexus for many years, arguing that fulfillment centers only created a sales tax collection remittance requirement when it processed returns.<sup>24</sup> When numerous states began closing the loophole with so-called "Amazon laws" to tax online sales (and sometimes administrative actions to include fulfillment centers within nexus), Amazon pushed back, threatening to leave and take jobs with them.<sup>25</sup> With jobs as a cudgel, Amazon's lobbyists opposed bills

and orders; when it had to concede, Amazon negotiated special benefits in exchange for giving in on the sales tax loophole.

A pivotal moment came in 2010 when Texas Comptroller Susan Combs leveraged the power of her state's massive market. After conducting an extensive audit, her office concluded that Amazon, which had been operating a fulfillment center in Irving for some time, had failed to remit to the state \$269 million in uncollected back sales taxes from 2005 through 2009. Moving forward, her office estimated the remittance obligation from Amazon alone at \$70 million a year.<sup>26</sup>

Texas wasn't the only state where Amazon operated a distribution center without collecting and remitting sales taxes despite nexus rules: the company employed the practice in Arizona, Indiana, Nevada, Pennsylvania, and Virginia as well.<sup>27</sup> The company's explanation reveals how far it would go to avoid collecting taxes: Amazon claimed that, despite fulfilling orders from its own inventory in its own warehouses, transactions between shell subsidiary companies do not require sales tax remittance because they were separate companies.<sup>28</sup>

Amazon reacted to the Texas Comptroller's finding first by closing a distribution facility reported to have employed 120 workers.<sup>29</sup> However, realizing the difficulty of winning and its eventual need to better serve the second most-populous state, Amazon decided to bargain for as many tax concessions as it could. Amazon offered to begin collecting the sales tax, but only in four and a half years. It also dangled the prospect of building numerous distribution facilities and employing 6,000 workers.<sup>30</sup> The prospect of the jobs proved irresistible to the

Lone Star State; it eventually gave up retrieving sales tax revenue from 2005 to 2009, and Amazon agreed to begin collecting sales tax in Texas in 2012.<sup>31</sup> In an effort to clarify the ambiguity, Texas enacted a law in 2011 clearly defining a distribution center or a place of business as the nexus benchmark.<sup>32</sup>

Other states agreed to longer delays in sales tax collection start dates. For example, South Carolina was one of about ten states that cut a temporary deal<sup>33</sup> and became the last among those states to start collecting sales taxes from Amazon transactions, in 2016.<sup>34</sup>

Michael Mazerov, expert on interstate taxation issues at the Center on Budget and Policy Priorities, looks back at the loophole closure in Texas as a game-changer. It “completely turned the tide nationally in terms of how Amazon dealt with this issue... [it] changed their position. [States] started collecting tax and they started moving quickly, collectively.”<sup>35</sup>

Today, roughly half the states have passed an “Amazon law” to tax online sales with Amazon now collecting taxes in 29.<sup>36</sup> How these laws work varies: administrative rule changes, new audit reviews by state budget agencies prompting reconsideration, or new legislation that take a variety of different approaches (often including “click-through nexus”).

But Amazon continues to resist creating nexus where it can: in numerous smaller states (including Arkansas, Maine, Missouri, Rhode Island, and Vermont) Amazon has severed ties with in-state sales affiliates (i.e., vendors who provide some of the hundreds of thousands of items Amazon offers or who provide key business services to the company) in order to avoid having

nexus. In these cases, Amazon builds distribution facilities near these states’ borders but not within them.<sup>37</sup> For example, in 2016 Amazon expanded its capacity in Illinois across from St. Louis and in Kansas across from Kansas City, indicating it is still avoiding collecting sales tax in Missouri, estimated in 2014 to cost the state \$60 million a year from Amazon alone.<sup>38</sup>

These state actions took place while Congress was perennially deadlocked on a proposed Streamlined Sales Tax bill that would have created a 50-state e-commerce solution. Amazon has always expressed tacit support for federal laws governing a Streamlined Sales Tax solution but only contingent upon provisions that would make small business compliance with the law difficult.<sup>39</sup> Lacking federal action, the states took things into their own hands.

Amazon no doubt knew that its sales tax advantage couldn’t last forever, and that is especially true now that its same-day delivery business model expands into more markets. The Texas experience taught the company it could use the promise of jobs to leverage more subsidies out of state and local governments. Though as situations like Missouri show, even as Amazon takes on a new approach, it still hasn’t given up entirely on its old tactics. As of November 2016, Amazon still fails to collect the sales tax in 17 states which are home to 14 percent of the U.S. population.<sup>40</sup>

The new Amazon laws created a critical “test tube” that provided evidence of how much advantage Amazon had enjoyed by not collecting sales tax. According to researchers at Ohio State University, Amazon’s sales plunged by 9.5 percent between 2012 and 2013 in California, New Jersey, Pennsylvania,

Texas, and Virginia when those states newly required the company to collect the sales tax. Conversely, in the same states, on big-ticket items costing \$300 or more, sales at local brick-and-mortars rose some 6.5 percent (suggesting consumers returned to local loyalties absent the sales tax differential).<sup>41</sup> With the final cost of consumption on a level playing field, states began to enjoy higher sales tax collections from both online and brick-and-mortar retailers as some consumers returned to shopping locally.<sup>42</sup>

When Amazon's business strategy hinged upon sales tax avoidance, it could deliver from far away in a few days. This drove the company to serve markets using massive centralized fulfillment facilities, such as those in Kentucky near UPS' massive hub in Louisville (see previous map in 2006). Today, with states closing the Amazon loophole and the company's business model shifting to same-day delivery, proximity is everything.

