

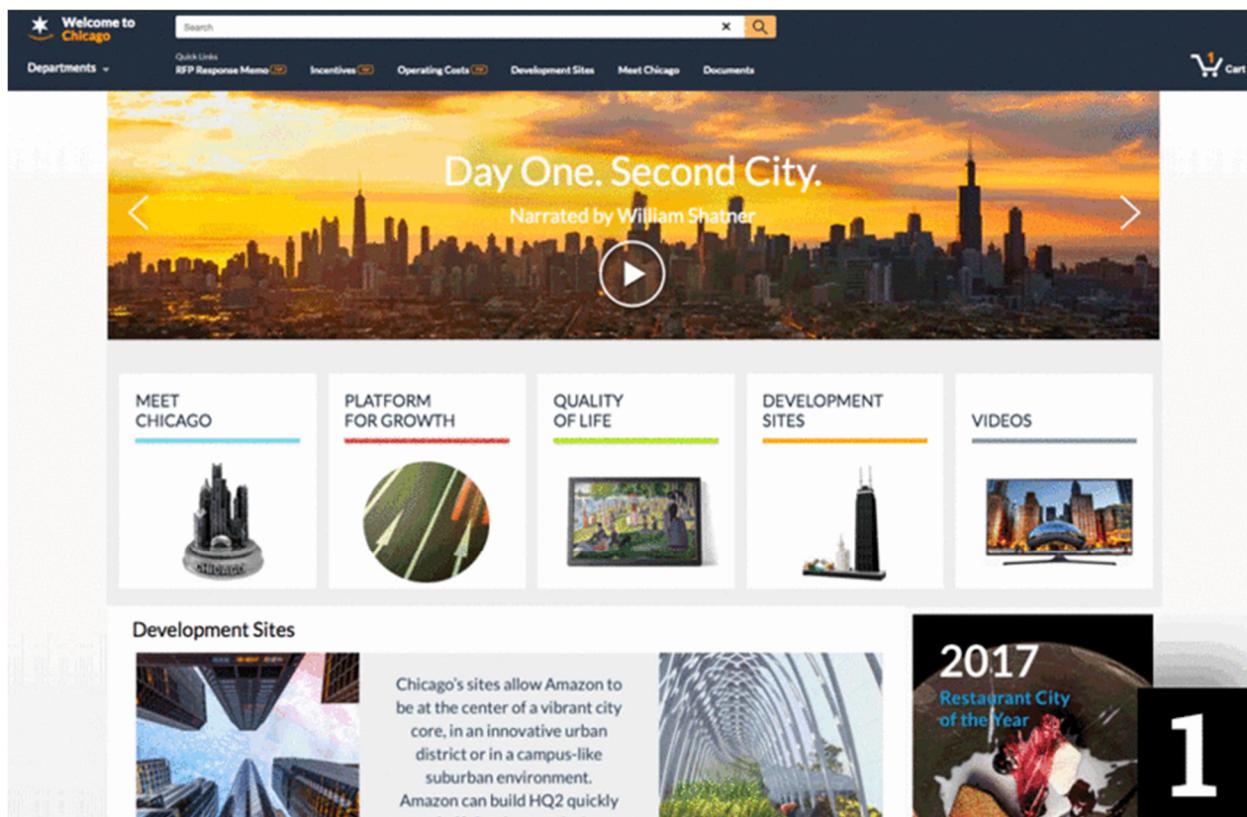
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Inside Chicago's doomed Amazon HQ2 pitch

Newly unveiled secret documents reveal how Chicago officials tried to accentuate the positive—and spin the negative—in their bid to woo the e-commerce giant.

March 06, 2020 - John Pletz and A.D. Quig



Chicago's "Day One Second City" Amazon campaign included this lookalike to mimic Amazon's shopping experience.

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Newly unveiled secret documents from the city of Chicago's bid for Amazon's second headquarters reveal that our crime and fiscal woes are hard to explain away.

The biggest hurdles to Chicago's pitch for the Seattle e-commerce giant's so-called HQ2 were its crime problems and the worrisome pension underfunding problems facing both the city and the state.



Crain's readers got a peek at aspects of the Chicago HQ2 bid—but not the entire thing—in December 2018. One key revealed then: the potential \$2.3 billion-plus tab to taxpayers.

