Taxpayer Costs Far Understated, Exceed $4.6 Billion

Good Jobs First: Amazon HQ2, HQ3 Subsidy Awards Costly, Not Yet Fully Accounted For

Washington, DC—Good Jobs First, the watchdog group on economic development incentives, today released the following statement from executive director Greg LeRoy regarding Amazon.com, Inc.’s decision to locate two new headquarters in Long Island City in Queens, New York and Crystal City in Arlington, Virginia:

“The taxpayer costs of these two deals is high, both in absolute terms and on a per-job basis, contrary to Amazon’s artful spin. Together, we believe they exceed $4.6 billion and the cost per job in New York is at least $112,000, not the $48,000 the company used in a selective and incomplete press release calculation.

“Amazon’s statement contains a classic example of cost-benefit apples and oranges. Citing only one New York State incentive, it says the sum ‘equates to $48,000 per job for 25,000 jobs with an average wage of over $150,000…’ Of course, wages cannot be compared to tax breaks since employees pay only a small percentage of their salaries as taxes to offset the tax breaks. And the cost per job in New York is actually at least $112,000 but that is not a full accounting.

“That’s just one way Amazon seeks to obscure just how lavishly it is being subsidized. It is very odd that Amazon’s own press release includes information about its economic development incentives. Such information normally comes only from governors or mayors. It suggests Amazon is trying hard to control the narrative about the cost-benefit numerator, i.e., to minimize the perceived subsidy costs while maximizing the benefits.
“Besides the cost-benefit sleight of hand, the company’s press release mentions but fails to price-tag three large New York subsidies. One is the Relocation and Employment Assistance Program. REAP gives companies a per-employee tax credit of $3,000 per year for up to 12 years, and Amazon projects hiring 25,000 employees. Accordingly, the New York City press release puts the REAP cost at $897 million.

“The second downplayed tax break is the City’s Industrial & Commercial Abatement Program (ICAP), which, like REAP is an ‘as of right,’ or automatic subsidy that a company receives simply by performing an eligible activity. ICAP partially abates property taxes for up to 25 years, an enormous subsidy if Amazon builds $3.6 billion worth of space, as projected. The City estimates the ICAP subsidy at $386 million.

“Third, New York is also granting Amazon a Payment in Lieu of Taxes (PILOT), in which, akin to a tax increment financing district, some of Amazon’s property taxes will be diverted away from the city’s general fund and instead be used to enhance the project area, further enhancing Amazon’s property value. Neither Amazon’s statement nor the City estimated the value of this subsidy, which could also reach nine figures.

“Separately, The State award under the Excelsior program is projected at $1.525 to $1.7 billion.

“Neither Amazon or New York’s press release mentions the fact that the Long Island City project site is in an Opportunity Zone, so that high net-worth individuals who have large unrealized capital gains (e.g., long-term Amazon shareholders) can invest in the project and avoid federal capital gains tax. We have no estimate of this cost.

“Similarily, the Amazon press release omits an entire new campus close to its Arlington site, announced today by Virginia Tech University. It will cost $1 billion and ‘was part of the higher education package affiliated with the proposal that led to the selection of Crystal City in Northern Virginia as one of the two new Amazon headquarters locations,’ according to a Virginia Tech press release.

“These four omissions alone—REAP, ICAP, PILOT and the Virginia Tech campus—push the taxpayer costs of the two deals to an unknown level above $4.6 billion, and we are not at all satisfied that such costs are yet fully disclosed. The Arlington tax increment financing (TIF) district, for example, also lacks a cost estimate and could be very substantial.

“We urge public officials to fully disclose the costs and terms of every single form of HQ2 and HQ3 subsidization. New York also states that $2.4 billion in infrastructure improvements have recently been announced in Long Island City.
“Finally, this decision looks like textbook Site Location 101 and a teachable moment about the zero-sum "economic war among the states." To no surprise, Amazon chose two deep pools of executive talent and political power: the nation’s financial capital and its government capital. The 238-city competition clearly looks to have been a cynical ploy to gin up pressure for more tax breaks on the finalist cities and states. The Virginia location is very close to the Pentagon, perhaps its most profitable client. And as Prof. Scott Galloway has noted, Amazon’s three headquarters will be an average of just 6.4 miles from CEO Jeff Bezos’ three residences.

“The cities making the biggest known subsidy offers did not win the deal: Montgomery County, Maryland at $8.5 billion; St. Louis at $7.3 billion; or Newark at $7 billion. But the pressure of those and other big subsidy offers helped Amazon once again get paid to do what it apparently would have done anyway. The same is true of $1.6 billion in subsidies it has gotten to build data centers and warehouses, even though it must have such facilities to fulfill its cloud-computing and Prime business plans.

“To the 235 places that ‘lost’ HQ2, we also have a message: disclose your first-round bids for HQ2. They are not covered by non-disclosure agreements. You put enormous amounts of time and money into developing these proposals and now they should be repurposed. Toronto disclosed its proposal long ago; it has been downloaded 17,200 times and has helped attract other tech employers.

“We are pleased to learn that Pennsylvania finally capitulated to Freedom of Information litigation and disclosed elements of its offer made in support of Pittsburgh and Philadelphia. As we had suspected per our recent article, the state’s offer included a “paying taxes to the boss” subsidy in which Amazon would have kept some of the HQ2 employees’ state personal income taxes, presumably without the employees’ knowledge or consent.

Good Jobs First’s Amazon resources are visible at: https://www.goodjobsfirst.org/amazon.

Editor’s note: Good Jobs First, founded 20 years ago, is a non-profit, non-partisan research group on economic development subsidies. Home to Subsidy Tracker and Subsidy Tracker 2, Good Jobs First has been honored as the leading voice for Governmental Accounting Standards Board (GASB) Statement 77 on Tax Abatement Disclosures, the first government accounting rule on revenue lost to corporate tax breaks.