



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: NOVEMBER 27, 2018

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF A SECOND AMENDMENT TO FOREIGN TRADE ZONE DEVELOPER AGREEMENT NO. 08-2723 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND COGNAC PACIFIC GATEWAY, LLC, FTZ 202, MAGNET SITE 7

SUMMARY:

Staff requests approval of a Second Amendment (Second Amendment) to Foreign-Trade Zone (FTZ) Developer Agreement No. 08-2723 between the City of Los Angeles Harbor Department (Harbor Department) and Cognac Pacific Gateway, LLC. (Cognac). Cognac wishes to maintain the FTZ status of the property located at the southwest corner of Vermont Avenue and 190th Street in Torrance, California. The Harbor Department, as the FTZ grantee, is required by the FTZ Board to have Developer Agreements with FTZ site owners to oversee their FTZ development. The Harbor Department received a request from Cognac to execute its second renewal option to extend the term of FTZ Developer Agreement No. 08-2723. Cognac's current FTZ Developer Agreement No. 08-2723 will expire on January 31, 2019. The term of the agreement is five-years with three, five-year renewal options. There are multiple warehouses and office buildings within the 93 acres of Magnet Site 7. If the proposed amendment is approved, the Harbor Department will receive \$7,750 annually from Cognac (per FTZ Tariff No. 2).

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f), of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Second Amendment to Foreign-Trade Zone Developer Agreement No. 08-2723 between the City of Los Angeles Harbor Department and Cognac Pacific Gateway, LLC;
3. Direct the Board Secretary to transmit the proposed Second Amendment of Foreign-Trade Zone Developer Agreement No. 08-2723 to the Los Angeles City Council for

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approval pursuant to Section 373 of the Charter of the City of Los Angeles and Section 10.5 of the Los Angeles Administrative Code;

4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Second Amendment to Foreign-Trade Zone Developer Agreement No. 08-2723; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The FTZ 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 territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. for consumption. The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have Developer Agreements with FTZ site owners to oversee their development and promote the FTZ program to its tenants. The term of this proposed Second Amendment (Transmittal 1) will extend the term of this Agreement to January 31, 2024. Cognac is a U.S. company with its head office located in Brea, California. This site has multiple warehouses and office buildings on 93 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Need for Approval – Cognac is requesting approval from the Harbor Department to execute the proposed Second Amendment to maintain FTZ status of Site 7 for a term of five years in order to maintain FTZ status for this property. FTZ status would be lost without an approved Amendment for the renewal as required by the FTZ Board.

Approving the proposed Amendment with Cognac 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 an operator allows more efficient operations and allows Cognac to remain competitive.

If Cognac does not obtain approval as a Developer to maintain FTZ status of this site from the Harbor Department, it will not be able to offer additional incentives to attract new business to the Los Angeles economic area. Its tenants 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, Cognac's tenants could

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potentially shift its employees to other FTZ facilities if this Second Amendment is not approved.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Second Amendment to an FTZ Operating Agreement with Cognac to operate its site within the City of Torrance, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed activity is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Cognac has paid the Harbor Department an initial one-time application fee for FTZ designation of \$2,500. When the site is activated, each site operator will pay the Harbor Department a \$5,000 one-time activation fee and a \$7,750 annual fee (per FTZ Tariff No. 2). No Harbor Department funds are required for the actions granted by this Board item.

Approval of the Second Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2018, unaudited revenues of \$344,746 was collected from Harbor Department FTZ operators relative to FY 2018 unaudited expenses of \$36,575 incurred by the Harbor Department for FTZ-related consulting services.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Second Amendment to FTZ Developer Agreement No. 08-2723 for Cognac Pacific Gateway, LLC., FTZ 202, Magnet Site 7
2. FTZ 202, Magnet Site 7 Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: 
CA Approval: 


FOR MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director