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The Amazon 'Top 20' and Why Incentives Matter for Muni Credit.

Amazon released its list of 20 finalists for its second headquarters. In reality there were no surprises given its requirements for access to land, education and culture facilities, and air transportation. The list includes Boston, New York, greater Washington D.C. (3 locations), Newark, Pittsburgh, Philadelphia, Raleigh, Atlanta, Miami, Austin, Dallas, Los Angeles, Nashville, Denver, Chicago, Indianapolis, and Columbus, OH. The 20th is Toronto in the Great White North.

The real game will not be based in facilities but how successful the winning city is in terms of providing subsidies and tax incentives which Amazon has not been reticent about citing as one of its major selection criterion. This is it gets really interesting. We see the ends to which some states like Wisconsin have been willing to go to attract line manufacturing jobs.

The value of the Amazon jobs versus those of manufacturing jobs is geometrically higher. The logical extension of that is to believe that the level of incentive Amazon believe its jobs should command would be that much higher. It is a high stakes game being played with significant risk to a “winning” state or locality which does not price the incentives correctly.

Maryland, for example, is dangling \$5 billion worth of incentives – largely tax breaks and transportation upgrades – will come through legislation Governor Hogan is introducing in the General Assembly known as the Promoting Extraordinary Innovation in Maryland’s Economy Act, or PRIME Act, after Amazon’s membership program. The PRIME Act would offer Amazon a tax credit for every new job at HQ2, along with credit and discounts on income and property taxes. The tax incentives are expected to cost \$3 billion, and the transportation upgrades \$2 billion. The package of incentives would require Amazon to commit to creating 40,000 jobs paying at least \$100,000.

Meanwhile, When Incentives Send Mixed Messages - A Wisconsin Case Study

There is always some risk when a state which borders a more populous one offers huge tax incentives to companies to move there that many of the jobs attracted might actually go to out of state residents. This was a concern when Wisconsin’s Foxconn state incentive deal was announced. A combination of low unemployment, proximity to Illinois, and a potential mismatch of skills to needs all contributed to that risk. Now a new advertising program being paid for by the State to attract young Chicago residents may be proving the point.

The Wisconsin Economic Development Corp. launched the \$1 million marketing campaign last week — the first of its kind in state history — with a series of ads contrasting cramped subway cars and apartments in Chicago with cheaper rent and faster commute times in Wisconsin. It claims that “In Wisconsin, the average commute is less than 22 minutes.” It includes advertising on social media and other websites, posters in health clubs, coasters in downtown Chicago bars, and ads on the interior and exterior of Chicago Transit Authority trains.

So unwittingly, Wisconsin may be proving the view that some have that it is overpaying for the Foxconn factory to locate in southern Wisconsin. Only time will tell but we are skeptical regarding

the State's efforts.

As we discussed above, tax incentives do not always work out for luring big business. Issuers could watch the above example as a way to gauge whether these deals are worth making.

Neighborly Insights

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