DALLAS COUNTY
COMMISSIONERS COURT ADMINISTRATION
DEPARTMENT OF PLANNING AND DEVELOPMENT

October 31, 2006

TO: Commissioners Court

THROUGH: J. Allen Clemson, Administrator

FROM: Rick Loessberg, Director of Planning & Development

SUBJECT: Request to Expand Southport Foreign Trade Zone

BACKGROUND

In April, the Commissioners Court held a public hearing to help facilitate the creation of a foreign trade zone in the Lancaster-Wilmer-Hutchins-southeastern Dallas/Dallas County area. Since this meeting, major property owners in the area have developed a proposal by which the existing Southport foreign trade zone in Dallas would be expanded to include the aforementioned area. These property owners would now like to formally submit this proposal to DFW Airport which traditionally serves as the first level of review for all zone applications in the Dallas-Ft. Worth area before they are submitted to the federal FTZ Board. Since both the DFW Airport and the federal application processes take into account whether the proposed zone is supported by local taxing jurisdictions, the County and the area's other major taxing jurisdictions have been asked to formally endorse this proposal.

DESCRIPTION OF FOREIGN TRADE ZONES

There are currently approximately 150 active foreign trade zones (which are utilized by multiple businesses operating within them) and 250 active subzones (which are utilized by one specific company) in the U.S. About 2800 firms and 330,000 employees are located within these zones. To receive zone/subzone status, an application must be submitted to the federal FTZ Board by a state, city, county, or a special district. Factors used by the Board to evaluate an application include the proposed zone's impact on the local economy, the zone's consistency with U.S. trade policy, and as previously mentioned, whether the proposal is supported by the local taxing jurisdictions.

If a zone/subzone application is approved, the property within the zone is considered to be outside of the U.S. As a result, businesses located within these zones receive the following economic benefits:

(1) They do not have to pay customs duties on damaged imports:

411 Elm Street, 3rd Floor, Room 313 Dallas, Texas 75202-3301 Telephone: (214) 653-7601
Dallas County Administration Building e-mail: rloessberg@dallascounty.org Telecopier: (214) 653-6517

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(2) They do not have to pay local property taxes on inventory that has been imported or that will be exported;

(3) They do not have to pay duties on imported merchandise until it leaves the zone and enters the U.S. market;

(4) They do not have to pay any duties if imported merchandise is going to be re-exported; and

(5) They are allowed to pay the lower tariff when an imported item in an unfinished state has a higher duty than when it is incorporated into a final product.

Because of the nature of these benefits, foreign trade zones are only important to businesses that import, export, and/or assemble foreign goods. Once granted, zone status remains in effect indefinitely. However, subzone status applies only to the firm that has requested it. In the event the subzone firm ceases operations or changes locations, then the subzone will terminate.

DESCRIPTION OF PROPOSED ZONE EXPANSION

The existing Southport foreign trade zone, which contains 766 acres, was created in 1990 at the request of the City of Dallas. Located near where I-20 and I-45 intersect, it was originally hoped that the zone would be able to benefit from the trading that occurs between Mexico and the U.S. However, with the subsequent approval of NAFTA, which largely eliminated customs fees and duties for goods brought into the country from Mexico, the financial benefits that the zone could have once provided for U.S.-Mexican trade have been significantly reduced. As a result, minimal development has actually occurred within the zone.

With the recent completion of Union Pacific's new $90 million intermodal facility, which is one of the largest in North America and which is located only four miles away from Southport, there now exists the opportunity to finally generate significant growth within this I-20/I-45 area. Intermodal facilities often act as large magnets for warehouses and distribution centers and are currently especially important to firms that import goods from Asia. These goods are shipped from Asia in ocean-going containers to California, then lifted by cranes and placed directly onto rail cars. From there, the containers are shipped by train to select intermodal centers across the U.S. where the containers are loaded onto trucks and taken to regional distribution centers.

A number of developers are actively considering projects in the area because of the opportunity that the Union Pacific facility has helped create. One of these developers–the Allen Group–now controls about 6000 acres (which is larger than the amount of acreage that is in either Wilmer or Hutchins) and has just begun construction on a multi-phase development that could have a value of $6 billion (which would be similar to the current tax base of either Mesquite or Richardson) when finally completed.

Since goods imported from Asia are not covered by a NAFTA-type agreement, a foreign trade zone offers importers of these goods financial benefits that are not otherwise available. So that the area might thus be able to further take advantage of the new UP facility and the region's growing trade with Asia, five of the area's largest major property-owners have proposed adding almost 2000 acres to the existing Southport foreign trade zone. A map showing the location of the current Southport zone, the UP facility, and the parcels that would be added to the Southport zone is attached (in reviewing this map, please note that the additional parcels do not have to be contiguous to Southport in order for it to be considered as being part of that zone).

