



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JUNE 25, 2013

FROM: BUSINESS AND TRADE DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ APPROVAL OF FIRST AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 2605 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND KW INTERNATIONAL, INC., FTZ 202, SITE 4C

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department), as the Foreign-Trade Zone (FTZ) grantee, establishes General Purpose Operating Agreements with FTZ operators to oversee their FTZ operations. The Harbor Department received a request from KW International, Inc. (KWI), located in Carson, California, to exercise their first renewal option to extend the term of their FTZ Operating Agreement No. 2605 (Agreement No. 2605) at FTZ 202, Site 4C. KWI headquartered in Carson, California, is an international freight forwarder, that was founded in 1996 to provide international logistics services. The original term of the agreement is five years with three, five-year renewal options. The original agreement commenced November 1, 2008 and is set to expire on October 31, 2013.

Any change made to an original operating agreement, including existing renewal options, requires an amendment to the agreement. Upon approval, the First Amendment (Amendment) will extend Agreement No. 2605 for five years through to October 31, 2018. Also, as part of the changes, all updated City of Los Angeles contractual provisions will be incorporated into Agreement No. 2605. All remaining terms and conditions of Agreement No. 2605 shall remain in full force and effect.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 2605 between the City of Los Angeles Harbor Department and KW International, Inc.;

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2. Direct the Board Secretary to transmit the proposed First Amendment to the Los Angeles City Council for approval pursuant to Section 373 of the Charter of the City of Los Angeles and Section 10.5 of the Los Angeles Administrative Code;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the proposed First Amendment to Foreign Trade Zone Operating Agreement No. 2605; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The Foreign-Trade Zone Act of 1934, as amended (19 U.S.C. 81a-81u) was established to support U.S. commerce and create jobs by reducing import duties or excise taxes by deferring payment of duties thereby making it attractive for companies to perform some work on their products in the U.S. rather than offshore. The definition of a FTZ is a restricted access site located in the U.S. Customs and Border Protection Agency territories. The importer may defer payment of duties and other fees until the merchandise is brought into U.S. commerce for consumption.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an operating agreement with FTZ site operators. KWI, a U.S. Company, located in Carson, California employs approximately 15 full-time employees. KWI has continually operated a FTZ warehouse at FTZ 202, Site 4C since 2008. Site 4C facilities consist of approximately 56,733 square feet of warehouse and office space on 3.53 acres (Transmittal 2). KWI will continue to operate their warehouses under FTZ procedures. KWI agrees to keep its warehouses open to support the PierPass Program and shall notify truck drivers, truck brokers, and trucking companies that the trucks serving the container terminals must confine their routes to the designated Wilmington Truck Route.

Need for Approval – KWI is requesting approval from the Harbor Department to execute the proposed Amendment (Transmittal 1) to extend Agreement No. 2605 for a term of five years in order to continue operating this site as a FTZ warehouse. KWI receives, stores, manages inventory, and distributes consumer products, apparel, accessories, and other merchandise for sale nationally. Occasionally, the products are re-exported from the warehouse.

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Harbor Department Fiscal Requirements – This proposed Amendment will not require funding by the Harbor Department. KWI will pay an annual fee of \$5,000 to the Harbor Department for each year of the five-year term of the proposed Amendment for a total of \$25,000.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the First Amendment to Agreement No. 2605 between the Harbor Department and KWI. The proposed First Amendment would extend the existing operating agreement with no changes to operations. As an activity involving the amendment of an agreement to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III, Section 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

The Harbor Department to date has received \$25,000 in operator fees from KWI for the original five-year term. If the proposed Amendment is approved for the first extension, the Harbor Department will receive \$5,000 annually (per FTZ Tariff No. 1) for five years from KWI. Although there is no direct cost to the Harbor Department arising from this proposed Board action, the Harbor Department does incur FTZ related expenses. During calendar year 2012, approximately \$80,000 was spent on outside FTZ related consulting services while \$159,000 in revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Amendment with KWI creates an entity that confers among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. As the Harbor Department is a designated grantee of FTZs under the State of California enabling legislation, granting FTZ status to KWI allows more efficient operations and allows KWI to remain competitive.

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CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the proposed First Amendment as to form and legality.

TRANSMITTALS:

1. Proposed First Amendment to FTZ Operating Agreement No. 2605 with KWI International, Inc., FTZ 202, Site 4C
2. KWI International, Inc., FTZ 202, Site 4C map

FIS Approval:  (initials)
CA Approval:  (initials)


MICHAEL DiBERNARDO
Director of Business Development


KATHRYN McDERMOTT
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APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto