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MEMORANDUM **Economic Development – Council Memo ED14-004**

DATE: DECEMBER 12, 2013

TO: MAYOR AND COUNCIL

THRU: RICH DLUGAS, CITY MANAGER
PATRICK MCDERMOTT, ASSISTANT CITY MANAGER

FROM: CHRISTINE MACKAY, ECONOMIC DEVELOPMENT DIRECTOR

SUBJECT: FOREIGN TRADE ZONE SUPPORT FOR ISOLA

RECOMMENDATION: Staff recommends approval of Resolution No. 4732 authorizing support for a Foreign Trade Zone application on the Isola Group Campus at 165 South Price Road, and authorize the Mayor to sign the Resolution and related documents as approved by the City Attorney.

BACKGROUND/DISCUSSION: Isola Group located in Chandler in 2003, bringing their global corporate headquarters to Chandler. The company is located in two locations currently with their corporate offices at the NWC of Loop 101 and Ray Road, and their manufacturing facilities at 165 South Price Road. Isola is a global material sciences company focused on designing, developing, manufacturing and marketing copper-clad laminates used to fabricate advanced multilayer printed circuit boards. Their products are used in a diverse range of electronic end-markets including applications in computers, networking and communications equipment, high-end consumer electronics, as well as products designed for use in the advanced automotive, aerospace, military and medical markets.

In an effort to maintain global competitiveness, Isola contacted the Economic Development staff requesting support for a Foreign Trade Zone (FTZ) at their 165 South Price Road campus. The FTZ status would allow Isola to take advantage of the import/export duty reduction for those manufacturing companies located in an active FTZ. Currently Isola would save more than 7% in tariff reduction if their building were in a declared FTZ.

As part of the additional benefits allowed in only a few states, by State Legislation, Arizona FTZ sites also allow for a reduction in property tax to Class 6, which drops the

assessed valuation from 19.5% to 5%. However, not only does State law not allow for the automatic removal of existing facilities out of full Ad Valorem property tax rolls, Isola has agreed not to pursue the reduction of property tax for their existing buildings, and this is identified in the attached Resolution.

If Chandler City Council chooses to approve this application, the approval will then move on to the Phoenix City Council who will then need to approve Isola's application for a permanent Foreign Trade Zone. This is due to the fact that the City of Phoenix holds the formal FTZ designation for our area. The application will then move on to the Federal Foreign Trade Zone Board in Washington DC for their review and approval.

There are currently two FTZ's in the City of Chandler. The active FTZ with Intel, and an inactive FTZ with Microchip Technology.

FINANCIAL IMPLICATIONS: There are no financial implications for City of Chandler.

PROPOSED MOTION: Move to approve Resolution No. 4732 authorizing support for a new Foreign Trade Zone on the Isola Group Campus located at 165 South Price Road and authorize the Mayor to sign the Resolution and related documents as approved by the City Attorney.

Attachments: Resolution No. 4732
Site Map

RESOLUTION NO. 4732

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHANDLER, MARICOPA COUNTY, ARIZONA, SUPPORTING A FREE TRADE ZONE DESIGNATION FOR MANUFACTURING FACILITIES ON PROPERTY OWNED BY ISOLA USA CORPORATION AND LOCATED AT 165 SOUTH PRICE ROAD IN CHANDLER, ARIZONA.

WHEREAS, Isola is a leading global material sciences company that designs, develops, manufactures and markets laminate materials used to fabricate advanced multilayer printed circuit boards, which provide the physical platforms for the semiconductors, passive components, and connection circuitry that power and control virtually all modern electronic products; and

WHEREAS, Isola owns and operates a manufacturing facility for its laminate products at 165 South Price Road, Chandler, AZ; and

WHEREAS, without receiving Foreign Trade Zone ("FTZ") designation for its manufacturing facility, Isola is put at a competitive disadvantage, which is detrimental to the economy of the City of Chandler, as well as the State of Arizona; and

WHEREAS, the City of Chandler desires to support Isola in applying to be part of an activated FTZ and a subzone under FTZ No. 75, provided that the beneficial state tax treatment available to an activated FTZ or subzone be available only to new buildings and equipment; and

WHEREAS, Isola is agreeable to such limitation on state tax treatment;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Chandler, Arizona does support a Foreign Trade Zone designation for the Isola manufacturing facility located at 165 South Price Road in Chandler, Arizona; does support Isola's application for subzone status under FTZ No. 75; does approve the reclassification of the ad valorem tax status of all new buildings and equipment at said manufacturing facility to Class 6 (5% assessment ratio); and does authorize and approve that certain agreement with Isola regarding state tax treatment for said manufacturing facility as a foreign-trade subzone in such form as approved by the Chandler City Attorney.

PASSED AND ADOPTED by the City Council of the City of Chandler, Arizona, this ____ day of _____, 2013.

