RS-25-085 May 20, 2025

FOREIGN TRADE ZONE (FTZ) DESIGNATION FOR DONGJIN SEMICHEM

- 2
- Consider a memorandum/resolution authorizing the City Manager to sign a Letter of No Objection regarding an application for Foreign Trade Zone (FTZ) designation to be submitted by Dongjin Semichem Texas, Inc.

- A Foreign Trade Zone (FTZ) is a federal program designed to assist U.S. based manufacturers and distributors compete with those who are manufacturing and distributing abroad.
- Businesses located within an FTZ are considered outside of the U.S. Customs territory, which allows companies to store, process, manufacture, and re-export foreign and domestic goods without paying customs duties until the goods leave the zone for the domestic market.

- FTZs encourage investment in the U.S. and the creation of American jobs by allowing U.S. businesses to operate with equivalent customs treatment to business conducted off-shore.
- In order to take advantage of the tax benefits associated with being in an FTZ, Dongjin Semichem Texas, Inc. intends to apply to join FTZ 183.

- 5
- Benefits to a U.S based businesses located in a FTZ include:
 - Duty Deferral. No duty on imports until they leave the FTZ for domestic destination.
 - Duty Exemption. No duty on items brought into the FTZ and exported, as these items never enter Customs territory.
 - Inverted Tariff. Where FTZ manufacturing results in finished product with lower duty rate than the rate on foreign input, finished product may be entered at the duty rate that applies to its condition as it leaves the zone if approved by FTZ Board.

- 6
- Benefits to a U.S based businesses located in a FTZ include:
 - Logistical Benefits. Companies using FTZ procedures may have access to streamlined customs procedures (e.g., "weekly entry" or "direct delivery").
 - Scrap/Waste. Duty may be reduced on foreign articles that become scrap/waste through FTZ activity.
 - Other Benefits. No state or local personal property tax on domestic inventory held for export or on imported inventory.

- Foreign Trade Zone (FTZ) 183 was created in 1991 and is administered by The Foreign Trade Zone of Central Texas, Inc. (FTZCTI), which is a non-profit economic development corporation.
- The entire Austin-Round Rock MSA (Bastrop, Caldwell, Hays, Travis, and Williamson counties) is preapproved by the federal government as FTZ eligible. This designation allows for more expeditious processing of applications.

- If approved, the FTZ designation will exempt Dongjin Semichem's inventory from ad valorem inventory tax. This includes both imported inventory and inventory held for export at the site.
- As part of the application process, a Letter of No Objection must be provided by all taxing jurisdictions (City of Killeen, Bell County, and KISD) to the Foreign-Trade Zones Board.

9

□ To join the FTZ, Dongjin must complete the following steps:

Applicant requests sponsorship from FTZCTI Notify taxing jurisdictions and confirm no objection to application Obtain geographical designation from US Foreign Trade Zone Board

Obtain activation approval from US Customs

Zone Operations Go-Live

Economic Impact

- In 2024, the total value of Dongjin's inventory was \$5.29 Million.
- Based on the City's 0.6573% tax rate, the City collected \$34,796.23 in inventory tax last year.
- If the FTZ application is approved, the City will forego collection of all future inventory tax.

Staff Findings

- 11
- Staff finds that the Letter of No Objection is necessary for Dongjin Semichem to be able to apply for inclusion in FTZ 183.
- If approved, the FTZ designation will provide tax benefits to Dongjin Semichem.

Recommendation

Staff recommends that the City Council adopt a memorandum/resolution authorizing the City Manager to sign a Letter of No Objection to the application submitted by Dongjin Semichem Texas, Inc. for a Foreign Trade Zone (FTZ).