



FTZ Opportunity for North Texas Counties

December 17, 2024



Agenda

- Foreign-Trade Zones— What are they?
- How do businesses benefit from FTZs?
- How is the regime set up?
- How do FTZs impact the local tax base?
- How can we use the FTZ program to attract business?

U.S. Foreign Trade Zones – A Federal Incentive Program

- The Foreign-Trade Zones Act of 1934 encourages employment and capital investment in the US by offering business involved in international trade flexible application of US Customs rules
- Although physically located within the US, FTZs are treated as outside U.S. Customs territory. Customs treatment is equalized with off-shore business.
 - Normally, when imports arrive at a US Port, customs declarations must be filed and tariffs paid
 - When imports are destined for a FTZ, customs formalities can be bypassed at the Port and the goods moved directly to the FTZ
 - Tariffs are paid when goods leave the FTZ for a domestic destination; no tariffs are due on goods that are exported from the FTZ

Program Objectives

- Help facilitate and expedite international trade
- Help firms conduct international trade-related operations in competition with foreign facilities
- Help attract offshore activity and encourage retention of domestic activity
- Assist state/local economic development efforts
- Help create and maintain employment opportunities

Foreign Trade Zones Program

- Approximately one trillion dollars of goods moved through over 200 active FTZs last year
 - Aerospace equipment
 - Agricultural products
 - Automotive goods
 - Computer equipment
 - Manufactured consumers goods
 - Pharmaceutical products
 - Petroleum products

- Over 550,000 persons employed at firms with active FTZs



Foreign Trade Zones – Benefits to Users

- Customs duty deferral for imported items shipped to a domestic destination
- No duties on re-exported products
- Customs duties are product specific, with rates ranging from zero to more than 30%. Manufacturing FTZs can elect the lower of component part or finished product duty rate
- No state and local personal property tax on imported inventory or domestic inventory held for export
- Other logistical and process savings, which are material for large scale distributors



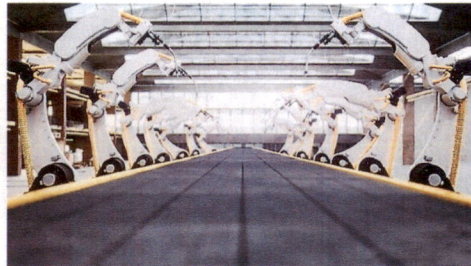
Manufacturing Benefit

-- Avoiding Inverted Tariffs

- Tariff rates are generally progressive— finished product rates are higher than material rates
- A tariff is “inverted” when a component rate is higher than the finished product rate
- FTZ manufacturer may elect the duty rate applicable to the component, or the finished product, on a component- by- component basis
- Duty applies to the import value of the component— not duty on value added in the US



Parts of fans: 4.7%



Complete utility fan: 2.3%

Foreign Trade Zones– Regulatory Scheme

FTZ Board

- Interagency Board (Commerce and Treasury, with staff provided by Commerce)
- Approves FTZ locations and boundaries and authorizes specific manufacturing activity allowed in FTZs
- Approvals are based on a very broad “in the public interest” standard

Grantee

- Holds a “grant of authority” to manage a FTZ for a defined region
- Often a public entity or quasi-public entity, or a non-profit corporation established specifically to hold the grant
- Primary grantee for North Texas is DFW Airport, grantee of FTZ No. 39

US Customs and Border Protection

- Authorizes a business to “activate” the FTZ for use
- Provides oversight and ensures compliance



DFW Airport FTZ

DFW Airport Board is created by the Texas Legislature as a joint venture between the Cities of Dallas and Fort Worth

Airport opened in 1974

FTZ grant of authority, FTZ No. 39, in 1979

DFW's motivation for becoming grantee:

- More international trade, more passenger and cargo air traffic

- Leadership role in regional economic development

DFW FTZ includes both projects located at DFW Airport and throughout North Texas



DFW FTZ Alternative Site Framework Service Area



- DFW FTZ approved for the “Alternative Site Framework,” or “ASF,” in 2009
- ASF allows a zone to request that a Service Area, usually organized by county, is effectively pre-approved as FTZ ready. County approval is required as part of the request.
- Within the Service expedited approval for company-specific FTZ sites, called “usage-driven sites,” are provided by the Foreign Trade Zones Board using a short form application, generally in less than 30 days.
- DFW FTZ Service Area has now expanded to 8 counties
 - 6,971 square miles
 - 18,051 square kilometers
- Easier, faster FTZ setup for any business within the Service Area, conditioned on approval by local taxing authorities

Can the Service Area be expanded?

