Centralized location and a fast-growing economy are luring U.S. and international businesses to discover San Antonio’s supply chain benefits.
Out of endings come new beginnings. Just ask the people of San Antonio, Texas. They lived this adage firsthand when the Base Closure and Realignment Commission closed the city’s Kelly Air Force Base 10 years ago.

The move had significant impact not only on the 15,000 civil servants who worked at Kelly, but on the greater community as well. San Antonio business and government organizations decided to turn the closure from a negative to a positive.

“We evaluated the situation with the goal of establishing a new center that could absorb many of the employees who were displaced, while also creating growth for San Antonio,” says Reynaldo Cano, economic development manager for the City of San Antonio. Cano leads the city’s efforts to leverage grants, tax abatements, training dollars, and non-traditional incentives to create packages that will attract new companies to San Antonio.

The answer to recovering from the base closure came in a concerted effort to exploit the city’s location and resources. Since then, San Antonio has attracted a diverse range of new industries to its equidistant location between U.S. coasts, and its favorable logistics attributes, while still retaining its aerospace past.

Today, San Antonio is growing, thanks to the base’s metamorphosis into industrial site Port San Antonio, as well as a host of other efforts, from a community visioning project to rigorous international recruitment efforts and a dedicated approach to workforce development.

In December 2011, the Milken Institute ranked San Antonio as the nation’s best-performing city on its annual list of 200 metropolitan areas—up from 14th the prior year—and the city has been listed among the United States’ most recession-proof cities by The Atlantic, Money, and other publications. San Antonio is the seventh-largest U.S. city by population, making it a formidable market.

For business logistics professionals, San Antonio offers not only a key highway crossroad, but a crossrail as well. Interstate 10, which runs east to west and stretches from Los Angeles to Florida, intersects in the city with north-south-running Interstate 35, which starts at the border in Laredo, Texas, and continues all the way to Canada, tracing the NAFTA corridor. The rail system also boasts both east-west and north-south rails. That means San Antonio serves as a vital connection point joining California coastal ports, the 600 Mexican maquiladoras dotting the border, the many Texas cities within 250 miles of San Antonio, and a long list of U.S. East Coast, Midwest, and Southeastern metropolitan areas.

Five major seaports are accessible within a three-day drive: Houston, Corpus Christi, Manzanillo, Lázaro Cárdenas, and Veracruz. San Antonio International Airport offers air cargo capabilities and a federal inspection station, as well as warehousing and distribution services.

Until 2008, rail connectivity in San Antonio was not ideal. The two north-south and east-west rail systems were not accessible from a single intermodal facility. Instead, Union Pacific operated its intermodal services out of two inner-city yards, requiring 80,000 semi trucks to pick up or drop off containers each year. Trains often had to bypass San Antonio and deliver containers to Houston; trucks then transported those shipments back to the San Antonio area.

In 2008, Union Pacific opened a new $115-million, state-of-the-art San Antonio Intermodal Terminal accessible to both north-south and east-west rails, as well as Interstates 35 and 410. The 350-acre facil-
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ity offers three ramp tracks, seven support tracks, and two receiving/departing tracks, and is capable of processing about 250,000 containers per year. Adjacent to the railyard is a 300- to 400-acre parcel for customer facilities such as light manufacturing and retail distribution centers, currently about half occupied. Domestic shipments are typically retail, food and housing materials, while international freight commonly includes electronics, plastics, and auto parts. Dell and Toyota are major customers for Union Pacific in the San Antonio market. Toyota broke ground on a massive pickup truck manufacturing facility in San Antonio in 2003, attracting many parts suppliers as well. San Antonio is part of a Texas-Mexico Automotive SuperCluster that promotes the attributes of the area to automotive manufacturers and suppliers.

“We've created a distribution point for both inbound and outbound freight to a large part of the country that previously had limited truck-competitive rail product service,” says John Kaiser, vice president and general manager of intermodal at Union Pacific. The move attracted customers that had never used rail before. “It gives this market efficient, cost-effective transportation and logistics options,” he says.

