



AMAZON IN THE INLAND EMPIRE

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Photo Credit: Inland Empire Warehouse Space

For much of Amazon.com, Inc.'s history the company aggressively avoided state sales tax collection. It accomplished this by having a physical presence in only a few states. States can require retail sellers to collect sales tax if the retailer has a minimum presence in the state. A physical presence, such as a store, obligates a retailer to collect and pay sales tax. According to the *Wall Street Journal*, wherever possible the company used to consolidate its warehousing in a few locations around the United States from which it could then distribute across state lines. As recently as 2011, Amazon collected sales taxes only on purchases by residents of Washington, its home state, and on sales to residents of Kansas, Kentucky, and North Dakota, where it had sales operations.

This was an effective tactic early on in Amazon's history and helped lure customers to the company's online platform with cut-rate prices. By 2010, however, many states were fed up with Amazon's aggressive sales tax avoidance strategy, and they began to pass so-called "Amazon Laws" to require online retailers operating in any capacity in their state to collect sales taxes. GoodJobsFirst.org reports that California and 28 other states now have "Amazon Laws" requiring out of state online retailers to collect and pay sales tax.

The landscape of the online retail business has also shifted towards ever decreasing delivery times. Where consumers once accepted a few days and even weeks of travel time for package delivery, there is now a demand for options like

same-day delivery and shorter delivery times across the board. Amazon is responsible in part for fostering these expectations by offering services such as Amazon Prime with next day delivery. Observers of the company say that Amazon’s ambition is to offer same day delivery to Amazon Prime subscribers on anything in their inventory. Ultimately, shrinking that delivery window will allow Amazon to overcome the last advantage that brick and mortar stores retain, instant fulfillment of customer orders.

Once Amazon committed to expanding its physical presence in California the company immediately began looking to build in the Inland Empire because of key factors that make it a desirable spot to locate logistics facilities. Relative to the rest of Southern California, land is plentiful in the Inland Empire region, and companies looking for warehouse space can find large tracts of flat land where they can locate warehouse facilities that are still close to the major population centers in Southern California. A recent study by the Los Angeles Economic Development Council estimates that 81 percent of the industrial space Southern California added in 2015 was in the Inland Empire. The region similarly accounted for 83 percent of the industrial space in the development at that time.

The Inland Empire has several additional factors that make it attractive to a company like Amazon. The region sits at the center of a well-developed transportation network that receives large volumes of imported cargo at two large ports, the Port of Los Angeles and the Port of Long Beach. There are nearly a dozen commercial airports in the region, including Ontario International Airport and the area’s vast freeway network allows goods to move quickly from suppliers to distributors.

Finally, a large pool of potential workers is required to facilitate the movement of these goods, and the massive population of Southern California offers a reliable supply of labor. According to the Los Angeles Economic Development Council, as of 2015 the logistics industry directly employed 580,450 workers in Southern California and about half of those jobs were in the Inland Empire. The California Employment Development Department reports 289,091 new jobs in the Inland Empire from 2012-2017. Of those, 52,767 or almost 20 percent were in the logistics sector.

The 2008 recession left the Inland Empire in bad shape, but since then an influx of companies has looked east of Los Angeles to locate their expanding warehousing operations.

INDUSTRIAL SPACE ADDED AND PIPELINE

	Space Added in 2015	Under Construction
Los Angeles County	3.6 million sq ft	2.8 million sq ft
Orange County	1.1 million sq ft	625,000 sq ft
Inland Empire (RC & SBC)	20.8 million sq ft	16.7 million sq ft
Ventura County	n/a	n/a
Southern California	25.5 million sq ft	20.2 million sq ft

Source: Goods On The Move! Trade and Logistics in Southern California, Los Angeles County Economic Development Corporation, 2017

The explosive growth in the logistics industry over the past decade has helped spur an economic revitalization in the region. A look at air freight traffic at Ontario International Airport is indicative of the growth the logistics sector has undergone since the recession. Total freight volume at the airport reached 567,295 tons in 2016, exceeding the prerecession total of 532,865 tons in 2007. Passenger traffic, in contrast, while improving, remains far below the pre-recession totals.