The way the city responded to these high-profile issues is revealed for the first time in documents obtained by University of Illinois at Chicago journalism student Brody Ford. While Mayor Rahm Emanuel's administration had denied previous requests to release its bid, Ford tried again after Lori Lightfoot took office and received the entire bid, sharing the results of his Freedom of Information Act request exclusively with Crain's.

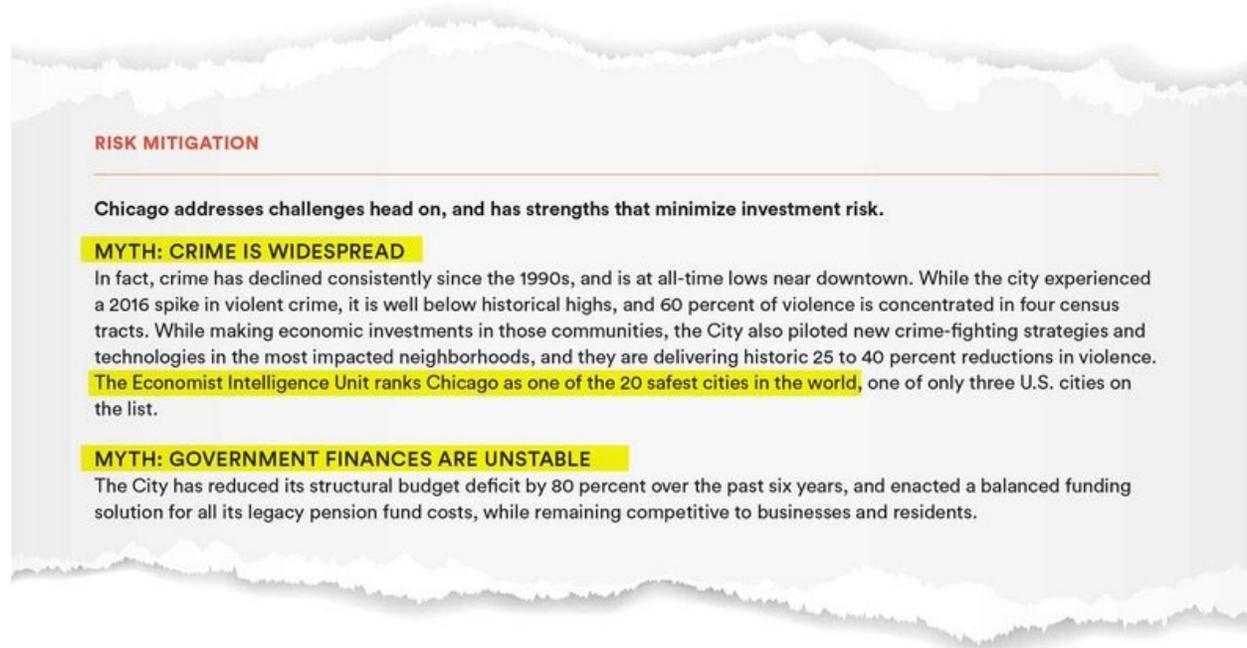
The documents reveal an exhaustive process by Amazon, which asked about everything from population and crime trends to housing costs and school test scores, recreation options and even the price of an avocado at Whole Foods and a cup of coffee at Starbucks. They also reveal the lengths the city went to in order to win the company over, including an Amazon.com-like website full of the city's bid documents, plans for several potential development sites, and

letters to Amazon CEO Jeff Bezos from Chicago business leaders like Brad Keywell, Eric Lefkofsky, Oscar Munoz, Steve Easterbrook and Ken Griffin.

Of course, Chicago lost out 15 months ago to northern Virginia and New York City (which eventually said thanks but no thanks), but not before its civic leaders made a coordinated effort to accentuate the positive.

“Chicago has become a poster child for issues related to crime and policing,” says John Boyd, a relocation and site-selection expert in Princeton, N.J. “Crime is something a lot of execs don’t publicly talk about, but they feel it. It’s another reason we see companies continue to relocate to the Southeast. Getting a handle on spending is the other big issue for Chicago, the pension crisis.”

