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OF MICHIGAN



SURVEY OF ECONOMIC  
DEVELOPMENT PROGRAMS  
IN MICHIGAN

THIRD EDITION

FEBRUARY 2016

REPORT 392

CELEBRATING 100 YEARS OF INDEPENDENT, NONPARTISAN  
PUBLIC POLICY RESEARCH IN MICHIGAN

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# SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN

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Current Through 98<sup>th</sup> Michigan Legislature (2015 Regular Session)

**This report was prepared with assistance from the law firm  
Miller, Canfield, Paddock and Stone PLC**

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MAIN OFFICE 38777 Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

LANSING OFFICE 115 West Allegan, Suite 480 • Lansing, MI 48933-1738 • 517-485-9444 • Fax 517-485-0423

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**FEDERAL ZONE PROGRAMS**

*Foreign Trade Zones*

*Historically Underutilized Business Zones*



## FOREIGN TRADE ZONES

### ENABLING LEGISLATION; STATUTORY CITATION:

Foreign-Trade Zones Act of 1934, 19 U.S.C 81a-81u; for Foreign-Trade Zone Board Regulations see C.F.R. 15 Part 400, and 19 C.F.R. Part 146 (Custom Service Regulation on Foreign-Trade Zones); 1963 PA 154; M.C.L. 447.1 et seq.

### SUMMARY PROGRAM DESCRIPTION:

Foreign-Trade Zones (FTZs) allow private organizations to establish, with the cooperation of the local unit, designated areas or zones that are considered foreign soil for the purposes of the United States Department of Customs and Immigration. As such, FTZs allow for value-added processing of certain raw or unfinished goods without paying customs import duty on them. If the finished goods are to be imported into U.S. Customs territory for sale, the law allows the operator of the FTZ to choose between paying duty on the import of the unfinished goods to the zone, or paying duty on the finished goods entering customs territory, whichever is less.

### ELIGIBILITY AND BENEFITS:

All United States Custom and Border Protection (CBP) ports of entry are entitled to a Foreign Trade Zone. Ports of entry exist in all 50 states and in several territories. Ports of entry in Michigan exist in the cities or counties of Battle Creek, Flint, Detroit, Grand Rapids, Kent/Ottawa/Muskegon, St. Clair, Sault Ste. Marie, and Lansing. Zones must be located within or adjacent to CBP ports of entry, within 60 statute miles of a CBP port, or within 90 minutes' travel time to a CBP port.

There are two types of Foreign-Trade Zones:

- General Purpose Foreign-Trade Zones are established for multiple activities by multiple users, with the most common activity being warehousing and distribution. Manufacturing activities are also permitted with approval of the FTZ Board.
- Subzones are approved for use by one company for a specific purpose, usually manufacturing, if the company is unable to relocate to a general purpose zone. Applicants (general purpose FTZ grantees, typically public entities, who apply on behalf of interested companies) must demonstrate a significant public benefit for approval.

In effect, FTZs allow manufacturers to avoid inverted tariffs on goods exported to the United States from the FTZ. Inverted tariffs are those that charge a higher rate for a raw good than a finished good. To illustrate a hypothetical example, a motorcycle manufacturer may be able to import engines for assembly at a four percent tariff. However, if the tariff rate on a finished motorcycle is sufficiently low, the manufacturer could lower its overall tariff cost by instead exporting the finished product through the use of an FTZ. If the finished goods are exported for final sale outside of the United States, United States Customs duties do not apply in most cases.

According to the National Association of Foreign-Trade Zones, merchandise entering an FTZ may be assembled, displayed, stored, tested, repaired, sampled, manipulated, salvaged, relabeled, mixed, destroyed, repackaged, cleaned or processed, and benefit from the reduced duty schedules. Any activity that results in a change of the tariff classification, such as manufacturing or processing, must be approved by the FTZ Board. Retail trade is prohibited.

## FOREIGN TRADE ZONES (CONTINUED)

### DATA SOURCE:

Michigan has seven active Foreign-Trade Zones. The following list includes Zone number, year of establishment, associated subzones, and benefiting subzone businesses with approved FTZ applications. It does not include zones or subzones that have expired or been terminated.