## Bricks and Mortar Subsidies Given to Amazon

Once Amazon could not avoid changing its sales tax collection practices, it used the prospect of that new tax revenue, and more warehouse jobs, to negotiate for economic development subsidies to underwrite the cost of expanding its distribution system. One of the most lucrative deals was signed with South Carolina, which in 2011 agreed to provide \$61 million in state and local subsidies for a facility in West Columbia while also giving the company another five years in sales tax holidays.

Using data from Good Jobs First's Subsidy Tracker and other sources, a recent report by the Institute for Local Self Reliance estimates that in the period from 2005 to 2014, Amazon was awarded at least \$613 million in economic development subsidies for its distribution facilities.<sup>43</sup>

In early 2012, Amazon hired a prominent specialist to direct its subsidy-seeking efforts: attorney Michael Grella, who had worked more than a decade at PricewaterhouseCoopers (now PwC) and then at Grant Thornton, specializing in economic development tax credits and incentives. His job title is rare if not unique among major retailers: Director of Economic Development. His title at Grant Thornton was "Director-Economic Development, Credits & Incentives" and as recently as November 2015, he remained a member of the Institute for Professionals in Taxation's "2015 Credits and Incentives Symposium Committee."<sup>44</sup>

With its rapidly-evolving distribution strategy and new internal tax-break expertise, Amazon set out to expand its physical presence, relying less on sales tax avoidance and more on economic development awards. Since the beginning of 2015, its new facilities have tallied at least \$241 million in subsidies, per the table on page 9. (See the Appendix for more details on the packages).

Reflecting variations in state laws and local practices, the types of subsidies awarded to Amazon vary. In Baltimore, the city and the state awarded the company some \$43 million composed primarily of Enterprise Zone Tax Credits for locating in what had been a General Motors automotive assembly plant.<sup>45</sup> In Jacksonville, Florida, the \$18 million package

included tax refunds, grants, workforce training, and special road infrastructure enhancements.<sup>46</sup> A second secretive package from Jacksonville, under planning for months under the code name “Project Velo” and announced in November 2016, revealed a second infusion of subsidies costing at least \$8.3 million for a subsequent facility.<sup>47</sup>

**TABLE 1. Subsidies Awarded To Amazon Facilities Opening Since January 1, 2015**

Place	Amount of Subsidies
California	\$1,750,000
Windsor, Connecticut	\$3,900,000
Davenport, Florida	\$840,710
Jacksonville, Florida	\$26,645,000
Lakeland, Florida	\$4,500,000
Miami, Florida	\$6,200,000
Braselton, Georgia	\$504,023
Joliet, Illinois	At least \$29,750,000
Edgerton, Kansas	At least \$1,800,000
Fall River/Freetown, Massachusetts	\$14,889,275
Stoughton, Massachusetts	\$3,490,000
Baltimore, Maryland	\$43,000,000
Shakopee, Minnesota	\$5,766,414
North Las Vegas, Nevada	\$1,800,000
Reno, Nevada	\$1,364,800
Etna, Ohio; Obetz, Ohio	\$17,543,000
Twinsburg, Ohio	At least \$270,000
Pennsylvania	\$22,250,000
Dallas, Texas	\$5,000,000
Houston, Texas	\$7,000,000
San Marcos, Texas	\$11,000,000
Kenosha, Wisconsin	\$32,100,000
<b>TOTAL</b>	<b>At least \$241,363,222</b>

While local subsidies were apparently not included in Harrisburg, Pennsylvania or San Bernardino County, California, state packages included tax credits for both places and additional job training and direct grants in Pennsylvania. In New Jersey, the state’s Urban Enterprise Zone program specifically is enabling Amazon to charge a lower sales tax rate relative to the rest of the state. Subsidies at the Kenosha facility added up to some \$32 million sourced from local Tax Increment Districts and state tax credits which jumped by \$3 million in cost to \$10 million total during negotiations.

## Many Public Officials Understand Site Location Business Basics

We reached out to numerous public officials to perform this research, to obtain details omitted from public documents and media reports. In these interviews, many officials expressed to us the importance of business basics—not incentives—when it comes to Amazon’s site location decisions.

Numerous regions selected by Amazon have focused local economic development efforts on attracting logistics facilities. These efforts have typically involved zoning, land parceling and road improvements as well as workforce training expenditures. Some officials flat out stated that their regional economic strengths, not tax-break inducements, drove the decision to locate there.