PORT SAN ANTONIO

Another key to the city's resurgence is Port San Antonio, a master-planned, 1,900-acre inland port offering a massive aerospace, industrial complex, and international logistics platform on the grounds of the former Kelly Air Force Base. The port lies entirely within a Free Trade Zone (FTZ), and provides access to the Kelly Field industrial airport; rail service via two Class 1 railroads, including Union Pacific; and quick transit time to Interstate Highways 10, 35, and 37.

Port San Antonio's 7.7 million square feet of industrial space is currently occupied by leading global aerospace companies that can take advantage of the region's longest runway to maintain, repair, and overhaul many of the world's largest aircraft models. Other tenants build, repair, and distribute aircraft and their components. Air Force activity has since resumed at Port San Antonio; in addition to the adjacent Lackland Air Force Base, the National Guard also has facilities there.

The port's East Kelly Railport has grown consistently. Initial third-party logistics (3PL) services at the Railport included warehousing, distribution, and transloading bulk and breakbulk, principally for the region's construction, manufacturing, and consumer products markets. The Railport has been a strategic central location from which to support Eagle Ford Shale, a large fracking project in southwest Texas.

The port offers a range of services to facilitate commerce at the site. In addition to FTZ and Customs activities, an in-house team can deliver build-to-suit facilities to meet tenants' specialized needs. The port's inventory system provides shippers delivery information, and accurate release data to the connecting railroads.

Two road projects within the port promise to improve connectivity between the Railport and area highways, and enable access to 150 acres for additional air-served facilities.

“With the aerospace industry's significant growth in our region, and with Port San Antonio supporting most of the recent expansions, this land is very important to the industry's future,” says Bruce Miller, president and CEO of Port San Antonio. “All our leasable aircraft maintenance and manufacturing space is currently occupied.”

THE INTERNATIONAL CONNECTION

More than 50 percent of the total goods flowing between the United States and Mexico travel through San Antonio before reaching their final destination, and volume is growing. Since building a plant in San Antonio, for example, Toyota has more than doubled the percentage of parts it sources from Mexico. But Mexico is also growing as a consumer market, so products also move south from San Antonio through Laredo.

“San Antonio has a natural connection to Mexico because of our economic and cultural ties,” says Mario Hernandez, president of the Economic Development Foundation, a private, nonprofit organization that assists businesses and industry relocating or expanding into the San Antonio area.

“Laredo is the primary port for moving Mexican product into and out of the United States,” he adds, a feature that attracts both domestic and global companies to the area. Port San Antonio's foreign trade zone allows customers to eliminate or forego import duties for certain goods while at the port facility. For example, busi-
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businesses can bring in components from abroad, assemble them in the FTZ, then export them without paying import duties, provided the goods never enter the U.S. market. Similarly, the duties can be deferred if goods maintained in an FTZ warehouse are only withdrawn from the zone and distributed around the country incrementally—the duty is due only when the product enters the U.S. marketplace.

“That’s an important attribute for manufacturers or logistics providers,” says Cano. “The FTZ helped attract good tenants to the port.”

The FTZ is administered by the Free Trade Alliance (FTA), which was formed in San Antonio after NAFTA was signed to develop the city as a multimodal and competitive international trade center. The FTA works to create local jobs, attract foreign investment, expand exports, and educate college students how to do business globally when they join the workforce.

Among its programs is the International Business Development Center, an accelerator program that provides consulting, office space, and local business contacts to foreign companies. It has served 160 firms in the past 12 years.

All the positive press San Antonio has been getting helps the FTA do its job, says Kyle Burns, president and CEO of the Free Trade Alliance. “The diverse economy makes it easier to sell,” he notes.

Global companies are often drawn to San Antonio because of its proximity to their U.S. customers. For example, a Chinese medical, industrial, and instrumentation contractor located a plant in the area “because their customers were in the United States, and locating here allowed them to deliver their products more quickly and efficiently,” says Reynaldo “Rey” Chavez, president and CEO of the San Antonio Manufacturers Association (SAMA), which promotes and supports manufacturing in the San Antonio area. Several Chinese automotive suppliers are exploring San Antonio as a favorable location in the Texas-Mexico Automotive Super Cluster.

A TEAM APPROACH TO GROWTH

The San Antonio community takes a team approach to attracting new industry. In addition to the Economic Development Department, government agencies work with Port San Antonio, the Economic Development Foundation, SAMA, FTA, and the Chamber of Commerce to promote the city and help employees relocate to the area. San Antonio maintains offices in diverse locations such as Mexico and Guangzhou, China, to promote the benefits of doing business in the region.

