

Federal Trade Zone(FTZ) Request

- **Formal request:** KEDC, FHRED, and Dongjin Semichem seek KISD's **Letter of No Objection** to create an FTZ at Dongjin's facility within the Killeen Business Park.
- The FTZ would exempt Dongjin from inventory tax and allow deferral of import duties on products entering the U.S.
- Based on company reports, the maximum estimated annual impact to KISD is ***\$46,363.28.**
- We have received Letters of No Objection from the City of Killeen and Bell County.
- Final FTZ designation is determined by the U.S. Department of Commerce.

***The State of Texas is expected to fully reimburse KISD for this amount.**

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- **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.

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- **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.
 - $LFA = TR \times DPV$
 - 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%

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- ***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.

- ***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. (Legal Fees, etc)

Sample Letter



KILLEEN INDEPENDENT SCHOOL DISTRICT

200 North W.S. Young Drive, Killeen, Texas 76543
P.O. Box 967, Killeen, Texas 76540-0967
(254) 336-0000

Date, 2025

Elizabeth Whiteman
Executive Secretary
Foreign-Trade Zones Board
U.S. Department of Commerce
1401 Constitution Ave, NW, Room 21013
Washington, DC 20230

RE: Application for FTZ Designation of Dongjin Semichem Texas, Inc. Site

Dear Ms. Whiteman,

I am writing regarding the Foreign Trade Zone of Central Texas, Inc.'s sponsorship of the Dongjin Semichem Texas, Inc. application to designate its site in Killeen, Texas.

The Foreign Trade Zone of Central Texas, Inc., grantee of Foreign Trade Zone No. 183, intends to apply for Foreign Trade Zone designation of Dongjin's Killeen site. This site is under the taxing jurisdiction of the Killeen Independent School District. Imported inventory and inventory held for export at the site will be exempt from ad valorem tax. We have no objection to Foreign Trade Zone designation at the site located at 705 Rickey Carlisle Circle, Killeen, TX 76543.

We support the addition of the new FTZ geographical site and encourage prompt approval of the application.

Sincerely,

Superintendent
Killeen Independent School District