



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: OCTOBER 12, 2011

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 NEC
LOGISTICS AMERICA, INC. FTZ 202, SITE 4E**

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 NEC Logistics America, Inc. (NEC) to activate their site within FTZ 202, Site 4E, located at 18615 Ferris Place, Rancho Dominguez, CA. 90220. Site 4E is a campus of three buildings: 18831 South Ferris Place, 18735 South Ferris Place and 18615 Ferris Place. This site is approximately 10 miles north from the Port of Los Angeles (Port). NEC will be operating their warehouses under FTZ procedures. The 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 FTZ Operating Agreement between the City of Los Angeles and NEC Logistics America, Inc.;
2. Direct the Board Secretary to transmit the proposed 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 proposed FTZ Operating Agreement; and
4. Adopt Resolution No. _____.

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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 an FTZ is a restricted access site located in the U.S. Customs and Border Protection Agency (U.S. Customs) 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 frame work from a Traditional Site Framework (TSF) 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 – NEC employs approximately 65 full-time employees and 35 part-time employees. The total square footage of three buildings is 264,203 to include warehouse and office space on 13.8 acres (*See 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 Zone. NEC 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 – NEC is requesting approval from the Harbor Department to execute the proposed Agreement (*See Transmittal 1*) to operate this site as an 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. NEC Site 4E is located within a designated FTZ industrial site, FTZ 202, Site 4. Thus, this company is not required to submit an application to the FTZ Board. However, the company does need approval from U.S. Customs to activate as an FTZ site.

As noted above under Background, this site will be included in the forthcoming ASF application to ensure continuation of FTZ operations. We are planning to submit the application to the FTZ Board in October 2011.

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

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an FTZ Operating Agreement with NEC for the activation of their site within FTZ 202, Site 4E. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Agreement will have no job impact for the five-county region.

FINANCIAL IMPACT:

If the proposed Agreement is approved, the Harbor Department will receive \$5,000 in FTZ fees per year for five years from NEC. 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 2010, approximately \$80,000 was spent on outside FTZ related consulting services while \$110,000 in revenues was collected from all of the Harbor Department's FTZ operators.

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

If NEC 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 this state. Since FTZ facilities exist in every state, NEC 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 the Operating Agreement as to form and legality.

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for NEC, FTZ 202, Site 4E
2. NEC FTZ 202, Site 4E map

FIS Approval: ef (initials)


CA Approval: ef (initials)



KRAIG JONDLE
Director of Business & Trade Development


FOR KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
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M. Morimoto