

**Annual Report – Foreign Trade Zone #176
Rockford, IL**

**ANNUAL REPORT - October 1, 2007-September 30, 2008
FOREIGN TRADE ZONE #176 - ROCKFORD, ILLINOIS**

PART I. SUMMARY OF ACTIVITY – ZONE PROJECT

During this past year Catalent used the FTZ on behalf of a customer whose product was not yet approved by the FDA. The product was far enough along in the approval process that goods could be packaged in anticipation of imminent FDA approval... allowing the customer to be ready to go to market immediately. *Without the FTZ, Catalent most likely would not have received the packaging business from this customer.*

Catalent Pharma Solutions, LLC

FTZ #176 HISTORY – The Greater Rockford Airport Authority (GRAA), Grantee to Foreign Trade Zone No. 176 (FTZ #176) reports foreign merchandise activity at two (2) subzone and two (2) sites in the general-purpose FTZ #176 during the period beginning October 1, 2007 through September 30, 2008. At this time, the activity at the two sites in the general-purpose zone is pharmaceutical packaging; the subzone activity reflects two divisions of the same international firm, Nissan. One company assembles engines from foreign, pre-manufactured components; the other, forklifts. The engine assembly deactivated their subzone on December 20, 2007, with limited activity during the first quarter of the fiscal year just ended. As of the date of this report, no manufacturing or processing activity was recorded within the General Purpose Zone (GPZ) of FTZ #176 as it is not approved under the original Grant of Authority. That may well change within the next several years with new partners emerging inside of Site #1.

The original grant was issued in 1991 to cover 1,972 acres at the site of the Chicago Rockford International Airport. An expansion adding 923 acres in Rochelle (near the Global III Intermodal Hub) and 74 acres in Woodstock was approved in February, 2005. Shortly thereafter, the Union Pacific Railroad/City of Rochelle/Global III Intermodal Hub requested the expansion of the Port of Entry (POE), moving the southern boundary approximately 10 miles from Illinois Route 72 east and west, to a point at Interstate 88 east and west. CBP approved this expansion effective February 16, 2006. We note this expansion request met the adjacency requirement prior to the proposed POE boundary change. In August 2006, another expansion was granted for 133 acres in Rochelle.

In the past year, two Applications were submitted to the FTZ Board:

- ✓ **FTZ #176 REORGANIZATION-EXPANSION APPLICATION** (Thanksgiving week, 2007); and 2) Cellusuede Subzone Application (July 2008). The Zone Application includes 9 new partners (**4500 Kishwaukee, Abilities Center**/2 buildings, including one owned by Hendricks Development Group, **Alhark Corp, Amphenol-Antel, City of Rockford/Logistics Park, Greenlee, Hendricks/Essex Wire, Venture One**/3 industrial shovel ready parks including site of **Target**). The submission also adds acreage acquired by the airport since the 1991 application, and acreage dropped under runways/ramps, undevelopable areas and non-owned Site #1 locations. The net effect: only a few hundred acres have been added to the Zone with interest in FTZ status from 3 companies in 3 of the 11 incoming sites.
- ✓ **CELLUSUEDE**: Subzone application from an employee-owned firm engaged in flocking production that is facing mounting competition from foreign manufacturers. They are one of only two American remaining flocking producers. Submitted in July 2008, we await disposition of this application by the Board.

FTZ #176 SUBZONE/SITE COMPOSITION – At this time, FTZ #176 includes five subzones: one lapsed (Clinton Electronic), one that wrote to terminate during this FY (Milk Specialties), one de-activated (Chrysler) and two activated (Nissan Forklift and NIEM – until December 20, 2007).

As for the seven approved GPZ sites, two (Anderson Packaging and Catalent Pharma Solutions) are activated. As reported with our Reorganization/Expansion Application, one (Murphy-Kullens) has been disaffiliated due to lack of compliance and one (Black Earth, site #5) has turned back their acreage which is now zoned

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residential. Of the others, all three are Greenfield sites owned by large developers. Assuming approval of the Application, two of seven current GPZ sites will be dropped and an additional nine partners with eleven sites or sub-sites will be added. The Zone Schedule is currently available at the Greater Rockford Airport Authority offices (60 Airport Drive) and at US Customs & Border Protection (50 Airport Drive), Rockford, IL.

RFD BACKGROUND – Hosting a U.S. Customs Port of Entry, the Greater Rockford Airport benefits from U.S. Customs and Border Protection (CBP) offices located at the Airport. Inspectors assist daily with U.S. Customs clearances generated by local companies importing goods and materials as well as assisting with international, corporate aircraft clearances. Customs inspectors from RFD also provide inspection services to the Global III Intermodal facility located in Rochelle, IL. The increase of traffic in Rochelle resulted in a marked increase in customs entries. The monthly average of entries in 2005 was 450, climbed to 2,500 – 3,000 by fall 2007. By Nov 2008, the number had fallen to 1,073 entries due to the slumping economy.

The federal presence at RFD includes FIS (federal immigration services), enabling Rockford Airport to provide international passenger service. The Authority worked closely with a local processing facility to help them obtain USDA/CBP approval to process international regulated waste from flights arriving at RFD. As of late 2007, we had a total of five jet bridges available at our domestic and international terminals. The local CES (centralized examination station) at Todd Transit/Todd Special Services is located within a mile of the airport. The potential to clear freight through Customs in Rockford rather than Chicago is attractive to business with the potential for “same day” delivery.