In Edwardsville, Illinois, the city’s representative who worked with Amazon suggested that the site’s location was critical to the company’s business operations.<sup>48</sup> New federal safety regulations to reduce traffic fatalities limit the

number of hours a truck driver can operate, making Edwardsville an attractive hub for companies like Amazon. In that location, as well as in Chicago, officials stated that inducements weren't justified because the company wasn't cleaning up a brownfield site (a clear reason they stated that might justify an incentive).<sup>49</sup> In both locations, Amazon located away from pockets of poverty.

Aside from location, local Pennsylvania officials at regional business-backed economic development agencies, normally playing an integral role in negotiating subsidy packages but excluded from the Pennsylvania Governor's process of awarding the secretive deal, emphasized that the company would have come to the area no matter what; they emphasized that the local pool of skilled logistics workers gave the region an advantage.<sup>50</sup> The Harrisburg official we spoke to said he learned about the package only after the Governor's office awarded it and issued a press release. He stated openly that his office had no intention of awarding a local subsidy package to Amazon.

A similar argument came from local officials in San Bernardino County in California: they stated that they do not award local subsidies to logistics facilities because the County's business basics give it all the strategic advantages it needs.<sup>51</sup> Yet Amazon received \$1.75 million from a state-controlled program, California Competes.

These episodes indicate how sophisticated Amazon has become in gaining entrée to subsidies, navigating variations in the dynamics between state and local governments.

Many officials expressed a kind of shock about the speed with which Amazon moves to open a new facility, even at times forgoing the potential of additional subsidies in doing so. In Braselton, Georgia, an expert said he was surprised the company didn't seek real estate tax breaks, though it did receive personal property tax breaks at its facility there. In his recounting of the details, the company chose to lease a warehouse on spec in a hurry, having found a location that suits its needs.<sup>52</sup>

Amazon once even juxtaposed sales tax collections with more aggressive economic development tactics. When New Jersey Gov. Chris Christie clamped down on Amazon to start collecting sales taxes, a company spokesperson said: "Certainly we're going to have to work out the economic development arrangements."<sup>53</sup>

# Notable Instances Where Amazon Shifted from Sales Tax Concessions to Economic Development Subsidy Deals

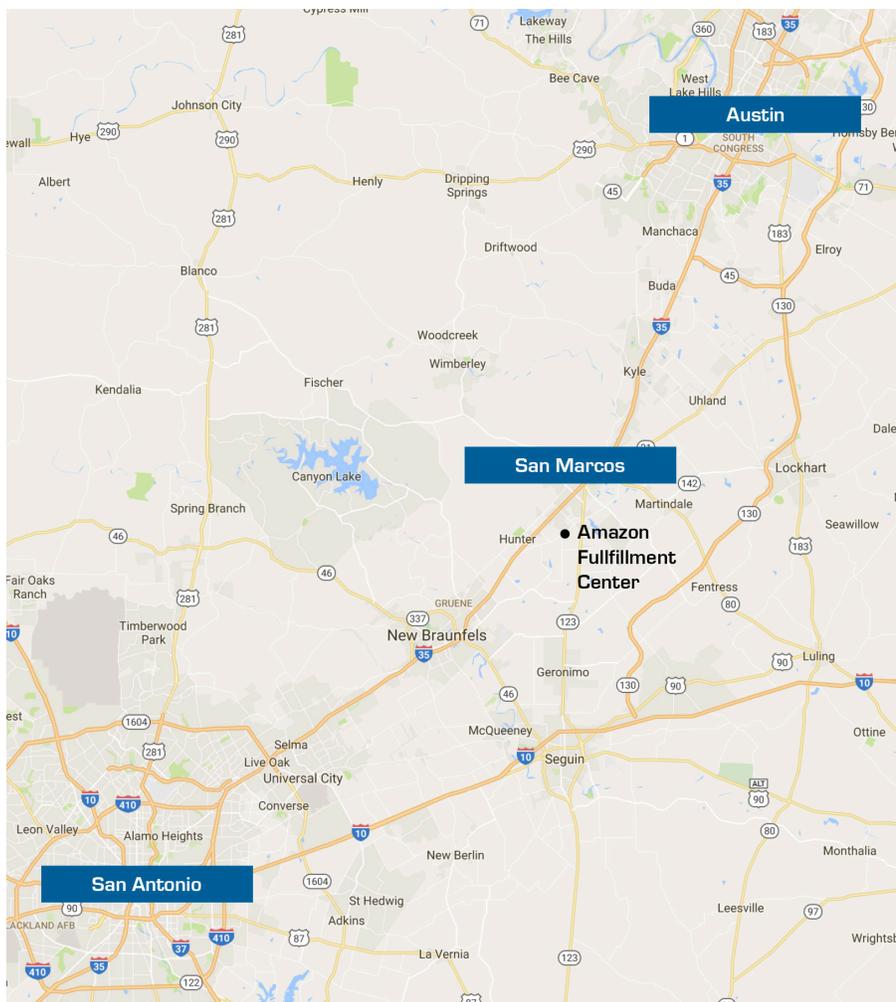
## San Marcos, Texas

**Subsidies:** Total package value has not been disclosed; estimated \$11 million from the city and the county in property tax abatements and sales tax diversions