The city already hosts a broad range of industries, but a wide-ranging, community-based visioning process called SA2020 resulted in a bold set of goals for its future growth, including a special focus on establishing a leadership position in four industries: aerospace, cyber-security, bio-science and healthcare, and renewable energy. The program has already attracted new businesses.

“Distribution and logistics is also one of the Economic Development Foundation’s targets,” says Hernandez. “We see tremendous value in attracting the distribution sector to add to our supply chain strength.”

One industry having a dramatic impact on San Antonio’s economy is oil and gas. Eagle Ford Shale is a fracking project extracting natural gas from shale in southwest Texas, in a massive area stretching from Dallas-Ft. Worth to Mexico. San Antonio is the closest metro area to the project, and, as a result, has become the desired location for all of the corporate, professional, and distribution activities related to it, such as headquarters for large contractors, engineering, geology and IT firms, and equipment companies. Eagle Ford Shale contractors brought in at least 2,900 jobs in 2011.

LOW COST OF DOING BUSINESS

When it comes to attracting new business, San Antonio tends to compete against its Texas neighbors – Dallas-Ft. Worth, Houston, and Austin – all business-friendly and infrastructure-rich. One area where San Antonio prevails is in wage rates: heavy equipment and tractor-trailer drivers earn an average $15.74 per hour in San Antonio, compared with $18.15 in Houston and $19.52 in Dallas, according to the U.S. Bureau of Labor Statistics. Industrial truck and tractor operators (including forklift operators) earn $13.41, and laborers and freight stock and material movers (hand) earn an average $11.29, also lower than other Texas cities.

There are about 52 million square feet of industrial space in the San Antonio area, which lease for an average $4.25 a square foot. Because the city owns the electric and water systems, rates tend to be competitive.

“Texas is a very business-friendly state,” says SAMAs Chavez. “There are more than 880,000 manufacturing jobs in the state,
San Antonio has attracted a diverse range of new industries while still retaining its aerospace past.

and last year Texas was the top exporter of manufactured goods in the nation.

The state fared better in the recession than other parts of the United States. “San Antonio offers a good ecosystem for new manufacturers,” says Cano. “We have focused on leveraging and extending our attributes via global links.” One such link is an Export Leader’s Program offering training and coaching that has helped 120 local companies expand into other countries.

A GREAT PLACE TO LIVE

Executives choosing San Antonio as a business location may also have to live there – and locals say that’s far from a sacrifice. San Antonians boast that their city is “the place where the sunshine spends the winter,” with an annual average temperature of 68.6 degrees. The cost of living is about seven percent below the national average, according to the ACCRA Cost of Living Index. In March 2012, the average price for a single-family home was $185,561.

“In addition to its business benefits, San Antonio is welcoming to new residents, and is becoming extremely diverse,” says Burns.

Its quality of life makes San Antonio a big draw for well-educated workers, and the community makes a concerted effort to ensure the workforce will support its growth plans. “Many of our businesses are focused on educating the next generation of manufacturers through local workforce development programs,” says Chavez.

Incentive programs provide training dollars to meet manufacturers’ specific needs. The Brookings Institute identified San Antonio as one of only four cities – the others were also in Texas – to regain all jobs lost during the recession. Unemployment was 8.1 percent in fall 2011, below the national average. San Antonio is home to a bilingual and bicultural workforce that is growing at one to two percent each year.

San Antonio is enjoying a heyday as an increasing number of U.S. and international businesses recognize the inherent advantages of its location and infrastructure.

“We have a good business climate, reasonable regulations, strong infrastructure, and competitive costs,” says EDF’s Hernandez. “These are corporate America’s top requirements – and we’ve got them all in San Antonio.”

For information on featuring your region in an Economic Development Supplement, contact James O. Armstrong at 314-984-9007 or jim@inboundlogistics.com.

Created from the former Kelly Air Force Base, Port San Antonio is approximately equidistant from the U.S. East and West coasts, and at the center of the NAFTA Corridor between Mexico and Canada. The entire development enjoys designation as a Foreign Trade Zone.