



Communication to Salt Lake City Council

To: Rocky Fluhart, Chief Administrative Officer

From: Alison McFarlane, Senior Advisor for Economic Development

Date: October 9, 2006

CC: Mayor Ross C. Anderson, Cindy Gust-Jensen, Sam Guevara, Roy Williams,
Ed Butterfield

Re: Salt Lake City – Foreign Trade Zone #30

SALT LAKE CITY FOREIGN TRADE ZONE #30

ECONOMIC DEVELOPMENT OBJECTIVE

An FTZ designation for Salt Lake City can help create sustainable economic opportunities through:

- Retention and expansion of existing businesses
- New business recruitment
- Diversification of the local economy

OVERVIEW:

The Foreign Trade Zone Program (FTZ) is a long-standing federal program that provides many little-known import/export benefits for a wide range of business applications. Since an FTZ is considered outside the United States for Customs purposes, qualified importers can defer, reduce or eliminate Customs duties on product stored in their facilities, thereby improving cash flow, lowering inventory cost, and improving bottom lines. Merchandise or materials that enter an FTZ may be assembled, manufactured, processed, mixed, stored, relabeled or repackaged, tested, manipulated, cleaned, sampled, destroyed or salvaged. FTZs also offer logistics and administrative benefits to qualified companies through procedures such as weekly Customs entry summaries and their associated reduced transaction costs.

Salt Lake currently has an FTZ site located in the International Business Center (410 N. Wright Brothers Avenue, Salt Lake City, UT 84116). Salt Lake City's FTZ #30 operated from 1977 until 1996. The FTZ was deactivated in 1996 due to inefficient operation and an apparent lack of use. The new Union Pacific transloading facility, located at 5600 West and 900 South, has initiated a surge in requests for the reactivation of FTZ #30. Salt Lake City is the first major destination and interchange point for Union Pacific Railroad from Seattle, Portland, Oakland and Los Angeles/Long Beach. A high volume of merchandise and materials and trade congestion at the port cities offers an opportunity for Salt Lake City to attract new businesses with a FTZ designation. Salt Lake City's Economic Development Department is analyzing the reactivation of the FTZ and the expansion of the General Purpose Zone, which is established for multiple activities and multiple users. There is also the potential of expanding Zone #30 by adding numerous subzones. Salt Lake City Corporation is in charge of the FTZ as its official Grantee.

ADVANTAGES:

An FTZ enables companies to import products and save on the payment of duties and federal, state, and local taxes. These companies can then either store the products indefinitely (as opposed to the 5 year limit within US Customs) or manipulate/manufacture the merchandise into a finished product. The product can then be re-exported out of the US without the payment of the duties or taxes. Duties are only due upon entry into US territory. In this way companies that locate their operations within General Purpose FTZs or Subzones are able to more effectively compete with their overseas counterparts. The cities that sponsor these zones benefit by having companies locate their operations and manufacturing sectors within their area thereby creating new jobs. Tax revenue is generated by the products that leave the FTZ for any NAFTA country. The closest FTZ's to Salt Lake City are Phoenix, Arizona and Reno, Nevada.

REACTIVATION PROCEDURE

1. **Conduct a FTZ seminar** to gauge business users and begin education and information process for the business community. The first seminar has been set for November 7, 2006 from 7:30 am to 12:00 noon. The seminar will be held at the Salt Lake City Marriott (State Street property). Foreign Trade Zones: An Overview and Benefits to Your Company is sponsored by Salt Lake City Corporation. Co-sponsors include EDCUtah, the Governor's Office of Economic Development, Salt Lake County, Commerce CRG and Sahara Construction.
2. **Request for Qualifications to identify an FTZ operator.** The RFQ will call for the operator to foster the application process, research all necessary feasibility studies, coordinate impact analysis, and operate FTZ #30.

3. **Apply to reactivate FTZ #30 as an expanded General Purpose Zone (GPZ).**
The zone could include:
 - a. The entire International Business Center (I-80 West, Exit 114, Wright Brothers Drive, Salt Lake City, UT 84116)
 - b. Salt Lake International Airport
 - c. Ninigret Park (Four properties: 1717 South 4800 West; 1857 South 4650 West; 1435 South 4800 West; 1831 South 4800 West, Salt Lake City, UT 84104)
 - d. Union-Pacific Trans-loading facility located at 900 South 5600 West.
4. **Market the FTZ** to former and prospective users (post application, but during the approval process). Marketing would include the production of a marketing plan including an introductory letter from the Mayor, PowerPoint presentation, and cooperative communication tools with the Utah Manufacturers Association and other trade organizations.
5. **Foreign Trade Zone Association membership** allows Grantees to keep updated on FTZ regulations and new information that relates to operating an FTZ. Salt Lake City has joined the NAFTAZ Association at a cost of \$100 annual membership fee.

