



Red states, blue states: Which have a better chance of landing Amazon's HQ2?

By Steve Vockrodt - October 06, 2017

In Kansas, conservative tax policies have beset the state with budget woes and education financing that state courts consistently say is unconstitutional. In Missouri, lawmakers have dallied with the identity politics that repelled businesses from North Carolina.

Would a progressive company like Amazon seriously consider Kansas City, a city nestled between two deeply red states, for its second headquarters and its 50,000 jobs?

The answer isn't so simple. It's true that corporations have shied away from states entangled in policies born from identity politics, like gay rights and transgender bathroom issues.

"That would be a nonstarter for any corporation — look what happened to North Carolina" with a 2016 transgender bathroom law, said John Boyd, a corporate relocation adviser based in Princeton, N.J. "Amazon is a progressive company, ultra-progressive in terms of politics."

It's also true that corporations and their employees, especially younger ones, value education in choosing where they want to go.

But red states have upsides for companies like Amazon — low tax and regulatory environments. And blue states can be a pain — higher taxes and a more measured approach to offering taxpayer incentives.

"One of the reasons (Amazon founder Jeff) Bezos is looking to leave Seattle is it has an incredibly hostile environment," said Joel Kotkin, a geographer and prolific author on urban and suburban planning.

"They're trying to pass a wealth tax, there's a high minimum wage. I'm not necessarily sure that a more conservative political environment is not completely a negative for Amazon."

As Amazon is calling its second headquarters HQ2. Cities have until Oct. 19 to submit their proposals in hopes of convincing the company of their merits.

In most any city, and certainly in Kansas City, Amazon would become the largest employer.

And while cities are leading the push for HQ2, state legislatures are sure to play a role, ranging from crafting incentive packages for Amazon to setting labor, education and social policies that may affect Amazon's thinking.

Why a red state might work for Amazon

Kotkin, who is advising the Kansas City Area Development Council on its effort to land HQ2, said conservative state legislatures enact policies that are more welcoming to businesses than liberal, coastal states.

What red, inland states lack in natural amenities coveted by in-demand workers — mountains, beaches — they strive to make up for with pro-business policies in order to compete with coastal cities.

Lower taxes and more permissiveness for companies in what's called the "disruption economy" — Uber, Lyft and Amazon, as a few examples — could stand in the Midwest's favor.

"The tech guys like to see themselves as being progressive but they don't want to give up their money, they don't want to give up their power," Kotkin said. "The left is among the most hostile to Uber, to Amazon, to the disruption economy. Not necessarily for bad reasons."

Other factors like right-to-work laws in effect in both Kansas and Missouri — Amazon is not regarded as a union-friendly company — could also help Kansas City's chances.

"If you're the red state, one you're going to have a lot of the business-friendly policies that Amazon is looking for in terms of low regulation, low cost, lower taxes," said Aaron Renn, a senior fellow with the Manhattan Institute for Policy Research who has been closely following Amazon's pursuit of HQ2.

"Chances are you've also got a legislature that is very keen to cater to the needs of business, even overly cater to business."

That may be helpful when it comes to crafting special legislation for tailored incentive packages for Amazon.

Both Kansas and Missouri have long track records offering new and special incentives for large companies and developments. Kansas in the late 1990s assembled sales tax revenue bond (called STAR bonds) that shortly after lured NASCAR's Kansas Speedway to Wyandotte County.

Missouri has also assembled what's referred to as "megadeal" legislation in the past.

Special incentives for a Bombardier manufacturing plant near Kansas City International Airport and a Boeing operation in St. Louis were passed by the Missouri General Assembly within the last 10 years, although neither company bit on Missouri. But similar measures were helpful in expanding the Ford Assembly Plant in Claycomo.

Former Kansas City Mayor Mark Funkhouser said social issue baggage tied to the conservative legislatures didn't come into play when companies expressed interest in Kansas City. He said it mostly came down to how much public money would be involved.

Kansas City Manager Troy Schulte discusses the city's prospects for winning the Amazon headquarters with The Star's editorial board members Colleen McCain Nelson and Melinda Henneberger.

Colleen McCain Nelson, Melinda Henneberger, and Beth Welsh The Kansas City Star

"The only thing that came up is essentially how much money would they give us," Funkhouser said. "The social issues thing never came up."

One exception Funkhouser recalled was in 2007 when the Stowers Institute for Medical Research in Kansas City suspended plans for a \$300 million expansion due to efforts in the Missouri General Assembly to limit stem cell research.

"But that was it," Funkhouser said.

Why a red state might not work for Amazon

Experts in corporate relocation downplay the effect that social policies have on business decisions, so long as they don't veer too far into LGBTQ and transgender issues.

North Carolina suffered significant backlash when it passed a transgender bathroom bill in 2016.

The NCAA said it would not hold tournament events in North Carolina, where college football and college basketball would otherwise be especially popular draws. PayPal abandoned plans for a facility that was expected to add more than \$2 billion to the state's economy.

North Carolina lawmakers eventually relented and repealed the bill earlier this year.

Missouri and Kansas have dabbled in similar legislative pursuits, but the more stringent social issue laws never passed amid backlash from business communities in Kansas City and Missouri.

More detrimental to Kansas City's chances for Amazon HQ2 is education policy in both states.

Earlier this week, the Kansas Supreme Court ruled once again that the state's funding formula for elementary and secondary education is unconstitutional.

That could be a concern for Amazon, particularly for those employees that the company might relocate to Kansas City if there's a perception of pressure from the legislature on K-12 education for their children.

"Absolutely the No. 1 one concern from every transferee is schools," said Bill Mulholland, director at American Relocation Connections in Washington D.C., a firm that assists companies in moving locations. "That's what everything revolves around."

Similarly, the Missouri General Assembly has had its clashes with the University of Missouri System. A leading factor from Amazon's request for proposals was a strong university system that could provide a pipeline of highly educated talent for its workforce.

"The academic community in Kansas City is not as robust as in St. Louis," said Boyd. "St. Louis brings Washington University, St. Louis University, University of Missouri-St. Louis is recognized player in that market. That's not a strength of the (Kansas City) market."

What does it all mean?

Experts suggest state legislatures in both Kansas and Missouri could break either way for Kansas City's chances on HQ2.

Renn said states like Texas, which have social policies that are arguably further to the right than Kansas or Missouri, has little trouble attracting business interest.

"Texas is a very red state, Austin is booming with tech companies," Renn said. "If the Texas legislature hasn't hurt Austin because of red state social policies, it's unlikely that yours is either."

Kotkin points out that it bodes well for the moderate political climates in Kansas City that Missouri and Kansas have not gone as far as other states into social issues.

"In Missouri and Kansas, your problem might be from the right," Kotkin said. "In Washington and California, your problems are from the left and it's which problem do you think is the bigger problem?"