#### **Battle Creek** (FTZ No. 43, est. 1978)

Subzone	43B	- Mead Johnson Nutritionals Group, Zeeland, 1/10/92
	43C	- Abbott Manufacturing, Inc., Sturgis, 7/23/97
	43D	- Perrigo Company, Battle Creek, 5/22/03
	43E	- Pfizer, Inc., Kalamazoo, 9/07/06

#### **Detroit** (FTZ No. 70, est. 1981)

Subzone	70B	- Chrysler Corp., Detroit, 1/22/82 (inactive)
	70H	- Chrysler Corp., Sterling Heights, 4/10/85 (inactive)
	70I	- Auto Alliance International, Inc., Flat Rock
	70J	- DaimlerChrysler Corp., Trenton, 6/29/87 (inactive)
	70K	- General Motors Corp., Detroit/Hamtramck, 12/14/88 (inactive)
	70L	- General Motors Corp., Orion Twp., 12/14/88 (inactive)
	70N	- Chrysler Corp., Detroit, 12/22/89 (inactive)
	70Q	- Chrysler Corp., Detroit, 12/22/89 (inactive)
	70R	- Chrysler Corp., Detroit, 12/22/89 (inactive)
	70S	- BASF Corp., Wyandotte, 8/02/95
	70T	- Marathon Ashland Petroleum, Detroit, 3/10/97
	70U	- Wacker Chemical Corporation, Adrian, 4/22/04
	70V	- Panther Global Technologies

#### **Flint** (FTZ No. 140, est. 1987)

Subzone	140A	- General Motors Corp.
	140B	- Dow Corning Corp.
	140C	- Hemlock Semiconductor Corp.

#### **Kent/Ottawa/Muskegon Counties** (FTZ No. 189, est. Jan. 1993)

Subzone	189A	- Diesel Technology Corp.,
	189B	- ESCO Company Limited Partnership
	189C	- Wolverine World Wide, Inc.

#### **Sault Ste. Marie** (FTZ No. 16, est. June 1973)

No current subzones

#### **St. Clair County** (FTZ No. 210, est. Nov. 1995)

No current subzones

#### **Lansing** (FTZ No. 275)

Subzone	275A	- General Motors Corp.
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## FOREIGN TRADE ZONES (CONTINUED)

Bay County had the first FTZ approved in Michigan (1966), but relinquished its zone status in 1980.

For a list of contact names and phone numbers for Foreign-Trade Zones in Michigan, please visit the United States Department of Customs website at [www.ia.ita.doc.gov/ftzpage](http://www.ia.ita.doc.gov/ftzpage). For additional data on the Greater Detroit Foreign-Trade Zone, visit [www.gdftz.com](http://www.gdftz.com).

According to the International Trade Administration of the U.S. Department of Commerce, approximately 250 general purpose zones and over 450 subzones have been approved.

### DISCUSSION:

According to the National Association of Foreign-Trade Zones, liberalization of trade rules has somewhat mitigated the need for Foreign-Trade Zones, in the sense that some tariffs that necessitated FTZ applications have been eliminated by the North American Free Trade Agreement (NAFTA). A recent General Agreement on Tariffs and Trade (GATT) revision gave car manufacturers the ability to receive the benefits of a FTZ without being a part of an FTZ. Ford Motor Company terminated all of their subzones for this reason, and Fiat Chrysler Automobiles and General Motors kept their subzones, but in an inactive state.

## HISTORICALLY UNDERUTILIZED BUSINESS ZONES

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 1997 P.L. 105-135 (Small Business Reauthorization Act of 1997), 15 U.S.C. 632, 13 CFR 126 (2014), 13 CFR 121 (2014) (For SBA standards).

### SUMMARY PROGRAM

#### DESCRIPTION:

A federal program administered by the U.S. Small Business Administration (SBA) that offers small business assistance by allowing qualified businesses in qualified Historically Underutilized Business Zones (HUBZones) preferential treatment in the federal government contracting process. Businesses must apply for certification to receive these preferences by submitting an electronic application on the HUBZone Web site at [www.sba.gov/hubzone](http://www.sba.gov/hubzone).

### ELIGIBILITY AND BENEFITS:

HUBZone criteria, business qualifying criteria, and contracting preferences are as follows:

#### **HUBZone Criteria**

Historically underutilized business zones are located in one or more of the following:

- **Qualified Census Tracts:** census tracts in which the poverty rate is at least 25 percent; or, 50 percent or more of the households have an income less than 60 percent of the area median income, based upon the most recent census data. The statute imposes limits on the number of census tracts an area can have that qualify – so it is possible for a tract to meet one or both of the above criteria but not be designated as a qualified census tract. The Secretary of Housing may allow exceptions when insufficient tract data is available to determine whether low income standards are met;
- **Qualified Non-Metropolitan County:** counties not located in a metropolitan area with a median household income of less than 80 percent of the state median household income or with an unemployment rate of not less than 140 percent of the statewide average, based on U.S. Department of Labor recent data;
- **Qualified Indian Reservation:** lands within the boundaries of federally recognized Indian reservations, unless they were acquired by an Indian tribe after December 21, 2000; or
- **Certain former military bases-but only for 5 years after closure.**

Note: census tracts labeled “redesignated” are no longer qualified as a HUBzone due to changes in income, unemployment, or poverty data. When a tract is redesignated, its status reflects the sunset date of the redesignation.