- 2005: Amazon opens its first Texas fulfillment center in Irving

- 2010: Controversy erupts after Comptroller Susan Combs tries to collect \$269 million in uncollected sales taxes from 2005–2009
- 2011: Amazon closes Irving center
- 2012: Amazon begins collecting sales tax in Texas after a deal is struck that also includes new facilities and jobs
- 2015: San Marcos awards subsidies to an Amazon fulfillment center

Since Texas struck its deal for online sales taxes in 2012, the number of Amazon distribution facilities there has skyrocketed: three opened in 2013, two in 2014, two in 2015, and three already in 2016. Among the 2015 deals is a facility in San Marcos, a city strategically located at the intersection of Interstates 35 and 10, between Austin and San Antonio, with connections as well to freight rail lines.



On Monday, July 20, 2015, it was announced that a secret project dubbed by officials “Project Endurance” was actually a request from Amazon for a property tax abatements (known as Chapter 380).<sup>54</sup> Just one day after Amazon’s identity was revealed, the deal was brought before the city council for a vote, and it unanimously approved an agreement awarding Amazon a 40 percent property tax

abatement for up to fifteen years as well as an 85 percent abatement on personal property taxes for machinery and equipment.<sup>55</sup> The lack of advance identification of Amazon as the applicant effectively precluded public scrutiny of and comment on the deal.

There were also energy subsidies worth a quarter million dollars involved in the deal. Officials would not state the estimated cost of the subsidies publicly.<sup>56</sup> And despite the state having previously foregone hundreds of millions of dollars in lost *state* sales taxes on goods sold by the retailer, San Marcos also gave up a huge share of the *local* sales tax increment on goods the company sold (1.5 percent on top of the state increment), agreeing to let Amazon effectively avoid between 15 to 85 percent of the local sales tax obligation (on a sliding scale tied to annual gross sales shipped out of the location).

The deal requires Amazon to create 350 full-time jobs, with the potential for an additional five years of subsidies if it ends up employing 1,000 full-time workers. Information about total payroll was omitted from public documents before the meeting although the company's application claimed an average annual wage of \$32,240.<sup>57</sup> But a city council member was disturbed to find job postings on Amazon's website at wage rates far below what was stated on the application. "The jobs that come along with this incentive and this employer, which we all support and the whole community supports, but that those jobs would be identified in the payroll range that we were told... [The application] tells me \$32,240, but when I look on the website, the wages are significantly lower than that in the \$10 to \$12 an hour range. Is there any clarification from anyone on that, maybe from the company?"<sup>58</sup> The discrepancy

did not get clearly resolved, and an Amazon consultant claimed that releasing information about wages would pose a competitive disadvantage.<sup>59</sup>

Despite the city's hasty approval process awarding the company a potential \$9.6 million annually in sales taxes plus other lucrative incentives (local officials refuse to clarify the total potential costs), Amazon did not finalize its decision right away.<sup>60</sup> The company waited until the next month to agree to a final package that included the \$11 million in property tax abatements from the city and the county.<sup>61</sup>

Months after approving the Amazon subsidies, public officials seemed to regret their rushed lapse on wages. In February of 2016, San Marcos enacted a \$15 minimum wage for subsidized employers going forward (but not retroactively covering Amazon).<sup>62</sup>