During 2007, passenger service grew at RFD by 21%, producing a record number of 217,009 passengers. Despite the turmoil in the industry, RFD ranks as the 215th largest passenger service airport (2007). While there will be a substantial drop for 2008 due to fuel costs, air carrier repositioning and the economic downturn, we continue to attract interest for new domestic and international carriers. Cargo service also grew in 2007: moving 1,474,574,465 pounds made RFD the 18th largest air cargo airport in the U.S. In addition, our well-publicized passenger “Day Trips” routinely sold out during summer 2008 dry runs.

Employment at RFD tenants is stable or growing among aviation firms at the airport. With over 1,000 prime acres of airfield-side property available, RFD provides an attractive alternative to O’Hare with congestion, massive reconstruction projects and high cost of land. With Phase I construction substantially complete by Tandem Development and Leopardo Construction on the Chicago Rockford International Cargo Center Building (75,000 square feet) and 5-acre ramp (sufficient to park six 747s or operate readily with three) we anticipate growth in 2009 despite the economic downtown. We also anticipate the fruition of the Logistics Park project by Wanxiang (second largest privately-owned firm in China).

Additional factors driving development in the region: entrepreneurial political leadership and award of a new government program (RERZ–Rivers’ Edge Redevelopment Zone) which is similar to an Enterprise Zone. We continue to take advantage of the City of Rockford 7,000-acre Global Trade Park that incorporates a Tax Incremental Finance (“TIF”) district. While the Rockford Airport/FTZ #176 is located within the epicenter of the designated TIF District, it represents a significant portion of the Global Trade Park. The availability of the TIF, the third largest UPS Hub, Global Trade Park, Global III Intermodal Hub, an International-grade airport and FTZ #176 will significantly enhance the marketing capabilities of the Midwest region. Plans are well underway for an ERD (education, research & development) building to further augment international trade.

FTZ #176 GROWTH & DEVELOPMENT – The local economic picture is more dismal than the national one with the unemployment rate in Rockford standing above 12%. Earning power has dropped precipitously in comparison with the national average of \$1.00 (in 1994, \$1.01; in 2007, \$.79). Therefore, we are anxious for a positive response to both the Expansion-Reorganization and Cellusuede Applications in 2009. We are particularly focused on getting the 9 new partners approved. We are currently working with three subzone applicants, *two of whom involve multiple sites with one location each in one of the new incoming partner*

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locations. All three firms represent referrals from economic development partners including one from the office of Congressman Don Manzullo. Two had previously decided not to pursue FTZ status. With the souring economy, every penny counts and they are anxious to move forward.

Promotional efforts include expanded website coverage (www.flyrfd.com) with a button on the home page for the FTZ. New literature is in preparation, awaiting the final approval of the incoming members. Leads continue strong (average of one/week) from economic development and governmental partners as well as publicity and now “Go Global”. FTZ #176 continues to offer to leads and partner sites/subzones one-on-one time with a PointTrade professional to include a free feasibility study. Interest remains strong with the consultant often meeting with six prospects per day during the most recent visit.

One prospect is truly unique: after a presentation at the 2008 Annual Meeting, an attendee approached Bevers about consideration of a second facility (GPZ warehouse) in the greater Rockford region! This partnership will provide FTZ #176 the sales force with operational experience to call upon the smaller firms who needed or wanted FTZ program benefits but rejected a stand-alone site/subzone cost ineffective.

The other initiative of the past year has involved education. Out of a growing partnership with economic development officers in the region, FTZ #176 formed a consortium with the intent to provide global trade education. The consortium includes the local economic development organization, the Chamber of Commerce, the U.S. Dept of Commerce office and two private sector firms. The first offering “Go Global or Get Left Behind!” was presented in May 2008 for 110 attendees from 4 states and over 50 firms. Out of this 2-day seminar, several initiatives were born:

1. **World Trade Center** – City, County, EDC (economic development council) & airport are pursuing several avenues to support application within the next several years.
2. **Operation Bulls-eye** – Joint effort by EDC & Airport, working with Global Data Mining (GDM) to create targeting tool for economic development and regional FTZ recruitment.
3. **Economic & Business Development Task Force, NAFTZ Grantee Committee** – Matt Gersper (GDM) and Marge Bevers (GRAA) co-chair this team surveying members to help determine and collect best practices of economic development. Website currently under development. Active team includes members and non-members of the NAFTZ including World Trade Partnership and League of Cities.

FTZ #176 staff is also considering several development options for 2010:

1. **Increases in the fee structure** to more adequately cover expenses of the program;
2. Consideration of the **Alternate Management Structure** to assist in handling issues like those described above. We, along with many other grantees and consultants, appreciate the flexibility of the FTZ Board and staff leadership to create an appropriate vehicle to assist with Zone management.
3. Work to reach consensus with other IL Zones on **territorial boundaries**. Encourage the FTZB staff to hold a regional grantee meeting in IL in 2009.

CONCLUSION – With the anticipated approval of the Application in the first quarter of 2009, FTZ #176 is positioned for rapid growth. Active sites/subzones will double from the current nine (9) to 18. We anticipate the approval of Cellusuede and the submission in the first quarter of 2009 of one to three additional subzone applications, several using sites incoming with the Expansion Application. We project doubling the number of activated sites/subzones in 2009 from three to six and expect a corresponding increase in activity. With increased interest, revenue and activity we strive to *increase wealth, retain or create jobs and enhance the quality of life in the region.*