ATTEST:

_____ _____

CITY CLERK MAYOR

APPROVED AS TO FORM:

_____

CITY ATTORNEY GAB

CERTIFICATION

I HEREBY CERTITY that the above and foregoing Resolution No. 4732 was duly passed and approved by the City Council of the City of Chandler, Arizona, at a regular meeting held on the _____ day of _____, 2013, and that a quorum was present thereat.

_____

CITY CLERK

FTZ AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into this ___ day of _____, 2013, by and between the City of Chandler, an Arizona municipal corporation (the "City"), and Isola USA Corporation, a Delaware corporation ("Isola").

RECITALS

A. Isola designs, develops, and manufactures base materials for multilayer printed circuit boards. It has manufacturing, research and development, and sales offices and facilities throughout the world and operates as a subsidiary of Isola Group Ltd. Isola was incorporated in 2004. It is based in Chandler, Arizona, with its headquarters located at 3100 W. Ray Road #301, and manufacturing facilities located at 165 South Price Road (the "manufacturing site").

B. Isola desires to obtain the advantages provided by federal law of having the manufacturing site situated within a designated foreign-trade zone ("FTZ"). In addition, Arizona law offers a significant reduction in state real and personal property taxes for property located within an activated FTZ.

C. Isola is applying or has applied for subzone status under Foreign-Trade Zone No. 75, which is operated by and through the City of Phoenix. Because of the tax impact of foreign-trade subzone designation, Phoenix generally will not recommend that its city council authorize sponsorship of a subzone application without the approval of the local city jurisdiction where the proposed subzone is located, if not within the Phoenix city limits.

D. The City of Chandler desires to support Isola's application for subzone status for the manufacturing site provided that the beneficial state property tax treatment available to Isola as a result of obtain subzone status will apply only to new buildings and equipment at the manufacturing site, not to existing real or personal property, thereby preserving the current levels of property tax income realized by the City.

E. Isola is agreeable to this limitation on the favorable tax treatment. Both the City and Isola desire to enter into this agreement to memorialize this arrangement.

NOW, THEREFORE, for and in consideration of the foregoing, and the covenants and agreements contained herein, the City and Isola covenant and agree as follows:

1. City support. The City shall provide written approval and support of the Chandler City Council for Isola's application for subzone status. However, the granting of such approval and support is a matter within the sole discretion of the City Council. If the City Councill does not act to provide such written approval and support, this Agreement shall be deemed null and void, and, in such event, no penalty or damage shall accrue against the City, its City Council, or any officer, agent or employee of the City for the City Council's failure to take such action.

2. Isola tax claim limitation. Isola agrees that it will claim the beneficial property tax treatment available under Arizona law to firms holding FTZ subzone status only for new buildings and equipment at the manufacturing site, and not for existing real or personal property. In the event Isola does seek to have all eligible property at the manufacturing site classified as Class 6, so as to realize the beneficial property tax treatment, Isola shall make a payment to the City in lieu of taxes in the amount of the savings realized by Isola on the existing real or personal property,

which shall be collected by the City and disbursed by the City in the manner provided by state statute for the distribution of property taxes, so that there is no reduction in actual dollars available to the intended beneficiaries of that revenue.

3. Miscellaneous. This Agreement is subject to the following additional provisions:

a. Amendments. This Agreement may not be amended except by a formal writing executed by all of the parties.

b. Arizona law. This Agreement shall be construed in accordance with the laws of the State of Arizona.

c. Successors and Assigns. This Agreement inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, personal representatives, successors and assigns.

d. Statutory Cancellation Right. In addition to its other rights hereunder, City shall have the rights specified in A.R.S. § 38-511.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the date and year first stated above.

ISOLA USA CORPORATION, a Delaware corporation

By: _____

Its: _____

STATE OF ARIZONA)
) ss.
County of Maricopa)

On this _____ day of _____, 20___, before me, the undersigned Notary Public, personally appeared _____, the _____ of Isola USA Corporation, a Delaware corporation, and, being authorized so to do, did execute the foregoing Agreement in the capacity therein stated and for the purposes therein contained for and on behalf of the limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

_____
Notary Public

My Commission Expires:

_____

CITY OF CHANDLER, an Arizona municipal corporation

By: _____

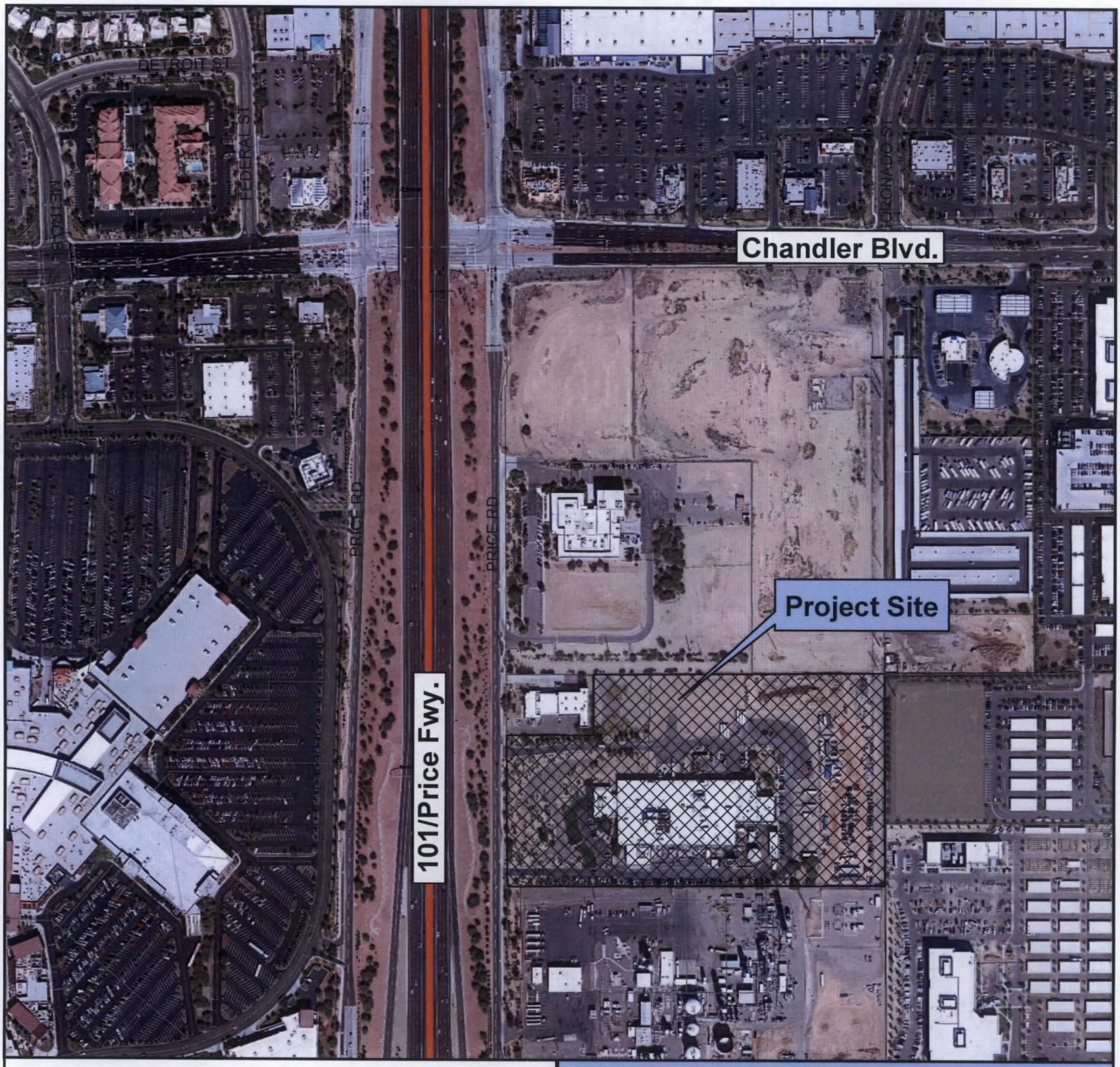
Its: _____

Attest:

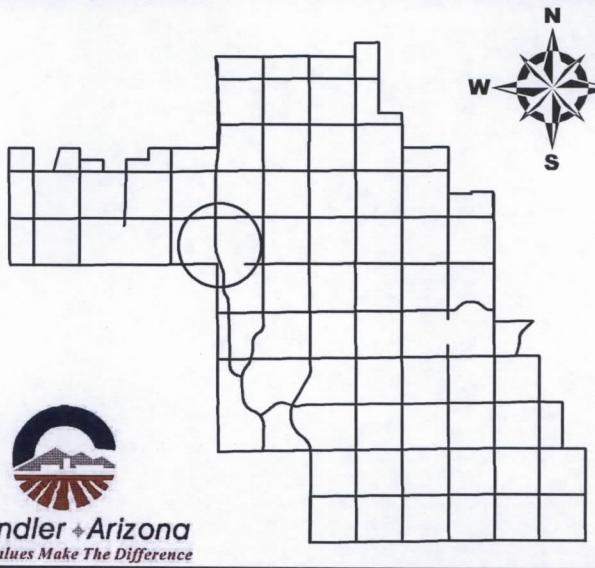
_____
City Clerk

Approved as to form:

_____
City Attorney GAB



Vicinity Map



Chandler Arizona
Where Values Make The Difference

Isola
165 S. Price Rd.

CITY OF CHANDLER 11/22/2013