



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 6, 2017

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF SECOND AMENDMENT FOR FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 12-3064 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CUSTOMS AIR WAREHOUSE, INC. FTZ 202, SITE 10E

SUMMARY:

Staff requests the approval of a Second Amendment (Second Amendment) of Foreign-Trade Zone (FTZ) Operating Agreement No. 12-3064 between the City of Los Angeles Harbor Department (Harbor Department) and Customs Air Warehouse, Inc. (Customs Air) to continue operating its warehouse within FTZ 202, Site 10E, located at 907 E. 236th Street, Carson, California 90740. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site owners to oversee their FTZ operations.

FTZ Operating Agreement No. 12-3064 (Agreement) between the Harbor Department and Customs Air has an original term of a five year agreement with three, five year renewal options. The first amendment was due to relocation of its warehouse to its current location. The original term commenced on October 1, 2012, and is set to expire on September 30, 2017. Customs Air wishes to continue operating its warehouse under the FTZ program and is requesting the Harbor Department to extend the Agreement, as required by the FTZ Board.

Site 10E consists of a warehouse totaling approximately 152,222 square feet and office space on 6.26 acres located approximately eight miles from the Port of Los Angeles. Customs Air will be operating its warehouse under FTZ procedures as a multi-usage site. This proposed Second Amendment will not require funding by the Harbor Department.

This Second Amendment includes updated Indemnification and Insurance language provisions. All remaining terms and conditions of the Agreement shall remain in full force and effect, except as amended herein. Upon approval, the Agreement will remain in effect through September 30, 2022.

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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 Second Amendment of the Foreign-Trade Zone Operating Agreement No. 12-3064 between the City of Los Angeles Harbor Department and Customs Air Warehouse, Inc.;
3. Direct the Board Secretary to transmit the proposed Second Amendment of Foreign-Trade Zone Operating Agreement No. 12-3064 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 Second Amendment of Foreign-Trade Zone Operating Agreement No. 12-3064; 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. This proposed Second Amendment will extend the term of this Agreement through September 30, 2022 (Transmittal 1). Customs Air is a U.S. company with its head office located in Los Angeles, California, employing approximately five full-time and part-time employees working within the FTZ activated area. Customs Air has continually operated its FTZ warehouses at 907 E. 236th Street, Carson, California FTZ 202, Site 10E since 2012. This facility consists of

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approximately 152,222 square feet of warehouse and office space on 6.26 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Customs Air 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. Customs Air 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 – Customs Air is requesting approval from the Harbor Department to execute the proposed Second Amendment to operate Site 10E as a multi-usage FTZ warehouse for a term of 5 years to continue operating this site as a FTZ warehouse. Customs Air receives, stores, re-labels, repackages, manages inventory, and distributes 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 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 Second Amendment will not require funding by the Harbor Department. Customs Air will pay an annual fee of \$7,750 to the Harbor Department for the term of the proposed Second Amendment.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed Second Amendment with Customs Air, to operate its site within the FTZ 202 service area at Site 10E, located in Carson, 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 Second Amendment is approved, the Harbor Department will receive \$7,750 annually from Customs Air 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

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

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 of FTZ Operating Agreement for Customs Air Warehouse, Inc. FTZ 202, Site 10E
2. FTZ 202, Site 10E 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