- Expansion of the Service Area requires action by the FTZ Board
- DFW Board policy will allow any eligible county to become part of the Service Area on request of the County Commissioners. FTZ Board requires specific language.
- Eligibility requires that the County (or portion of the County for which the request is made) is considered “adjacent” to the Port of Dallas/Fort Worth:
 - Within 60 miles
 - Within 90 mile drive time
 - CBP at the Port of DFW must concur with the adjacency
- Application asks:

Explain the need for the proposed reorganization or expansion of your FTZ under the ASF, including current and projected levels of international trade in the community. Describe the local economy's strengths and weaknesses, in general, including established and emerging industries and particular challenges. Indicate how reorganizing or expanding your FTZ under the ASF ties to local/state/regional economic development plans.
- Approval takes about 9 months

How the local tax base is impacted

- FTZ Act prohibits state or local governments from assessing ad valorem tax on inventory that has either been imported into an FTZ, or is held in an FTZ for export
 - The statutory provision, adopted in 1984, is specifically designed to clarify the inventory tax status in Texas
 - Bill was an initiative of DFW Airport, co-sponsored in the House by Jim Wright and Jack Brooks, and in the Senate by John Tower and Lloyd Bentsen
- Because the FTZ Board approves zone projects based on “public interest,” the views of local taxing authorities are important in approving any individual project
 - This is accomplished by having letters supporting the project from each taxing authority accompany the application
- The FTZ exemption has significant overlap with the Texas Freeport exemption
 - Freeport is a local option exemption which applies to inventory which leaves the state within 175 days
 - FTZ exemption applies to any inventory imported from outside the US, and to domestic inventory which will be exported out of the US, with no time limit
 - For jurisdictions which have adopted the Freeport exemption, the incremental impact of FTZ is exempting inventory which has been imported and will be sold to a Texas customer, or inventory which is held for more than 175 days which is either imported or held for export

How the local tax base is impacted

- For school districts, like Freeport property, FTZ property is not counted in the Comptroller's determination of district property tax values
- Effectively, the State largely holds school districts harmless for loss of tax revenue from FTZs
 - For most districts, Tier 2 state aid increases to offset FTZ tax loss
 - For Chapter 41 districts, recapture decreases
 - Specific impact has to be reviewed based on each individual district's situation. In many instances, the state funding impact offsets the FTZ loss entirely. In some situations (largely in Chapter 41 districts with significant I&S tax rates), there can be some differential, although it is extremely rare that state offset is not 80% or more.
- FTZ does not impact real property or non-inventory personal property
- For new, "green field" projects, where all impact is from new inventory, approvals are usually provided on request
- In situations in which existing operations with a significant amount of inventory on the current tax roll which will become exempt with FTZ, it is common that school districts execute a hold-harmless agree agreement with the FTZ user, where the FTZ user makes a payment in lieu of tax to offset any net revenue loss to the school district, taking into account school finance

How to make use of the FTZ for Economic Development

- Marketing FTZ
 - Many communities in the Service Area market properties as “FTZ Ready”
 - FTZ can be included in the list of available incentives, with a general explanation of benefits
- Prompt local approvals
 - To aid in prompt approval of a specific project, education of the tax entities (both staff and elected officials) about impact is essential
 - Form support letters can be previewed and preapproved
 - School district payment in lieu of tax agreements can also be drafted and approved for use when needed
 - Some communities authorize an official (e.g., City Manager, Mayor, Superintendent, County Judge) to execute FTZ support letters under specific fact patterns

How to make use of the FTZ for Economic Development

- Be prepared to deal with prospects
- Some prospects will be very familiar with concepts (especially FTZ users at other locations), but will need guidance on how to get approval locally
- Other prospects will not be familiar with FTZ benefits or operations
- FTZ potential benefits, and costs, are often very fact specific
 - Anticipated imported products
 - Volume of imports
 - Value of imports
 - Manufacturing activity
 - Location of customer base
 - Operational plan
- DFW resources can help in discussions with prospects