



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: DECEMBER 2, 2014

FROM: BUSINESS AND TRADE DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ APPROVAL OF SECOND AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 09-2346 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CITIZEN WATCH COMPANY OF AMERICA INC., FTZ 202, SITE 7D

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 Citizen Watch Company of America Inc. (Citizen), Site 7D, located in Torrance, California to exercise its second renewal option to extend the term of its FTZ Operating Agreement No. 09-2346 (Agreement No. 09-2346) at FTZ 202, Site 7D. FTZ 202 Site 7D is owned by Cognac Pacific Gateway, LLC. Citizen imports watches and related accessories to its warehouse to package for sale in the domestic market.

The original term of the agreement is five years with three, five-year renewal options and commenced on January 4, 2010. In February 2010, the First Amendment was approved to extend the term to January 4, 2015. Upon approval, the proposed Second Amendment will extend Agreement No. 09-2346 for five years through January 4, 2020. This proposed Second Amendment will not require funding by the Harbor Department. Also, as part of the changes, all updated City of Los Angeles contractual provisions will be incorporated into Agreement No. 09-2346. All remaining terms and conditions of Agreement No. 09-2346 shall remain in full force and effect.

RECOMMENDATION:

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

1. Approve the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 09-2346 between the City of Los Angeles Harbor Department and Citizen Watch Company of America Inc.;

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2. Direct the Board Secretary to transmit the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 09-2346 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 Second Amendment to Foreign-Trade Zone Operating Agreement No. 09-2346; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background 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 (Transmittal 1) with FTZ site operators. Citizen is a U.S. company located in Torrance, California and employs approximately 100 full-time employees. Citizen has continually operated a FTZ warehouse at FTZ 202, Site 7D since 2005. Site 7D facilities consist of approximately 165,000 square feet of warehouse and office space on 93 acres of Site 7, which is owned by Cognac Pacific Gateway, LLC. (Transmittal 2).

Citizen will continue to operate its warehouses under FTZ procedures as a Single-Usage site. Citizen 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 – Citizen is requesting approval from the Harbor Department to execute the proposed Second Amendment to extend Agreement No. 09-2346 for a term of five years in order to continue operating this site as a FTZ warehouse. Citizen receives, stores, manages inventory, and distributes watches and accessories for sale nationally. Occasionally, the products are re-exported from the warehouse. The

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proposed Second Amendment also incorporates updated City of Los Angeles contractual provisions standard in Harbor Department contracts.

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

Harbor Department Fiscal Requirements – Citizen will pay an annual fee of \$10,000 to the Harbor Department for each year of the five-year term of the proposed Second Amendment.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the proposed Second Amendment to Agreement No. 09-2346 between the Harbor Department and Citizen. The proposed Second 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 impacts for the five-county region.

FINANCIAL IMPACT:

The Harbor Department to date has received \$50,000 (per FTZ Tariff No. 1) in annual fees from Citizen for the original five-year term and first extended five-year term. If the proposed Second Amendment is approved, the Harbor Department will receive from Citizen \$10,000 annually (per FTZ Tariff No. 2) for five years.

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 2013 approximately \$60,000 was spent on outside FTZ related consulting services while \$264,000 in revenues was collected from all of the Harbor Department's FTZ operators.

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Approving the proposed Second Amendment with Citizen 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 Citizen allows more efficient operations and allows Citizen to remain competitive.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Second Amendment to FTZ Operating Agreement No. 09-2346, FTZ 202, Site 7D
2. Citizen Watch Company of America Inc., FTZ 202, Site 7D map



MICHAEL DiBERNARDO
Director of Business Development

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



DAVID L. MATHEWSON
Interim Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

M. Morimoto