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Port Authority/Foreign Trade Zone

The Clinton Regional Development Corporation and the Clinton Area Chamber of Commerce have been providing information on the concept of a Regional Port Authority and development of a Foreign Trade Zone (FTZ). Both can add significantly to our arsenal of economic development tools. The more details we can provide on both will reduce the number of questions and misinformation in the future.

The Development Corporation and the Chamber have been entertaining the concept of creating a port authority, due to the number of inquiries from companies considering job creation and private sector capital investment in the Greater Clinton Region. In light of this and the high probability of continued inquiries, we feel it is appropriate to learn about this economic development tool to better compete in a global economy.

Port authorities have been in existence since the formation of the original colonies. In some areas they were called port councils, but essentially they provided the same operation: collection of tariffs and providing harbor security. Today port authorities provide a much broader base of service, and not only provide service to waterways, but impact air, rail, truck and pipelines as modes of transportation.

Port authorities provide an organized structure to utilize all the transportation modes that are available to a certain region. They also assure transportation, storage and security are available to all of industries in a region on a fair and equitable basis. Formation of a port authority creates a unified service area with one governing body that is impartial and seeks regional harmony for economic development. A port authority can apply for state and federal government funds as a joint regional application, representing a diverse group of political subdivisions thus creating a higher degree of approval over single, stand alone applications. This way we are able to return tax dollars back to the region from Des Moines, Springfield and Washington D.C.

The passage of Iowa House File 868, (see Division XV of the bill), was driven by inquiries from international corporations evaluating areas to expand their manufacturing facilities, which prefer to work with one regional port authority rather than a number of individual, sometimes competing transportation entities.

There are several key points to Iowa port authorities that are noteworthy:

- (a) In Iowa a port authority must be created by two or more political subdivisions. (sec 90-1)
- (b) A political subdivision may only be a member of one port authority. (sec 96-2)

- (c) Port authorities will be governed by a board of directors, appointed by the participating political subdivisions. (sec 93-1)
- (d) Port authorities cannot levy taxes. (97-10)
- (e) Port authorities cannot exercise the power of eminent domain. (sec 97-17)
- (f) Port authorities may issue revenue bonds. (sec 106-sec 109-sec 110)
- (g) Port authorities may purchase, lease and acquire land and other property in any county in Iowa and/or in any other adjoining state. (sec 105-1)
- (h) Property held by a port authority is exempt from property tax.(sec 107)

In Illinois, port authority legislation is created for specific locations in the state on a case by case basis. The legislature uses the proposal drafted by each economic development region to structure a separate piece of legislation, which is site specific for that region. A perfect example of this is the Mid- American Port Commission. (www.maia-port.com). This Illinois law created a three state commission to establish an intermodal port on the Mississippi and Illinois rivers. Their stated purpose in the proposal was the creation of a port authority for the expansion of economic development in the entire region, developing a partnership among Illinois, Iowa and Missouri. The legislation also created the Mid-American Intermodal Authority Port District, in Quincy, Illinois, as a separate Illinois entity, engaged in the same venture. All three locations, Quincy, Illinois, Monroe City, Missouri and Burlington, Iowa, work in harmony to assure expansion of economic development in their region.

The legislative intent of port authorities is that they be fiscally self-sufficient. The issuance of revenue bonds is the main source of operating capital for a port authority. User fees and income produced through operations will retire the bonds. The positive effect of a port authority is clear: another tool in the box to attract industrial growth and economic development, resulting in an increase of good paying jobs, and a broadening of the tax base. The only drawback we can see is the establishment of a port authority that is not used to its full potential. We recognize there is no sense of having a port authority, just to say we have one. We know we must carefully look at all the alternatives, then take the appropriate action.

Foreign Trade Zones are a related economic development tool that often times conjures up the image of a vast waterway on the ocean with large ships waiting to enter a port. This is not true in the age of a global economy. We are all connected to the rest of the world. Corporate America and the manufactures of the world want all nations in their customer base. Access to materials and customers is critical for a business exploring the Greater Clinton Region. We must be able to demonstrate to these companies that we can provide fast, inexpensive means to access foreign markets. It is a well documented fact that American employers that export their goods abroad pay higher wages than those that do not export their goods.

Enter the need for FTZ. To simplify the concept, the area designated as a FTZ is no longer part of the United States. It becomes an area controlled and regulated by United States Customs, which has authority over all goods and activity that moves in and out of the zone. Under FTZ procedures, the usual formal Customs entry procedures and payments of duties are not required on foreign merchandise unless and until it enters Customs territory for domestic consumption, at which point the importer has the choice of paying duties at the rate of either the original foreign materials or the finished product, whichever is less. The use of FTZ defers, and in some cases lessens or removes the duty on foreign goods.

Here is a hypothetical example: The Ridesmooth Corporation manufactures horse pulled carriages. The company has several sources for the wheel axles, all from overseas. In order to bring the axles in the country, Ridesmooth must pay a \$.87 duty on each one before any production or finished product profit is made; thus putting a strain on cash flow. In order to relieve this strain, Ridesmooth can bring 1000 axles into a FTZ duty free until production is completed. They are then required to pay only \$.32 per axle if the finished product is sold at retail in the U.S. In this simplified example, Ridesmooth will only pay \$320.00 in tariffs instead of \$870.00, resulting in a savings of \$550.00. Additionally, the duty is paid with profit

derived from the sale of the carriages, not capital outlay. Now put this into play with millions of units of production, (or hundreds of thousands of gallons of product), and it is obvious why companies have broached the question about the Clinton region's uses of a foreign trade zone.

The use of foreign trade zones provides advantages for both large and small sized companies. Small to medium sized companies can enter the world market place and utilize the tools the same as big corporations. Large local companies have used foreign trade zones for years that are established at their home office, with the local company simply designated as a sub-zone. Archer Daniels Midland (ADM), for example, would use the FTZ already established in Decatur, Illinois, if they were to ship corn starch to Brazil. This way the end user in Brazil would pay the tariff. However, not every business that can create jobs or make capital investments in the Clinton region has the advantage of the FTZ in Decatur. Nonetheless, a port authority and a FTZ can help us attract higher wage employers to our regional economy.

During several recent discussions with Pierre V. Duy, the Senior Economist, with the Foreign Trade Zones Board in Washington D.C. we talked about the possible future formation of a FTZ. Forming a FTZ locally would be a two step process. Mr. Duy offered two alternatives for the first step: (a) Create sub-zones for each business in our region that needs the service, using zone 133 in Davenport as our base or (b) Create our own expansion zone, with full service, facilitating zone 133 as the base. Mr. Duy favored option (b), because it provided greater latitude of operations relative to option (a). We will need to study both of these options closer in the future. Step two, of Mr. Duy's suggestion, would be the eventual formation of a new FTZ to service this area of the state on a permanent basis

The concept and use of foreign trade zones and port authorities is nothing new. What is new is the desire to examine this tool as a way to attract new employers to the Greater Clinton Region, and to help the firms already here add jobs and capital investment. Our mission is to research several tools that will enable us to have the best answers for those who seek to create jobs and to make capital investments.

Our mission is to market and showcase all the untapped and under utilized natural and manufacturing resources we have, and put them to productive use.



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(1) Foreign Trade Zone Basics. Google FTZ