## Chattanooga, Tennessee

**Subsidies:** \$36.9 million

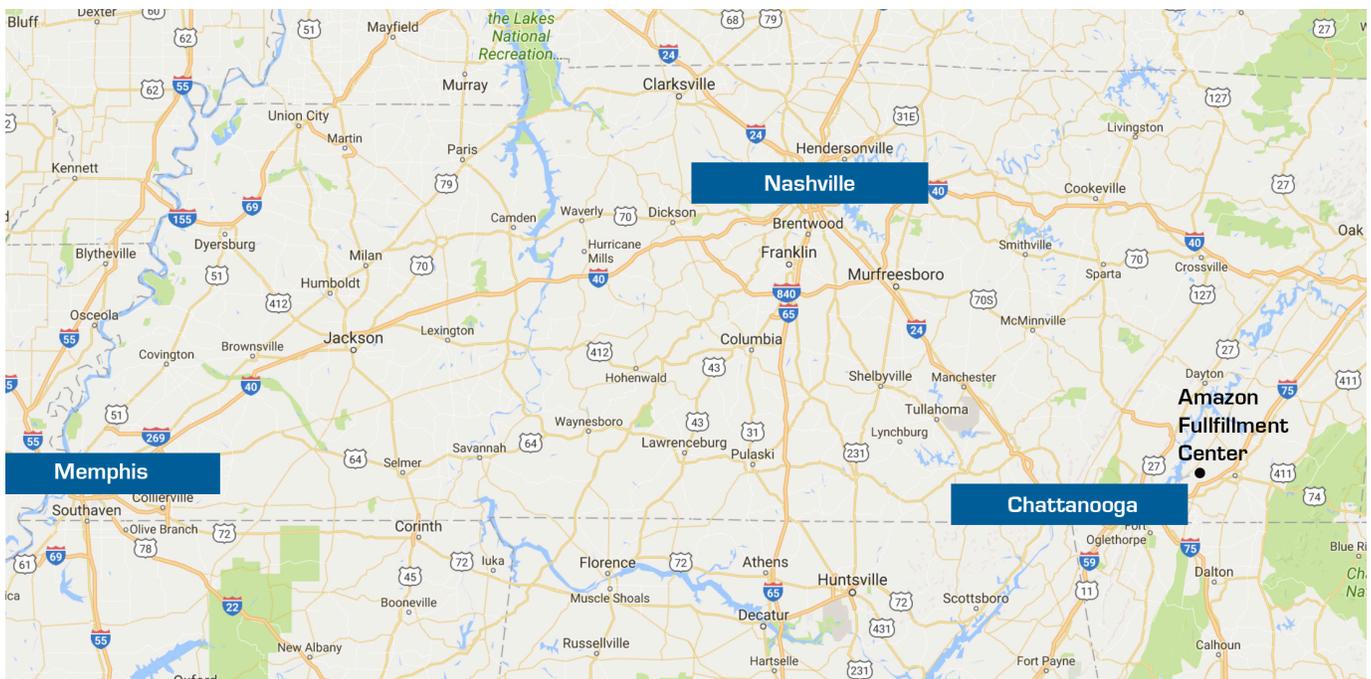
Including: \$30 million in property tax rebates from the City of Chattanooga;

80 acres of free land (jointly developed by the city and Hamilton County as part of a military base clean up);<sup>63</sup> and \$4 million in site preparation costs borne by the state of Tennessee

- 2011: Three fulfillment centers open simultaneously in Chattanooga, Lebanon, and Charleston, the first to open in Tennessee
- 2011: Sales tax controversy erupts after Attorney General issues opinion stating that building a distribution center constitutes “nexus” after Amazon claims it would not
- 2014: Amazon begins collecting sales tax in Tennessee after deal is struck

In late 2010, Amazon was reported to be in negotiations with state and local officials for two large facilities in the counties surrounding Chattanooga.<sup>64</sup> Public officials were bound to secrecy by confidentiality agreements, but the Cleveland Daily Banner reported that the company was interested in a 116-acre parcel in Bradley County bordered by two highways, including Interstate 75.<sup>65</sup> Chattanooga sits half-way between Atlanta and Nashville.

The Bradley County facility would employ just 226 full-time employees, while its temporary workforce would swell to as many as 800 during peak demand. Average salaries for full-time workers were reported at about \$32,000 per year, however, temporary-worker wages were omitted from media mention. The Hamilton County facility was projected to employ some 1,200 workers: according to the development agreement there, Amazon is required to create 1,249 jobs at an average annual wage of at least \$30,500.<sup>66</sup> As of late 2010, officials were in



negotiations with the company for approval of Payment-In-Lieu-Of-Tax agreements for both sites (PILOTs are usually deep discounts in property tax payments). Public officials emphasized later that the facility could create spin-off activity at major freight carriers like the U.S. Postal Service, UPS, and FedEx (which is headquartered in Memphis).<sup>67</sup>

Only late in the negotiations did officials go public with important details about the package. Public officials in each county were reportedly worried they would lose a facility to the neighboring jurisdiction.<sup>68</sup> Later, officials were worried that South Carolina would get the jobs. In the end, both counties and South Carolina got facilities. Whether that was its intention all along is unclear, but Amazon clearly could have benefitted from nervous public officials being told about competing jurisdictions.

By December 2010, Amazon had publicly thanked both outgoing Gov. Phil Bredesen and incoming Gov. Bill Haslam for their seamless cooperation, but there remained an unresolved issue: collecting Tennessee sales tax.<sup>69</sup> And now there was also new heat on the issue: Texas was challenging Amazon's sales tax avoidance; its Comptroller was seeking \$269 million in back taxes.