#### **Business Qualifying Criteria**

To become certified to receive HUBZone benefits, businesses must meet the following program eligibility requirements:

1. The business must comply with size standards from the SBA. Size standards are subject to change based on the Office of Size Standards’ recommendations and the SBA administrator’s approval. At the date of publication, SBA size standards included businesses with employment and sales up to:
  - a. 500 employees for most manufacturing and mining industries
  - b. 100 employees for all wholesale trade industries
  - c. 500 employees for most retail and service (non-manufacturer) industries
  - d. \$36.5 million in annual sales for most general and heavy construction industries
  - e. \$15 million in annual sales for special trade contractors
  - f. \$0.75 million in annual sales for agricultural industries
2. At least 35 percent of the company’s employees live in a HUBZone.

**HISTORICALLY UNDERUTILIZED BUSINESS ZONES  
(CONTINUED)**

3. The company is at least 51 percent owned and controlled by one or more United States citizens, an agricultural cooperative, a Community Development Corporation or an Indian tribe.
4. Its principal office must be located within a "Historically Underutilized Business Zone," which includes lands on federally recognized Indian reservations and military facilities closed by the Base Realignment and Closure Act.

Existing businesses that choose to move to qualified areas are eligible if they fulfill the requirement that 35 percent of the firm's employees reside in the HUBZone. Employees must live in a primary residence within the area for at least 180 days or be currently registered to vote in that area.

**Contracting Preference Limitations**

There are three types of HUBZone contracts: competitive, sole source, and full and open. The anticipated award price of a sole source contract, including options, will not exceed \$5 million for a requirement within the North American Industry Classification System (NAICS) code for manufacturing or \$3 million for a requirement within all other NAICS codes. Full and open contracts require qualified HUBZone businesses to not exceed a 10 percent difference beyond bids offered by non-HUBZone businesses.

Eligible HUBZone firms can qualify for higher SBA-guaranteed surety bonds on construction and service contracts. Subcontracting opportunities through federal prime contractors are also available to HUBZone businesses.

**PROGRAM OR INCENTIVE  
LIMITATIONS:**

The Small Business Reauthorization Act of 1997 increased the overall government-wide procurement goal for small business from 20 percent to 23 percent. The statute sets the goal for HUBZone contracts at 3 percent of government-wide prime contracts for 2003 and each year thereafter.

**DATA AND SOURCE:**

The following counties and sub-county areas currently have HUBZone designation:

**Non-Metropolitan Counties with HUBZone Designation:**

Alcona	Alger	Alpena	Antrim	Arenac
Baraga	Benzie	Branch	Charlevoix	Cheboygan
Chippewa	Clare	Crawford	Delta	Emmet
Gladwin	Gogebic	Gratiot	Hillsdale	Houghton
Huron	Iosco	Iron	Kalkaska	Keweenaw
Lake	Lenawee	Luce	Mackinac	Manistee
Marquette	Mason	Mecosta	Menominee	Missaukee
Montcalm	Montmorency	Oceana	Ogemaw	Ontonagon
Osceola	Oscoda	Otsego	Presque Isle	Roscommon
Sanilac	Schoolcraft	Shiawassee	St. Joseph	Tuscola
Wexford				

## HISTORICALLY UNDERUTILIZED BUSINESS ZONES (CONTINUED)

### **Federal Indian Reservations with HUBZone Designation:**

Bay Mills Reservation (Chippewa County)  
 Grand Traverse Reservation (Leelanau and Grand Traverse County)  
 Hannahville Community (Menominee County)  
 Isabella Reservation (Isabella County)  
 L'Anse Ontonagon Reservation (Ontonagon County)  
 L'Anse Reservation (Baraga County)  
 Lac Vieux Reservation (Gogebic County)  
 Sault Ste. Marie Reservation (Chippewa County)  
 Huron Potawatomi Reservation (Calhoun County)  
 Little River Band of Ottawa Indians of Michigan (Manistee and Mason Counties)  
 Little Traverse Bay Bands Reservation (Emmet and Charlevoix Counties)  
 Match-E-Be-Nash-She-Wish Band of Potawatomi Indians Michigan (Allegan and Ottawa County)  
 Pokagon Band of Potawatomi Indians Michigan TDSA (Cass County)  
 Sault Ste. Marie Trust Land (Eastern Upper Peninsula)

### **Former Military Bases with HUBZone Designation:**

USARC AMSA No. 135 Army Installation (Kalamazoo and Calhoun Counties)

Additionally, a large number of census tracts in Michigan are qualified HUBZones. See **Appendix A** for a complete list.

### **DISCUSSION:**

This federal program seeks to provide federal contracting opportunities to businesses in socioeconomically distressed areas. Like many other federal and state zone-based economic development programs, HUBZones also mandate a local employment requirement to receive zone benefits. HUBZone offers eligibility assistance on Tuesdays and Thursdays from 2-3pm ET via a toll free number: 1-888-858-2144 access code 1875223#. If you are seeking status information, need help in resolving technical difficulties, or need individualized assistance please email [hubzone@sba.gov](mailto:hubzone@sba.gov).