



Memorandum

Date: October 5, 2017

To: Selected Business and Civic Leaders in Michigan

From: Patrick L. Anderson, Principal & CEO

Re: Advice on Successful Bid for Amazon “HQ2” for Detroit; Objective Rankings on Amazon criteria; List of Strong Competitors

Preface

Given the intense interest in Detroit and other cities in the recently-announced Amazon HQ2 competition, our consultants created an index consisting of multiple quantitative and objective indicators for criteria that Amazon explicitly identified in their RFP document. This “AEG HQ2 Index” is the single best guide available on the advantages and disadvantages of 35 potential competing cities for which we have data.

Detroit and other cities can make use of this information by identifying their advantages, and their disadvantages, and crafting their proposal accordingly. The purpose of this memorandum is to give Michigan’s business and civic leaders the best advice on putting together a successful proposal for Detroit, given Detroit’s unique advantages, and the specific areas where it needs to address its drawbacks.

It also identifies a short list of what we anticipate could be the strongest competitors for Amazon’s HQ2, given their stated criteria.

The analysis below benefits from the extensive experience and knowledge of our consultants in Michigan, Chicago, and New York, as well as familiarity with the data in the Anderson Economic Group index and related analyses, including our *Annual State Business Tax Burden Rankings*, and our studies of high tech hubs around the country.

The AEG HQ2 Index

Anderson Economic Group’s consultants examined 35 different competing cities, and the explicit criteria in Amazon’s RFP, to create an objective “HQ2 Index.” We use criteria where objective data are available, such as business and tax climate, costs of business, availability of workers, and transit options. The index weights all such criteria equally. We do not attempt to estimate incentives, identify specific parcels, or weigh subjective considerations such as “quality of life,” even though

we recognize these as important. We combined them into a single index to represent an objective overall indicator of the advantages of a city based solely on the listed criteria.

Link to AEG HQ2 index: <http://www.andersoneconomicgroup.com/>.

The best way to use the AEG HQ2 Index is to examine its components, which vary greatly among the competing cities. Cities that are preparing a proposal should consider their ranking on individual measures, such as cost of doing business, transit options, and size of the talent pool. We do this below for Detroit.

Four Keys to a Winning Amazon HQ2 bid for Detroit

With an eye to what Amazon should be seeking, a careful look at the objective metrics, and some shrewd thinking about what Michigan and Detroit can emphasize to get into the running for this prize business investment, we've outlined below four keys to a winning bid for Detroit.

1. Lead with your strength: Cost of doing business

This is a clear winner for Michigan, a tremendous turnaround from where we were two decades ago, and a significant improvement from where we were a decade ago. Amazon is blunt and clear in their RFP: they seek a “stable and business friendly environment and tax structure.” They mention tax climate and business climate multiple times. Michigan’s business taxes, as measured by our objective business tax burden rankings, are now among the top 20 in the country. Our costs of office space are also low, and the costs of hiring workers is reasonable as well.

2. Address the workforce issues head-on

Amazon emphasizes the size of the talent pool for specific types of employees, so our objective metrics do the same. On these metrics, Michigan looks good, but not good enough. A full proposal would show some of the strengths that can't be put into an index, including: the very strong research universities in the URC; the very high technical worker count in Automation Alley; and the pipeline that can grow from these assets if HQ2 was to locate here.

3. Emphasize specific sites where transit issues can be addressed—and include Canada and highways as well

Amazon is explicit about transit, and our objective index is as well. On this, metropolitan Detroit can't compete with metropolitan NYC or Chicago and their century-old mass transit systems. However, Amazon is seeking a specific site, and the sheer number of workers at an HQ2 the scale of what they are promising would justify significant additional investment in transit options for that location. Also, Amazon’s RFP explicitly asks for a highway system as well as an international airport. No competing city can offer an international border, with a second crossing now planned, so close to a major hub international airport.

4. If you can get into the playoffs, showcase your trump card: “Quality of Life”

Amazon’s RFP emphasizes it, but no objective metric exists for quality of life, and we couldn't include it in our index. However, once a city makes it onto the short list of contenders, I believe this could be the deciding factor. Michigan has attributes no other state can claim, and it should put the state’s abundant natural resources and beautiful change of seasons on full display, if it can make the playoffs.

Who are the Strongest Competitors?

The Big City Competitors

New York and Chicago are both at the top of our index, which is based on equally-weighted criteria explicit in Amazon's RFP. Each of these cities is substantially larger than Detroit, and earns its high marks on Amazon's criteria for transit and large pool of workers.

However, New York's cost of doing business is so much higher than competing cities—dead last in our index ranking, even after adjusting for productivity. We believe it will be very difficult to make a business case for building a facility the size of the HQ2 in New York City. New York could make a case for a close-to-the-city facility, if it addresses the cost factors aggressively.

Chicago has a more competitive business climate, and many places where it can build (or re-purpose) a very large facility. Chicago also has a well-developed train system and a large talent pool, plus excellent universities. However, Illinois and Chicago's fiscal problems, and the red tape that Chicago businesses face, will be a stumbling block. Chicago will have to address these items squarely for a successful bid.

The Mid City Competitors

I think the strongest competitors could emerge from cities that have a lot to offer, and which have lower costs of business. Here are a few that could emerge from the pack if they have a solid proposal:

- *Cleveland*. Excellent marks for cost of doing business; close to an international border; excellent business leadership. Cultural attractions, including both sports and the Rock & Roll Hall of Fame, are underestimated in much of the rest of the country.
- *San Antonio and Austin, Texas*. Again, excellent cost of doing business, coupled with a unique quality of life. Needs to show it can attract a larger pool of workers. These cities are close enough that a joint proposal could be very attractive.
- *Minneapolis-St Paul*. The Twin Cities offer reasonable costs, an international hub airport, and a strong metropolitan governance system. Their ability to pull together for a major effort was evidenced by their hosting the 2008 Republican National Convention.
- *Raleigh, North Carolina*. Like Detroit, it has a strong research university cluster, and its cost of doing business is low.
- *Atlanta*. Home to a very big airport, and already the center of business in much of the South. Its cost of doing business is also low—the lowest of the top ten cities in our index.
- *Grand Rapids*. It doesn't technically fit Amazon's criteria, but Michigan's second largest city has a lot to offer. It has a skilled workforce, a medical-technical cluster with high tech workers, and a growing arts and culture scene. Quality of life is obvious, as is the strength of the business leadership. A long shot this time, we expect this city will be a major contender for many nationally important facilities and events.