FTZ COSTS

1. **Reactivation is free.**
 - a. Foreign Trade Zone account presently has \$300,890 that has accumulated from an ongoing lease on the warehouse building. This account would cover the General Purpose Expansion application fee as well as initial marketing fees, feasibility study and impact analysis.
2. **General Purpose Expansion:**
 - a. \$1600 application fee
 - b. Cost of feasibility study and impact analysis.
 - c. Costs are usually recouped by the Grantee from prospective FTZ users.
3. **Subzone Application Fees** (Subzones can be created at any time and are established for a limited purpose that cannot be accommodated within an existing General Purpose Zone)
 - a. \$4,000-\$6,500 (depending on how many "classes" of merchandise are produced): However, this fee is paid by the specific company seeking subzone status. They must, however, go through the Grantee for application purposes.
4. **Marketing Fees.** Exact figures for marketing fees will depend on the selected methods of marketing.

- b. The Operator should be qualified to market the zone to companies in the area. The Operator should be making astute decisions to build occupancy in the zone.
- c. The Grantee/Operator agreement may include a provision that the Operator is responsible for marketing including costs.

ACTION STEPS:

1. **Activation:** Notify John Glaitti, Port Director at US Customs in Salt Lake City, via letter, that we are reactivating the FTZ #30 and outline reasons for activation. Send a copy of letter to the Foreign Trade Zone Board in Washington, DC.
2. **Expansion:** Contact the FTZ Board
 - a. Download and complete the Application for Expansion
 - b. Complete the feasibility and economic impact study
3. **Subzones:** Determine **which businesses require subzone** status and geographic area
 - a. Notify the Board of intent to apply for subzone status
 - b. Begin application process
4. **Marketing:** Responsibility of Salt Lake City and FTZ operator
- 5.

TIMELINE:

1. Activation letter is sent. (Operator must be decided upon prior to activation.)
2. Activation letter is accepted.
3. Federal process and approvals takes 10-12 months.
4. Marketing for the FTZ should take place during the year of the application process. In this way, Salt Lake City Corporation will have companies in place to utilize the FTZ when it is officially activated.
5. Timeline also depends on when operator is chosen and how soon independent groups can provide an accurate and acceptable proposal.

POTENTIAL FTZ USERS:

A. General: Importers, importers that re-export, manufacturers that import certain parts of a finished product

B. Semi-specific: automotive, textile, metals, pharmaceuticals, high-tech companies, aerospace, chemicals, defense, fuel propellants.

C. Specific:

1. Chemical
 - a. Huntsman International Holdings
 - b. Headwaters, Inc
2. Automotive
 - a. Autoliv

- b. Detroit Diesel (Tooele, subzone)
- 3. Aerospace
 - a. ATK (defense, aeronautics, fuel propellants)
 - b. Boeing (defense, aeronautics)
 - c. Northrop Grumman Corp (defense)
- 4. High Tech
 - a. Helius
 - b. Micron (Lehi, subzone)
 - c. Linux Networxs
 - d. Tyco Electronics (Logan, Subzone)
 - e. Compeq International Corp
 - f. Modus Media International
- 5. Industrial Machinery
 - a. SK Daifuku Corp
 - b. Weir Specialty Pumps
- 6. Product Based/Miscellaneous
 - a. International Liquor
 - b. Nu Skin (Provo, subzone)
 - c. Abbott Labs
 - d. PETsMART

CONCLUSION AND RECOMMENDATION

A Foreign Trade Zone is an economic development tool not only for Salt Lake City Corporation, but for Salt Lake County, the State of Utah and the Intermountain region. When functioning well it will help attract new businesses / employees primarily in the manufacturing / industrial areas of Salt Lake City. Thorough planning and effective management are necessary for a successful FTZ operation.

The seminar scheduled for November 7, 2006 is the first step to survey the feasibility of FTZ activation. More seminars dealing with specific industries and aspects of the FTZ will be conducted to market FTZ #30 to the local business community.

Following formal application, the project can be approved within 10-12 months by US Customs and Border Protection. Finally, the Zone can begin significant operation within 18 months.