Chicago played to its strengths in talent, diversity and affordability, particularly the city and state’s universities. City officials also put the best spin they could on both the crime and fiscal challenges, pushing the bounds of optimism, if not reality.



RISK MITIGATION

Chicago addresses challenges head on, and has strengths that minimize investment risk.

MYTH: CRIME IS WIDESPREAD

In fact, crime has declined consistently since the 1990s, and is at all-time lows near downtown. While the city experienced a 2016 spike in violent crime, it is well below historical highs, and 60 percent of violence is concentrated in four census tracts. While making economic investments in those communities, the City also piloted new crime-fighting strategies and technologies in the most impacted neighborhoods, and they are delivering historic 25 to 40 percent reductions in violence. The Economist Intelligence Unit ranks Chicago as one of the 20 safest cities in the world, one of only three U.S. cities on the list.

MYTH: GOVERNMENT FINANCES ARE UNSTABLE

The City has reduced its structural budget deficit by 80 percent over the past six years, and enacted a balanced funding solution for all its legacy pension fund costs, while remaining competitive to businesses and residents.

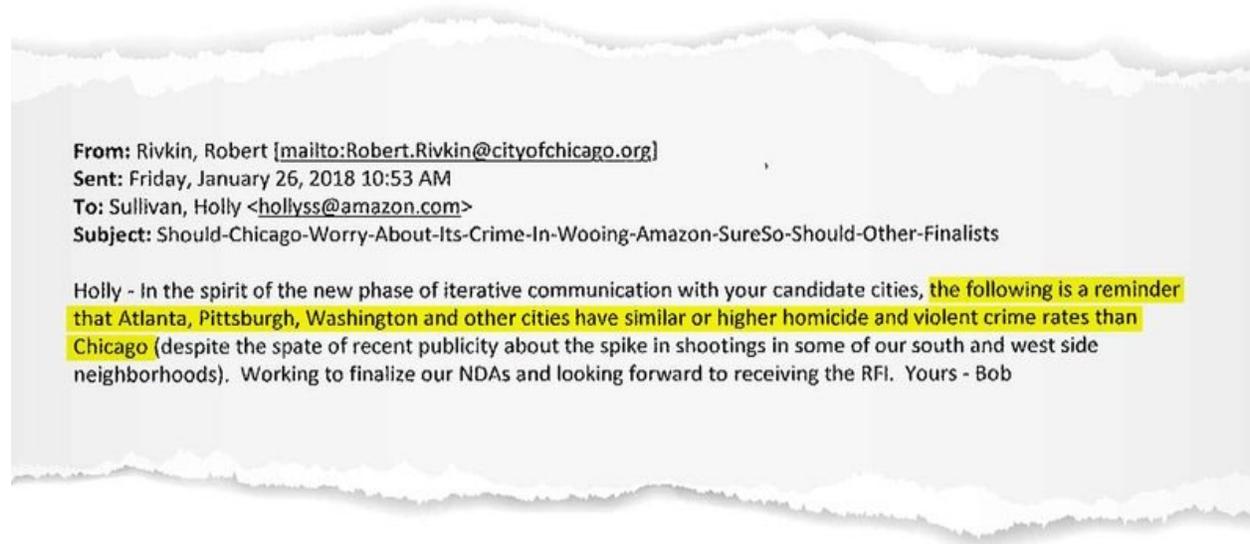
The city's biggest challenges to attracting big companies like Amazon were—and remain—perceptions about its finances and crime. This section from Chicago's response to Amazon's request for proposals early on in the bid process seeks to attack both.

At the start of the city’s bid process in 2017, Chicago had 672 homicides, and shootings topped 3,500. Those were improvements from 20-year highs of 792 homicides and more than 4,300 shootings in 2016. But they were well above levels in 2014 and 2015. Many smaller cities had higher per-capita homicide rates, but Chicago’s murder total was, and is, much higher than its peer cities, New York and Los Angeles.

Reports of violent crime downtown—highlighted by the fatal midday shooting of a Chicago police commander across the street from City Hall—were making the wrong kind of headlines as the bid process was underway. Some retailers began hiring their own armed security guards.