Although Amazon was now approved for subsidies worth an estimated \$36.9 million in Chattanooga, the state had failed to leverage the warehouse subsidies to resolve the nexus issue. Instead, Gov. Haslam left the decision on whether to require collection of the sales tax up to the state revenue commissioner.<sup>70</sup> Tennessee has no personal income tax; sales taxes account

for about two-thirds of its general fund revenues and Amazon's non-collection had been estimated to cost the Volunteer State between \$24 and \$60 million per year. When the state revenue department reviewed the matter, Amazon threatened to pull out of the Chattanooga deal as well as two more.<sup>71</sup>

By March of 2011, inside the state's capitol, the Alliance for Main Street Fairness began a campaign to demand a level playing field for bricks-and-mortar businesses by requiring Amazon to collect the sales tax.<sup>72</sup> The Alliance works closely with the Retail Industry Leaders Association representing Target, Best Buy, and Wal-Mart. According to Associated Press reporting, state officials invoked taxpayer confidentiality laws in refusing to reveal whether Amazon would continue to be exempt from the sales tax. Ultimately, however, Gov. Haslam capitulated, agreeing to no Amazon sales tax collections until 2014 in exchange for the company opening two additional facilities in the state.<sup>73</sup>

## Shakopee, Minnesota

**Subsidies:** \$5.8 million mostly in the form of public infrastructure funded by tax increment financing (TIF)

- 2012: Minnesota Retailers Association makes sales tax collections a top legislative issue
- 2013: Minnesota passes “affiliate nexus” law creating sales tax remittance requirements if the company does business within the state
- 2013: Amazon cuts ties with Minnesota businesses to avoid nexus
- 2014: Amazon begins collecting sales tax and re-establishes ties with affiliates
- 2015: Amazon opens fulfillment center in Shakopee

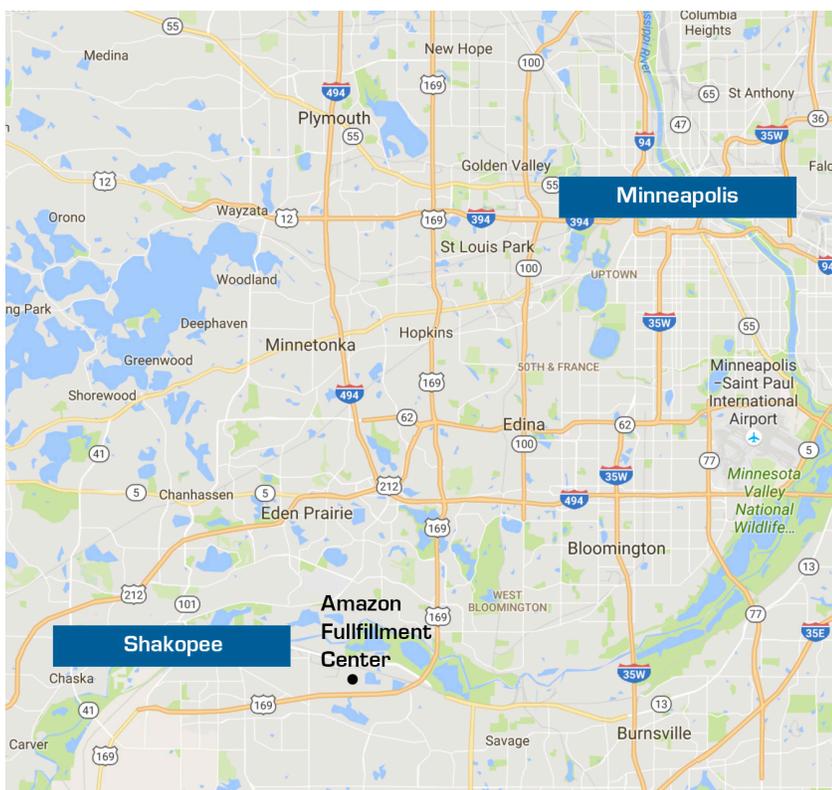
Amazon proposed its first Minnesota fulfillment center in Shakopee, a suburb southwest of Minneapolis, in 2015 when the state’s merchants had been pushing for years to tax online sales. Declaring that “[b]rick-and-mortar retailers have become a show box for online sales,”<sup>74</sup> the Minnesota Retailers Association had made sales tax collections its top issue in 2011–2012. Online sales tax avoidance cost Minnesota an estimated \$394 million for 2010 alone.<sup>75</sup>

During the 2012 legislative session, legislators from both sides of the aisle pushed for and won legislation requiring online retailers to collect the sales tax.<sup>76</sup> The state passed an affiliate nexus law and Amazon quickly cut ties to in-state vendors. For reasons unstated but possibly in response to other retailers’ pushing to expand online sales in the Gopher State, Amazon reversed course and resumed collecting the sales tax in 2014 and by 2015 sought to open

a fulfillment center. Shakopee would house the company’s first physical facility creating nexus in the state.<sup>77</sup>

Better than some other instances, Shakopee residents were afforded an adequate voice in the process. By February of 2015, it was publicly reported that Amazon was negotiating to buy a 66-acre parcel with good highway access into the Twin Cities metro area (but with poor transit access for prospective employees without cars).<sup>78</sup>

Amazon hoped to break ground by the end of 2016. Early reports suggested that Amazon asked for \$6.4 million over the course of a nine-year tax break.<sup>79</sup>



