



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JULY 6, 2017**

**FROM: CARGO MARKETING**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVAL OF FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CNS ENTERPRISES INC. FTZ 202, SITE 50**

**SUMMARY:**

Staff requests the approval of a Foreign-Trade Zone (FTZ) Operating Agreement between the City of Los Angeles Harbor Department (Harbor Department) and CNS Enterprises Inc. (CNS) to operate its warehouse within FTZ 202, Site 50, located at 7709 Industry Avenue, Pico Rivera, California 90660. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreement with FTZ site owners to oversee their FTZ operations.

Site 50 consists of a warehouse totaling approximately 24,500 square feet and office space on 0.56 acres located approximately 25 miles from the Port of Los Angeles. CNS will be operating its warehouse under FTZ procedures as a single-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 Environmental 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 CNS Enterprises, Inc.;
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;

SUBJECT: FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT WITH CNS ENTERPRISES INC. FTZ 202, SITE 50

4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone Operating Agreement; 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 (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. The term of this proposed FTZ Operating Agreement is five years with three five years extensions (Transmittals 1). CNS is a U.S. company with its head office located in Pico Rivera, California, employing approximately five full-time and part-time employees working within the FTZ activated area. CNS will operate its FTZ warehouse at 7709 Industry Avenue, Pico Rivera, California FTZ 202, Site 50. This facility consists of approximately 24,500 square feet of warehouse and office space on 0.56 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

CNS 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. CNS agrees to keep its warehouse 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 – CNS is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 50 as a single-usage FTZ warehouse for a term of five years to operate this site as a FTZ warehouse. CNS receives, stores, re-labels, repackages, manages inventory, and distributes of alcohol and various imported products which will be distributed for U.S. consumption. Occasionally, products are re-exported from this warehouse.

If a company 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

**DATE: JULY 6, 2017**

**PAGE 3 OF 4**

**SUBJECT: FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT WITH CNS ENTERPRISES INC. FTZ 202, SITE 50**

exist in every state, a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements –This proposed Agreement will not require funding by the Harbor Department. CNS will pay an annual fee of \$7,750 to the Harbor Department for the term of the proposed Agreement.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a proposed FTZ Operating Agreement with CNS, to operate its site within the FTZ 202 service area at Site 50, located in Pico Rivera, California which an activity is involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. Therefore, 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.

**FINANCIAL IMPACT:**

If the proposed Agreement is approved, the Harbor Department will receive \$7,750 annually from CNS per FTZ Tariff No. 2.

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 2016, approximately \$48,606.25 was spent on outside FTZ related consulting services, while \$336,688 in revenue was collected from the Harbor Department FTZ operators.

DATE: JULY 6, 2017

PAGE 4 OF 4

SUBJECT: FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT WITH CNS ENTERPRISES INC. FTZ 202, SITE 50

**CITY ATTORNEY:**

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

**TRANSMITTALS:**

1. Proposed Agreement of FTZ Operating Agreement for CNS Enterprise, Inc. FTZ 202, Site 50
2. FTZ 202, Site 50 Map
3. FTZ 202, Service Area Map

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



ERIC CARIS  
Director of Cargo Marketing



MICHAEL DiBERNARDO  
Deputy Executive Director

APPROVED:

 FOR

EUGENE D. SEROKA  
Executive Director