“While the city experienced a 2016 spike in violent crime, it is well below historical highs, and 60 percent of violence is concentrated in four census tracts,” the city wrote in response to a detailed request for information that Amazon sought from the 20 finalists for HQ2. “While making economic investments in those communities, the city also piloted new crime-fighting strategies and technologies in the most impacted neighborhoods, and they are delivering historic 25 to 40 percent reductions in violence.”

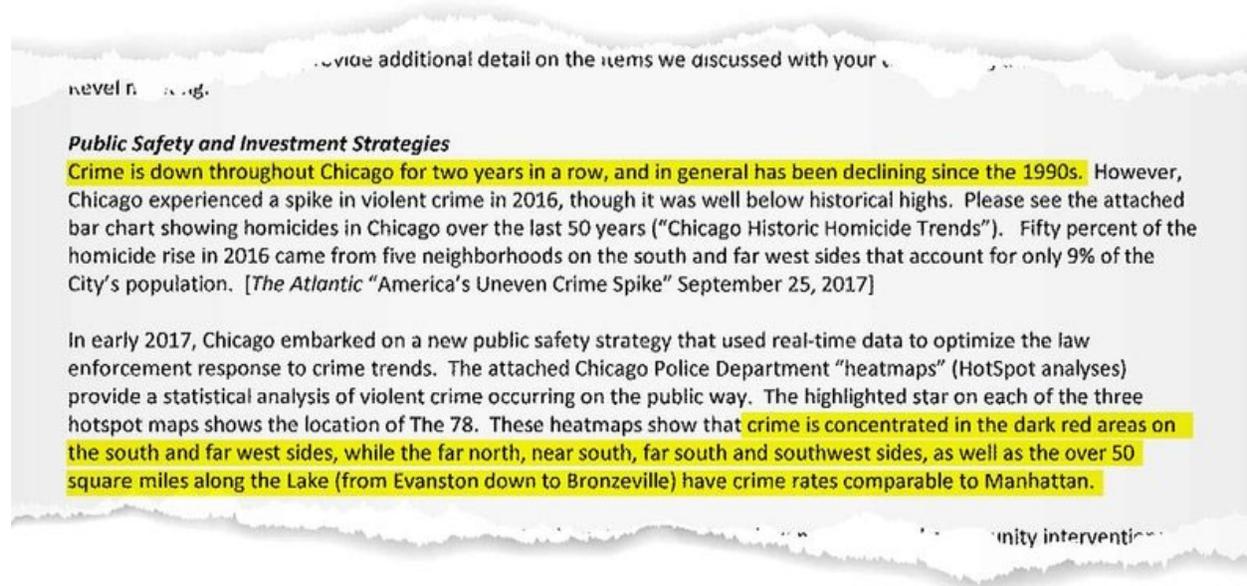
In an email to Holly Sullivan, Amazon’s head of worldwide economic development, early in the process, Deputy Mayor Robert Rivkin, who led the Chicago bid, wrote: “In the spirit of the new phase of iterative communication with your candidate cities, the following is a reminder that Atlanta, Pittsburgh, Washington and other cities have similar or higher homicide and violent crime rates than Chicago (despite the spate of recent publicity about the spike in shootings in some of our south and west side neighborhoods).”



Deputy Mayor Robert Rivkin shared a link to a Chicago Magazine story, "Should Chicago Worry About its Crime in Wooing Amazon? Sure, So Should Other Finalists" shortly after Chicago made Amazon's "Top 20." He pointed out other competing cities were worse off than Chicago.

Crime also was the subject of an e-mail late in the process, after Amazon made its second visit to the city. Rivkin wrote that crime was down for two years in a row and had been declining since the 1990s. He also shared heat maps in an attempt to ease worries about crime near the company’s preferred location—the 78, a South Loop neighborhood-in-the-making proposed by Chicago real estate developer Related Midwest.

“Please see the attached bar chart showing homicides in Chicago over the last 50 years. Fifty percent of the homicide rise in 2016 came from five neighborhoods on the south and far west sides that account for only 9 percent of the city’s population . . . crime is concentrated in the dark red areas on the south and far west sides, while the far north, near south, far south and southwest sides, as well as the over 50 square miles along the Lake (from Evanston down to Bronzeville) have crime rates comparable to Manhattan.”