IMPACT ON OPERATIONS/FINANCE

Under the County's foreign trade zone policy, the County will consider endorsing a zone proposal if it has been formally supported by both the local city and school district and if, within three years of the zone's designation, the zone will employ at least fifty people and contain at least $2.5 million of business personal property.

The proposed expansion of the Southport zone involves four cities (Wilmer. Hutchins, Dallas, and Lancaster) and two school districts (Lancaster and Dallas). Both school districts have already endorsed the proposed expansion, as have the four cities. With construction having just started on some of the Allen Group's project and with it having also started on a 650,600-square-foot facility that another developer is building within one of the parcels that would be added to Southport, it seems likely that the expanded zone will be able to employ at least fifty people and contain at least $2.5 million of business personal property as the County's foreign trade zone policy requires.

As all of the 2000 acres that would be added to the Southport zone are currently undeveloped, there will not be any loss in current tax revenue to either the County or the Hospital District from the federal requirement that imported/exported inventory be exempt from local taxation. Since trade with Asia is increasingly becoming important to the DFW region (trade with China now accounts for 26% of the total international trade that occurs within the region) and since this trade is not governed by a NAFTA-type agreement, the financial benefits provided by an expanded foreign trade zone with the new UP facility could provide the County and the Hospital District with substantially increased tax revenues. With most of the County's strategically-located property in the north having already been developed, this project could also have significant long-term implications for the County's tax base as well.

RECOMMENDATION

It is recommended that Dallas County endorse the proposal to expand the existing Southport foreign trade zone by approximately 2000 acres.

Recommended by:

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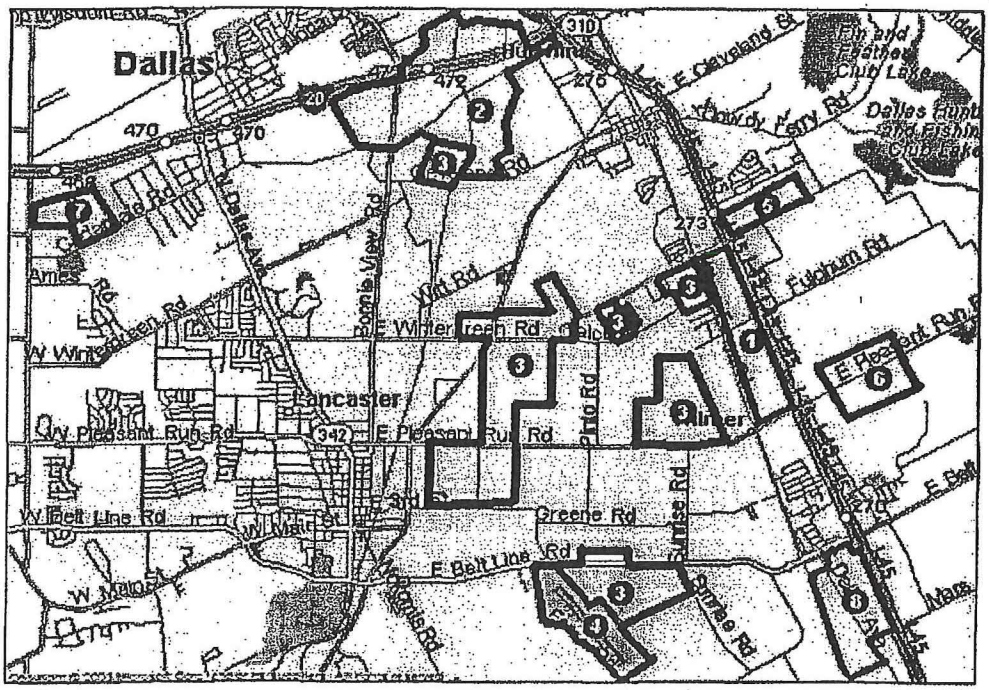
J. Allen Clemson, Administrator

cc: Virginia Porter, Auditor
Ryan Brown, Budget Officer
David Childs, Tax Assessor/Collector
Liz McMullen, Hospital District
Bill Methenitis, Ernst & Young

attachment

LOCATION OF CURRENT SOUTHPORT FOREIGN TRADE ZONE, PROPOSED ADDITIONS TO THE ZONE, AND THE NEW UNION PACIFIC INTERMODAL FACILITY



1	Union Pacific	5	Duke Realty
2	Southport FTZ	6	Prime Rail Interests
3	Allen Group	7	ProLogis
4	City of Lancaster	8	Argent Property