As discussions continued, the Mayor realized that the facility would require major improvements to existing infrastructure and roads to handle Amazon-level traffic volumes. Amazon moved up its construction start time from the end of 2016 to June 2015,<sup>80</sup> perhaps because Wal-Mart was reportedly opening a 420,000 square foot distribution center in Mankato later that year and Target (which is headquartered in Minneapolis), was said to be experimenting with online same-day delivery.<sup>81</sup>

A new deal emerged, consisting of a \$5.77 million tax increment financing (TIF) district, including \$1.2 million in direct subsidies towards construction of the facility, \$3.4 million for road improvements, and the balance for administrative costs and another downtown infrastructure TIF plan.<sup>82</sup>

Diverse small business, environmental and labor groups turned out in large numbers for a public hearing on the TIF in February of 2015. Critics argued that Amazon's business plan is to build a distribution center in every metropolitan area to enable same-day delivery. They also said that once Amazon's subsidy runs out, it may again demand more subsidies.<sup>83</sup> Others pointed out labor shortages and the lack of transit access to the facility. When the company responded that jobs would pay at minimum \$12 an hour, Scott County's workforce development expert noted that the region already was inundated with jobs in that pay range and with those skill sets.

At the last minute, Amazon withdrew its request for direct subsidies, but still welcomed the infusion of TIF dollars for public infrastructure that would benefit the facility. Shakopee still

bonded the sum that would have been awarded as grants to Amazon, meaning it still cost the public revenue. The Minneapolis Star Tribune later obtained deal-negotiation documents through an open records request; they revealed the level of secrecy the company tried to maintain through non-disclosure agreements and project code names.<sup>84</sup> Overall, the records suggest that Amazon wanted the project to move forward no matter what, as quietly and quickly as possible.

Stung by the public debate over subsidizing a low-wage employer, Shakopee (like San Marcos) also raised its wage required of subsidized employers, and higher, to \$19 an hour. The city's economic development administrator noted that it would be nearly impossible for families to thrive on \$14.50 an hour—the city's previous job quality standard on subsidy packages.<sup>85</sup>

# POLICY DISCUSSION AND RECOMMENDATIONS

Retailing rarely deserves subsidies, and Amazon is especially undeserving of any more taxpayer favoritism.

Good Jobs First has long been very critical of subsidies granted to large retail chains and retail property companies: since 2004, we have published studies, blogs, book passages, magazine articles and web profiles critical of subsidies given to Walmart, Cabela's, Bass Pro, Target, General Growth Properties, Westfield America and now Amazon. We have also given critical comments on many retail subsidy deals to journalists.

Retailing rarely deserves subsidies because it is such a low-impact economic activity: it pays poor wages and adds little value, so it generates tiny “ripple effects.” Retailing is what happens when people have disposable income, but too few retail workers themselves earn much disposable income. As we documented 11 years ago in *The Great American Jobs Scam*, the United States is awash in excess retail space, multiple times more per capita than other developed nations. Abandoned malls (euphemistically called “greyfields”) and empty big-box stores (dubbed “ghost boxes”) blight many communities.<sup>86</sup> The fragility of this overbuilt system is all too apparent now as the “Amazon effect” pulls down occupancy rates, rents and property tax revenues.

We could invoke best-practice reforms here that we have recommended in previous studies, such as job quality standards, process safeguards to enhance public participation, and better disclosure before and after deals occur. But given that we are recommending no deals period for Amazon, we needn't go there.

Where consumers have good paychecks, retailers will come, including Amazon. As our case studies show, public officials are leveraging their states' market power to get Amazon to collect sales tax. Now they need to finish their job and stop paying Amazon to build distribution facilities that the company's business plan mandates. The \$241 million the public has spent in just the past two years alone—plus the \$600 million in the decade before that—is an enormous opportunity cost. Elected officials would best serve the public interest by telling Amazon: no more deals.

