



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 30, 2012

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF FOREIGN-TRADE
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CUSTOM
AIR WAREHOUSE, FTZ 202, SITE 10E**

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 Custom Air Warehouse (Custom Air) to activate its site within FTZ 202, Site 10E, located at 1130 East 230th Street, Carson, California, 90745. Site 10E is a building within 325.5 acres of FTZ 202, Site 10. This site is approximately 10 miles north of the Port of Los Angeles (Port). Custom Air will be operating its warehouses under FTZ procedures. The proposed FTZ Operating Agreement (Agreement) will provide a term of five years with three, five-year renewal options.

RECOMMENDATION:

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

1. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Custom Air Warehouse;
2. Direct the Board Secretary to transmit the Foreign-Trade Zone Operating Agreement 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 Foreign-Trade Zone Operating Agreement; and
4. Adopt Resolution No. _____

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SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOM AIR WAREHOUSE, FTZ 202, SITE 10E

DISCUSSION:

Background – 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 (CBP) territories. The importer may defer payment of duties and other fees until the merchandise is brought into U.S. commerce for consumption.

On July 14, 2011, the Board approved an application to the FTZ Board to change FTZ management framework from a Traditional Site Framework to an Alternative Site Framework (ASF). The ASF is for grantees that choose to participate for designation and managing general purpose FTZ sites in an efficient manner. All of our current and future FTZ general purpose operators will benefit under the ASF's new streamlined process with quicker approval periods and simplified application requirements.

Need for Agreement – Custom Air employs approximately 8 full-time employees and 4 part-time employees. The square footage of the building is 85,707 to include warehouse and office space on 2 acres (Transmittal 2). All operators shall follow rules and procedures as outlined in the Department of Homeland Security's FTZ manual, such as providing a secured area within the FTZ. Custom Air 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 – Custom Air is requesting approval from the Harbor Department to execute the proposed Agreement (Transmittal 1) to operate this site as a FTZ warehouse and distribution center for consumer products, office products, machineries, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Custom Air, Site 10E is located within a designated FTZ industrial site, FTZ 202, Site 10. As such, this company is not required to submit an application to the FTZ Board. However, the company does need approval from CBP to activate as a FTZ site.

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. Custom Air paid \$5,000 activation application fee and Custom Air will pay an annual fee of \$5,000 to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$25,000.

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SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOM AIR WAREHOUSE, FTZ 202, SITE 10E

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a FTZ Operating Agreement with Custom Air for the activation of their site within FTZ 202, Site 10E. 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 the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Agreement will have no employment impact.

FINANCIAL IMPACT:

If the proposed Agreement is approved, the Harbor Department will receive \$5,000 (per FTZ Tariff No. 1) in FTZ fees per year for five years from Custom Air. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$5,000 per year. 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 2011, approximately \$80,000 was spent on outside FTZ-related consulting services while \$149,000 in revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Agreement with Custom Air 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 Custom Air allows more efficient operations and allows Custom Air to remain competitive.

If Custom Air does not obtain approval as an operator with FTZ status from the Harbor Department, they potentially have the choice of going to another FTZ in California such as Long Beach, San Diego, Palmdale, etc., or even going out of state. Since FTZ facilities exist in every state, Custom Air can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

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CITY ATTORNEY:

The City Attorney's Office has prepared and approved proposed Agreement as to form and legality.

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for Custom Air FTZ 202, Site 10E
2. Custom Air FTZ 202, Site 10E map

FIS Approval: ef (initials)

CA Approval: TM (initials)



KRAIG JONDLE
Director of Business & Trade Development

FOR



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



for GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto