

JAN 11 2008

MEMORANDUM

DATE: January 11, 2008

TO: Salt Lake City Council

FROM: Edward Butterfield
Economic Development Manager

Re: Salt Lake City Foreign Trade Zone #30

CC: Mayor Ralph Becker, Jennifer Bruno, Mary De La Mare-Schaefer, Lyn Creswell, Cindy Gust-Jensen, David Everitt

SALT LAKE CITY FOREIGN TRADE ZONE #30

ECONOMIC DEVELOPMENT OBJECTIVE

A Foreign Trade Zone 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 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 City 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 in the process of reactivating FTZ #30 and expanding 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 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 FTZs to Salt Lake City are Phoenix, Arizona and Reno, Nevada.

REACTIVATION PROCEDURE

1. **Complete application and apply to reactivate FTZ #30 as an expanded General Purpose Zone (GPZ).** The GPZ will be located on 55 acres at approximately 1100 South 4800 West, adjacent to the Union-Pacific Trans-loading facility.
2. **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.
3. **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. 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.
 - a. 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.
 - b. The Grantee/Operator agreement may include a provision that the Operator is responsible for marketing including costs.

ACTION STEPS:

1. **Activation:** Complete Resolution granting the Mayor the authority to submit the activation letter to the Foreign Trade Zone Board in Washington, DC on behalf of the Grantee
2. **Expansion:** Contact the FTZ Board
 - a. Complete and submit 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

TIMELINE:

1. The reactivation letter and expansion application for FTZ #30 will be submitted at the end of January, 2008 to the Foreign Trade Zone Board. Federal process and approvals takes 10-12 months.

2. 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.
3. 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. Specific¹:

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. Heliuss
 - b. Micron (Lehi, subzone)
 - c. Linux Networkx
 - 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

¹ This is just a small list of a few companies from a few industries. There are a lot of smaller companies out there that may want to use it as well. The ones listed are a few of the biggest of their industry. See the Utah Manufacturing Profile for a more complete list as well as contact information. Also, the UMA put together a comprehensive list of importers/exporters within the State of Utah that they gave to me.

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.

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.