# APPENDIX: SUBSIDIES AWARDED TO AMAZON FACILITIES OPENING SINCE 2015

**TABLE 2.**

Place	Amount	Package Details
Moreno Valley, CA Rialto, CA San Bernardino, CA Tracy, CA	\$1,750,000	<ul style="list-style-type: none"> <li>California Competes Tax Credits from the state worth \$1.75 million for multiple facilities <sup>87</sup></li> </ul>
Windsor, CT	\$3,900,000	<ul style="list-style-type: none"> <li>A 60 percent tax abatement over five years<sup>88</sup></li> <li>A 50 percent reduction in building permit fees</li> </ul>
Davenport, FL	\$840,710	<ul style="list-style-type: none"> <li>A 75 percent property tax abatement for 10 years<sup>89</sup></li> </ul>
Jacksonville, FL	\$26,645,000	<ul style="list-style-type: none"> <li>State and local refunds, grants, training, and road improvements<sup>90</sup></li> <li>A second facility deal worth \$8,295,000 was revealed in November of 2016: sale of public land to a private developer; the city commitment of \$195,000 in tax incentives matched by \$780,000 from the state; \$6.7 million in grants from the city; and state training grants totaling \$620,000<sup>91</sup></li> </ul>
Lakeland, FL	\$4,500,000	<ul style="list-style-type: none"> <li>The county awarded a property tax break for the facility<sup>92</sup></li> </ul>
Miami, FL	\$6,200,000	<ul style="list-style-type: none"> <li>\$5 million in infrastructure subsidies for the facility<sup>93</sup></li> <li>\$1.2 million in state-enabled QTI Tax Refunds</li> </ul>
Braselton, GA	\$504,023	<ul style="list-style-type: none"> <li>Personal property tax abatements awarded by the county<sup>94</sup></li> </ul>
Joliet, IL	Value Unclear; Estimated of at least \$29,750,000	<ul style="list-style-type: none"> <li>No clear estimate has been made available to the public because of transparency practices denying journalists access to disclosure documents<sup>95</sup></li> <li>The Center for Tax and Budget Accountability estimates past EDGE Tax Credits awarded are worth some \$9.75 million</li> <li>Another estimate of newly awarded subsidies suggests tax breaks worth \$2 million a year for a decade</li> <li>Infrastructure grants</li> </ul>
Edgerton, KS	At least \$1,800,000	<ul style="list-style-type: none"> <li>Total value of abatement not disclosed<sup>96</sup></li> <li>\$1.8 million from the state Department of Transportation for special infrastructure</li> </ul>
Fall River/Freetown, MA	\$14,889,275	<ul style="list-style-type: none"> <li>\$11.6 million which includes TIF subsidies and personal property tax breaks<sup>97</sup></li> <li>\$3.25 million in state tax breaks, with \$1 million tied to job creation (and transferable to other companies for cash) and \$2.25 million in Enhanced Expansion Project Credits</li> </ul>
Stoughton, MA	\$3,490,000	<ul style="list-style-type: none"> <li>\$2.89 million in local tax breaks<sup>98</sup></li> <li>\$600,000 in state tax credits</li> </ul>

Place	Amount	Package Details
Baltimore, MD	\$43,000,000	<ul style="list-style-type: none"> <li>• As much as \$35.3 million in Enterprise Zone tax credits<sup>99</sup></li> <li>• \$5.5 million in One Maryland tax breaks</li> <li>• \$1.25 million conditional loan</li> <li>• \$750,000 in cash grants tied to capital investment in the facility</li> <li>• \$200,000 in infrastructure assistance from the city</li> </ul>
Shakopee, MN	\$5,766,414	<ul style="list-style-type: none"> <li>• \$3.4 million in county road improvements sourced from TIF<sup>100</sup></li> <li>• \$2.3 million in city infrastructure improvements sourced from TIF</li> <li>• It is worth noting that the increment which Amazon rejected (\$1.2 million in direct cash grants) still cost the city that tax increment as the total TIF bond costs were not lowered; under Minnesota law that increment may be utilized for related eligible costs, sent back to the proper taxing jurisdiction, or used to retire the bonds early</li> </ul>
North Las Vegas, NV	\$1,800,000	<ul style="list-style-type: none"> <li>• \$1.8 million in tax abatements (details not reported)<sup>101</sup></li> </ul>
Reno, NV	\$1,364,800	<ul style="list-style-type: none"> <li>• \$1.3 million worth of sales tax abatements, business tax abatements, and personal property tax abatements<sup>102</sup></li> </ul>
Etna, OH Obetz, OH	\$17,543,000	<ul style="list-style-type: none"> <li>• Together the facilities were awarded \$17.5 million in tax credits from the state<sup>103</sup></li> </ul>
Twinsburg, OH	At least \$270,000	<ul style="list-style-type: none"> <li>• An estimated \$270,000 in tax credits tied to employment and payroll<sup>104</sup></li> <li>• A 50 percent property tax abatement from the city of an unspecified value</li> </ul>
Carlisle, PA Easton, PA Harrisburg, PA Pittston, PA	\$22,250,000	<ul style="list-style-type: none"> <li>• \$15 million in state tax credits tied to job creation at facilities throughout the state<sup>105</sup></li> <li>• \$5 million from the Pennsylvania First grant program</li> <li>• \$2.25 million from the state in the form of employee training grants</li> </ul>
Dallas, TX	\$5,000,000	<ul style="list-style-type: none"> <li>• A \$5 million cash grant awarded by the city and county<sup>106</sup></li> </ul>
Houston, TX	\$7,000,000	<ul style="list-style-type: none"> <li>• \$7 million in county property tax abatements<sup>107</sup></li> </ul>
San Marcos, TX	\$11,000,000	<ul style="list-style-type: none"> <li>• \$11 million from the city and the county in property tax abatements and sales tax diversions</li> </ul>
Kenosha, WI	\$32,100,000	<ul style="list-style-type: none"> <li>• \$21.8 million in TIF subsidies for the facility<sup>108</sup></li> <li>• \$10.3 million in state enterprise zone tax credits<sup>109</sup></li> </ul>
<b>TOTAL</b>	<b>At least \$241,363,222</b>	

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