ONTARIO INTERNATIONAL AIRPORT TEN-YEAR SUMMARY

Year	Passenger Total	Freight*
2007	7,207,150	532,865
2008	6,232,975	481,284
2009	4,861,110	391,060
2010	4,812,578	392,428
2011	4,540,694	417,686
2012	4,296,459	454,880
2013	3,971,136	465,537
2014	4,127,280	474,502
2015	4,209,311	509,809
2016	4,251,903	567,295

*Freight is listed per year in TONS. Totals include U.S. mail.
Source: <http://www.flyontario.com/corporate/statistics>, Accessed March 14, 2018

Amazon's growth in the Inland Empire is part of this sector's boom. The company opened its first California facility in San Bernardino in 2012 and since then has opened 20 locations throughout the state. When Amazon announced plans for a second facility in San Bernardino in 2016, it noted that "San Bernardino has proven to be an important part of Amazon's growth in California, and we are proud to continue creating jobs and helping support the economy here in the Inland Empire."

Today, Amazon has a significant presence

across the Inland Empire with ten facilities in the region and two more scheduled to open in 2018. According to Dr. John Husing, chief economist for the Inland Empire Economic Partnership, Amazon employs over 17,000 people at its facilities in the Inland Empire – with another 3,000 seasonal employees -- and is now the region's largest private sector employer.

There are two main types of Amazon warehouse facilities, fulfilment centers and sort centers. Fulfilment centers are the typical product warehouse that stores goods that Amazon is selling. When a customer puts in an order, the fulfilment center is where that order is filled. Sort centers are more specialized facilities that act as intermediaries between fulfilment centers and parcel carrying services. By using its own sort centers to route packages closer to the intended destination, Amazon is able to control more of the delivery process and only hand off packages for the final delivery. The warehouses in the Inland Empire are mainly fulfilment focused, but there are also two sorting locations.

Amazon made headlines in recent months with its search for a home for its second headquarters. The public announcement of the company's search appeared geared towards prodding local governments into offering large economic incentives to lure Amazon. As it has aggressively expanded across the country, Amazon has looked for incentives when choosing where to locate warehouse facilities. Since the beginning of Amazon's expansion in 2010, it received large subsidies from cities and states around the nation. The state of South Carolina, for example, offered a package of incentives worth \$61 million in 2011, and Jacksonville, Florida handed out \$18 million to help lure an Amazon facility in 2016.

Most cities in the Golden State, however, have avoided offering massive incentives. The *Los Angeles Times* reported that Amazon did re-

AMAZON FACILITIES IN THE INLAND EMPIRE

Date	City	Size	Description
October 2012	San Bernardino	1.5 million sq ft	Fulfillment center for small sortable goods
October 2013	San Bernardino		Sortation center to ease outbound shipping
August 2014	Moreno Valley	1.2 million sq ft	Fulfillment center for small sortables
August 2014	Moreno Valley	800,000 sq ft	Inbound cross dock
October 2014	Redlands	800,000 sq ft	Fulfillment center for large items
November 2015	Rialto	900,000 sq ft	Fulfillment center for large items
March 2016	San Bernardino	1.1 million sq ft	Fulfillment center for small sortables
April 2016	Riverside	36,000 sq ft	Delivery station for small shipments
October 2016	Eastvale	1 million sq ft	Fulfillment center for small sortables
March 2017	Chino		Delivery station
June 2017	Redlands	800,000 sq ft	Fulfillment center for large items
October 2017	Rialto	600,000 sq ft	Inbound cross dock
March 2018 projected	Riverside	1 million sq ft	Fulfillment center
March 2018 projected	Eastvale	1 million sq ft	Fulfillment center

Source: "Why Amazon Already Has a Strong Presence in Southern California" Fielding Buck, *Los Angeles Daily News*, January 18, 2018

ceive a "California Competes" business tax credit worth \$1.6 million from the state in 2014, but it has not gotten anything else from cities in Southern California. That is not to say that Amazon is not trying. In 2012 when Amazon was looking to put a facility in San Bernardino the company enquired about a possible sales tax remittance deal, but the city rebuffed that inquiry and the facility was built without it. Cities in the Inland Empire have recognized that they have structural advantages for the logistics industry, and they may not need to offer huge subsidies to lure these businesses to their communities. They know that the combination of abundant cheap land, a large potential workforce, strong infrastructure network, and proximity to high

volume ports, is a winning mix that makes the Inland Empire attractive to any logistics company, not just Amazon. Since the cities know that there are plenty of potential suitors vying to locate in their region they aren't as pressured to give away the farm when Amazon comes knocking. While speaking at an economic conference in Ontario in 2015, Dr. Husing noted that logistics is "the sector for which we [The Inland Empire] have the greatest competitive advantage." That's why the logistics sector has been an engine of growth, accounting for one in five new jobs across the region from 2012-2017. With two large facilities scheduled to open in 2018, Amazon will continue to be an important part of this growth. ♦