After Amazon's second visit to Chicago, the company requested more data on crime. The city prepared a memo on its efforts to tackle shootings and homicides after a spike in both in 2016, including an emphasis on low crime in and around Amazon's preferred location, the 78.

Crime experts agree that Chicago’s crime had dropped since its worst levels in the 1990s, but violence in certain neighborhoods remains high.

Here’s how the city described the state’s fiscal mess to Amazon, including how it attempted to explain away a long-term pension deficit approaching \$125 billion as well as a backlog of unpaid bills that had just topped \$16 billion:

“An objective look at the operations of state government and the condition of state finances reveals no significant cause for concern about investing in Illinois. Illinois continues to work towards improving its fiscal condition, despite public confusion surrounding some key facts.

“Disaggregating Illinois’ fiscal challenges and examining government operations before debt service and pension costs reveals an encouraging story. Illinois operates government, before interest and pension expense, with a surplus.

“Expenses have fallen by a -0.3% compounded annual rate over the last 5 years (-1.4% CAGR inflation-adjusted). Over the last 10 years, expenses have risen by 2.0% (or 0.4% inflation-adjusted). Over that same 10-year period, the compound annual growth in revenue was 2.4%. Over that period, state full-time employee headcount decreased by 6,400, or 9%. This responsible expense management belies any concerns about a bloated bureaucracy or runaway government spending.”

On pensions, the elephant in the room, the bid team said:

“Illinois’ legacy pension debt, therefore, is its central fiscal challenge. The state’s operating surplus comfortably covers all debt service costs, leaving significant but insufficient funds available to service pensions at a desirable level. In broad summary, during fiscal years 2015–2018, the State has had an annual average surplus available to pay pensions of approximately \$2.6 billion, leaving an average annual shortfall of about \$3.95 billion between available pension debt-service funds and the amount that would be necessary to achieve a 90% funded position by 2060.”

At the time, state law called for Illinois to achieve 90 percent funding by 2045.

The city went on to note: “The appropriate schedule of amortizing unfunded pension liabilities and the actions necessary to move pension funds toward a comfortably funded position is highly dependent on a myriad of hotly debated assumptions.”

Here’s the math the city offered up to support its case:

“For perspective, the Illinois income tax generates approximately \$1 billion of revenue for every 0.25% rate, so that the current flat-rate of 4.95% generates roughly \$20 billion a year. The Governor and the legislature continue to deliberate the best way to reduce the pension shortfall. There are multiple proposed approaches, but none of them require a radical change in fiscal management that should discourage corporations or individuals from investing in Illinois.”

When Illinois finally passed a budget after two years, Rivkin responded to an e-mail from his Amazon counterpart: “Yes – after negotiations among the Mayor, Governor and legislative leaders, the General Assembly approved a budget (regular order once more!)”

Of the city finances, the bid team said: “The City has reduced its structural budget deficit by 80 percent over the past six years, and enacted a balanced funding solution for all its legacy pension fund costs, while remaining competitive to businesses and residents.”

When Lightfoot took office as mayor last year, Chicago faced an initial budget shortfall of more than \$740 million, which Lightfoot claimed was closer to \$1 billion, but winnowed down to \$838 million in her first budget.

On property taxes, which soared by an effective rate of 32.5% for residents and 69% for commercial properties between 2008 and 2017, the city again tried to turn lemons into lemonade, focusing on total cost of ownership, attempting to turn Chicago’s weak appreciation in home prices into a virtue:

“Property taxes are also the subject of exaggerated rhetoric that focuses on tax rates and ignores housing prices. Again, actual analysis demonstrates that the cost of owning a home (mortgage and real estate tax costs) in Chicago is low and quite competitive with other cities. The median home costs \$11.07 per square foot annually in Chicago.” It offers up comparable figures of \$27.49 in Washington, D.C., and \$82.82 in New York—the eventual winners.

Rivkin also played up the affordability of Chicago’s neighborhoods for employees to live in, sharing a Redfin list of the 25 neighborhoods nationwide that have it all—nine were in Chicago.

And of course, there were the \$2.3 billion in incentives.

