

# Killeen Economic Development Corporation

## Fact Sheet: Foreign Trade Zone (FTZ) Impact on KISD Funding

### 1. Will KISD be penalized for not collecting all possible tax revenue?

No. Inventory in a federally designated FTZ is exempt from local property taxes under state law. This isn't a local deal or a special favor. It's built into the Texas Tax Code.

Where this comes from:

- **Texas Tax Code § 11.12, § 11.251 & § 11.253:** These sections establish general exemptions (§ 11.12) and specific inventory exemptions for Freeport and goods-in-transit (§ 11.251 and § 11.253). While FTZ inventory exemptions are authorized under federal law (19 U.S.C. § 810(e)) and recognized in Texas Tax Code Chapter 81, they are administered by appraisal districts in a manner parallel to Freeport and goods-in-transit treatment for property tax purposes.
- **19 U.S.C. § 810(e):** Exempts tangible personal property in a Foreign Trade Zone from state and local ad valorem taxation.
- **Texas Tax Code Chapter 81:** Recognizes FTZs in Texas and incorporates the federal exemption. In practice, Texas appraisal districts treat FTZ inventory similarly to goods exempt under § 11.251 (Goods-in-Transit) for property tax purposes.
- **Texas Government Code §403.302:** Sets the taxable property value for KISD after the Comptroller removes exempt property like FTZ inventory. This value is used in school funding formulas. Because FTZ inventory is removed at this stage, KISD's local share is calculated on the reduced value, and the state automatically fills in the difference to keep total funding whole.

The bottom line: These exemptions are automatic and recognized by the state. KISD won't be penalized for "not collecting" revenue the law doesn't allow KISD to collect.

---

### 2. Will this change how the state pays M&O or I&S funds?

For M&O (Maintenance & Operations):

- The state fills the gap. M&O is based on attendance and property values after exemptions are applied. **Texas Education Code §48.256** makes sure the funding stays balanced.

$$\text{LFA} = \text{TR} \times \text{DPV}$$

- LFA: KISD's local share
- TR: KISD's M&O tax rate
- DPV: Taxable property value, set by the Comptroller's Property Value Study (PVS)

The PVS already removes exempt property (like FTZ inventory) before reporting DPV to the Texas Education Agency (TEA). When DPV is lower due to exemptions, the state's share of funding rises to keep KISD's total Tier One funding whole. FTZ exemptions shift funding from local tax dollars to state aid without reducing KISD's entitlement.

For I&S (Interest & Sinking):

- Debt service is tied to taxable property values. Dongjin's taxable inventory is very small, so the FTZ exemption doesn't meaningfully affect debt repayment capacity.

#### I&S Impact Scenarios for Dongjin Inventory Levels

- These scenarios illustrate the estimated I&S (Interest & Sinking) tax impact at current and projected inventory levels.

- KISD's I&S tax rate is set at \$0.1809 per \$100 valuation (2023-24). Total district taxable value is approximately \$15B.

Inventory Value	I&S Revenue/Year	% of Total I&S Base
<\$500,000 (Current Estimate)	\$904	0.003%
\$5,293,820.00 (Max Capacity)	\$9,576.52	0.035%

Interpretation:

- At \$500K inventory, I&S revenue is approximately \$904/year.
- At \$5.3M inventory (full capacity), I&S revenue is approximately \$9,576/year. Even at full capacity, the impact remains just 0.035% of KISD's total tax base.

\*In short: State funding formulas are designed to keep KISD whole when statutory exemptions like FTZ are in place.\*

### 3. *What are the benefits to KISD?*

While this project doesn't generate a large immediate tax boost, it helps position Killeen as a competitive site for advanced manufacturing. Over time, this means:

- Potential for new investment in taxable property (real estate, equipment outside FTZ scope).
- Job stability for families in our district.
- A stronger local economy that supports long-term tax base growth.

### 4. *Why not ask Dongjin for a PILOT to cover the tax delta? Several reasons:*

- Timing: Negotiating a PILOT adds months, which could delay or derail the FTZ approval.
- Administration: A PILOT adds annual reporting and tracking work for both the district and the company.
- Low Return: Dongjin's taxable inventory is minimal. The "delta" in taxes with or without FTZ is small, and the state's M&O backfill already keeps the district whole.
- The cost in time and effort outweighs the financial gain.

### Key References:

- Texas Tax Code: §11.12, §11.251, §11.253
- Texas Tax Code Chapter 81
- Federal Tax Code 19 USC §810(e)
- Texas Government Code: §403.302 (Property Value Study)
- Texas Education Code: §48.256 (Calculation of M&O Entitlement)