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Executive Director's
Report to the
Board of Harbor Commissioners

DATE: OCTOBER 1, 2015

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND PROSPECT ENTERPRISE DBA KANSAS MARINE CO. FTZ 202, SITE 45

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 Prospect Enterprise dba Kansas Marine Co. (Kansas) to activate its warehouse within FTZ 202, Site 45, located at 625 Kohler Street, Los Angeles, California 90021. Site 45 is a three-acre property including a warehouse located approximately 20 miles from the Port of Los Angeles. Kansas will be operating its warehouse under FTZ procedures as a multi-usage site. The proposed FTZ Operating Agreement (Agreement) is for a term of five years with three, five-year renewal options.

RECOMMENDATION:

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

1. Find that the Director of Environment Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 1 (14), of the Los Angeles City CEQA Guidelines.
2. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Prospect Enterprise dba Kansas Marine Co.;
3. Direct the Board Secretary to transmit the proposed 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;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone Operating Agreement, upon approval by the City Council; and

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SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH PROSPECT
ENTERPRISE DBA KANSAS MARINE CO. FTZ 202, SITE 45

5. 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 an 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 the U.S. 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 (Transmittal 1). Kansas, a U.S. company with its head office located in Miami, Florida, will employ 10 full-time employees at this FTZ site. This facility, located on a three-acre site, includes three buildings with a total square footage of approximately 88,500 square feet of warehousing and office space. The property is owned by Kansas (Transmittal 2).

Kansas shall follow the rules and procedures as outlined in the Department of Homeland Security's FTZ manual, such as providing a secured area within the FTZ. Kansas 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 – Kansas is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 45 as an FTZ warehouse. Kansas receives, stores, re-labels, repackages, manages inventory, and distributes imported food products which will be distributed to the cruise ship industry. Occasionally, products are re-exported from this warehouse. In July 2015, this site obtained FTZ designation from the FTZ Board however; approval is required from CBP to activate this site as an FTZ Site.

If Kansas 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, Kansas can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

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Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. Kansas has already paid a one-time \$2,500 Minor Boundary Modification (MBM) Application fee and a one-time \$5,000 activation application fee. An annual fee of \$7,750 (per FTZ Tariff No. 2) will be paid to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$38,750.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed FTZ Operating Agreement with Kansas, to activate its site within the FTZ 202 service area (Transmittal 3) at Site 45, located in Los Angeles, California. As an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of 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 this Agreement will support 10 direct jobs for the five-county region.

FINANCIAL IMPACT:

Kansas paid the Harbor Department a one-time \$2,500 MBM fee and one-time \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive from Kansas an annual fee of \$7,750 (per FTZ Tariff No. 2) for each year of the five years. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$7,750 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 2014, approximately \$20,000 was spent on outside FTZ related consulting services, while \$338,008 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with Kansas creates an entity that confers, among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. Granting FTZ status to Kansas allows more efficient operations and allows Kansas to remain competitive.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for Kansas Co. FTZ 202, Site 45
2. FTZ 202, Site 45 Map
3. FTZ 202, Service Area Map

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



ERIC CARIS
Director of Cargo Marketing



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



FOR EUGENE D. SEROKA
Executive Director

ES:MD:EC:AF:jg

Author: M. Morimoto

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