Chicago's Updated Bid Incentive Package

The city further sweetened its initial incentive package to Amazon, even offering to change the state's EDGE statute. This package didn't include \$250 million in local education, workforce and neighborhood investment grants lawmakers offered.

| Incentive | Original Amount | Updated Amount |
|---|------------------------|-----------------------|
| Economic Development for a Growing Economy, EDGE | \$1,320,000,000 | \$1,394,275,000 |
| High Impact Business Program, HIB | \$172,500,000 | \$337,000,000 |
| Real Estate Tax Incentive | \$61,400,000 | \$143,260,000 |
| R&D Tax Credits | \$0 | \$195,000 |
| Total Existing Incentives | \$1,553,900,000 | \$1,874,730,000 |
| Capital Investment for Infrastructure Improvement | \$450,000,000 | \$450,000,000 |
| Total Incentive Package | \$2,003,900,000 | \$2,324,730,000 |

Source: Chicago's Amazon Bid documents Get the data Created with Datawrapper

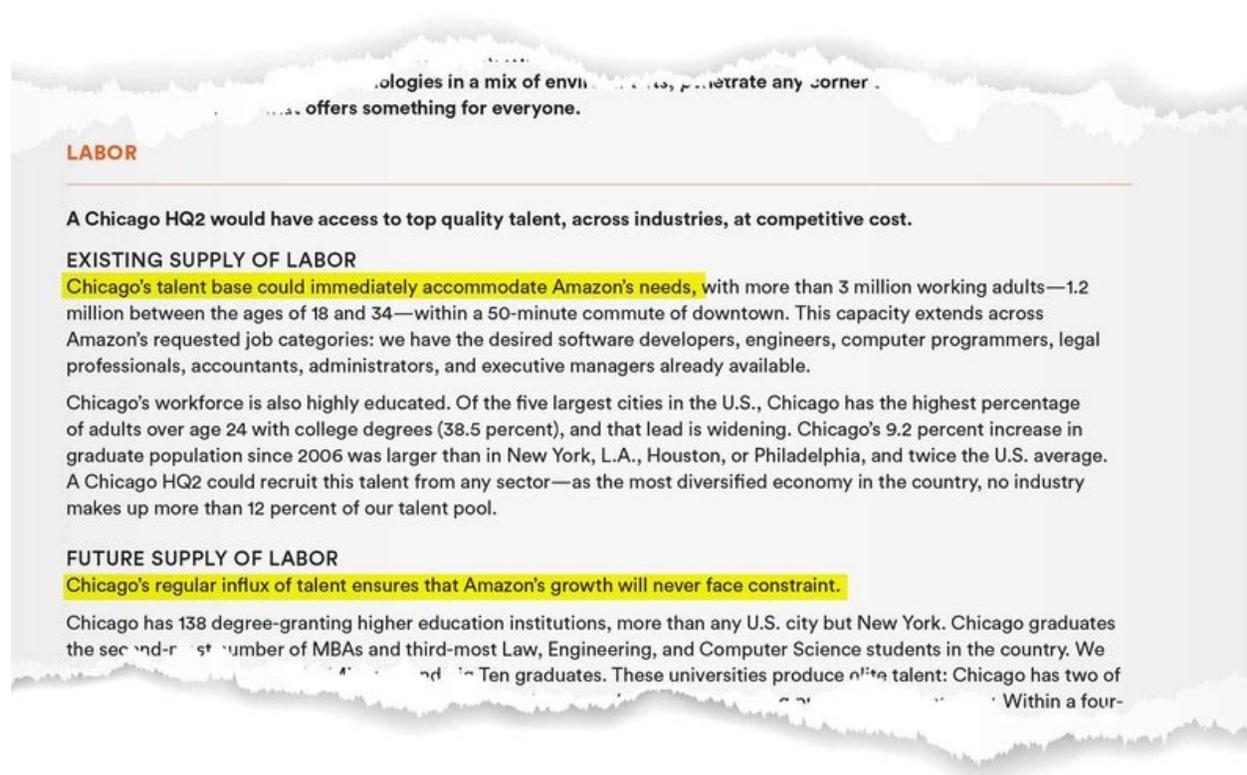
ALL ABOUT TALENT

What Amazon was most focused on was talent, both the supply of tech workers and the school system it would need for a workforce that was to top 25,000. It specifically wanted to know about artificial-intelligence experts with skills in machine learning, hardware engineers and designers

focused on making products user-friendly. It also wanted to know the top employers in each category.

Chicago's most thorough data analysis was on its labor pool. Several pages of bid documents were dedicated to the city's current and future talent, focusing on quality Chicago Public Schools, available tech programs at universities, and willingness of top tech talent to locate here.

Using data from LinkedIn, the city identified 1,700 machine-learning specialists, 23,000 user-experience and user-interface designers, and 54,000 hardware engineers. Top employers include Allstate, Here Technologies and Uptake (machine learning); Accenture, Allstate and Sears (UX and UI design); and CDW, IBM and Motorola Solutions (hardware engineering).



Amazon also was interested in minority workforce participation. Chicago noted that “Since 2012, the number of African Americans holding a bachelor’s degree or higher increased 12.8 percent and Hispanics holding a bachelor’s degree or higher increased 20.8 percent.”

But it was most interested in education, particularly K-12, both for its employees’ families and the future workforce. The city provided graduation rates for all CPS schools, as well as 10 years of ACT and SAT scores for 20 schools in Chicago and the suburbs, from CPS selective-enrollment

schools to Stevenson, New Trier, University of Chicago Lab School and Illinois Math & Science Academy.

Rivkin, the deputy mayor, also addressed headlines around the city's tumbling population, telling Sullivan, the e-commerce giant's economic development chief, that "recently available census data confirms that Chicago remains a healthy, diverse and dynamically changing city," with many highly educated residents that cut across demographic lines. "That said, Chicago's population has remained flat over the past 5 years due to out-migration of 35,000 white and 30,000 black, non-college educated residents."

"While there is still work to do, the City's efforts to promote small business investment and workforce development have seen progress in connecting non-college educated residents to the economy, with gains in both employment and household income since 2011," he said.

COURTING DECISION-MAKERS

Rivkin made it a habit to communicate regularly with Sullivan, at least every month—forwarding press releases and news articles about everything from CPS graduation rates to big developments, 1871 and Elon Musk's proposed tunnel to O'Hare International Airport. "The system is scalable by adding branch lines to, for example, the McCormick Place, the Obama Presidential Center, or certain corporate campuses (!) without impairing the ORD to downtown 12-minute time," Rivkin wrote.

The city's red-carpet treatment of the company played out in other ways. "We are going to have staff - not FedEx etc." hand-deliver Chicago's initial RFP response, Rivkin told Sullivan in October 2017. She told him mail would suffice.

Rivkin also asked for a phone call after Gov. Bruce Rauner made "some unexpected remarks" about potentially helping St. Louis officials with their bid. Ahead of the company's March 2018 visit, he also sought to soothe Amazon's worries about confidentiality. "So you've noticed that Chicago has pretty aggressive media, which I personally view as consistent with the strength and scale of our city!" Rivkin said, adding a winking emoji.

During Amazon's visit, city officials put on a major charm offensive. Amazon's first two-day spree in March 2018 included visits to Lincoln Yards, the River District, the Riverwalk, a ride on the Green Line toward Fulton Market and a Soho House meeting and dinner. The next day included a visit to the University of Chicago, a lakefront tour, Chinatown, a stop at the 78 site and lunch at Soldier Field.

The second visit, in August, focused on the 78. It included a ride on Lime bikes along the lakefront path after a trip through the Prairie Avenue Historic District, a visit to the Museum Campus and the Eleven City Diner. A golf cart tour of the 78 followed, with a stop at Ping Tom Park. The team met at Revel Motor Row, then had lunch at Dusek's Board & Beer.



Deputy Mayor Robert Rivkin kept Amazon abreast on every aspect of its trips here, including weather forecasts, recommended hotels and restaurants, and proper attire. During its second visit in August 2018, the Amazon team rode Lime bikes along Lake Michigan and toured the 78 site by golf cart.

Rivkin arranged for a call between Emanuel and Amazon officials in September. Rivkin continued to ping Amazon officials: “Wouldn’t want a week to go by when you weren’t thinking about Chicago!” he wrote in early October, along with a press release about O’Hare being the nation’s most connected airport. Rivkin’s final email was on Halloween, passing along a Crain's article about tech partnerships. But by Nov. 13, Amazon had made its decision.