



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: APRIL 9, 2013**

**FROM: BUSINESS & TRADE DEVELOPMENT**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ APPROVAL OF FOREIGN-TRADE  
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN  
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CUSTOM  
AIR WAREHOUSE INC. AND CUSTOM GOODS, LLC, FTZ 202, SITE 32**

**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 Custom Air Warehouse, Inc. and Customs Goods, LLC (Custom Air) to activate its site within FTZ 202, Site 32, located at 12200 Arrow Way, Rancho Cucamonga, California. Site 32 is a building within 15.08 acres of FTZ 202 service area. This site is approximately 60 miles northeast of the Port of Los Angeles (Port). Custom Air will be operating its warehouses under the FTZ procedures. The proposed FTZ Operating Agreement (Agreement) will provide a term of five years with three, five-year renewal options.

**RECOMMENDATION:**

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

1. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Customs Air Warehouse Inc. and Custom Goods, LLC;
2. Direct the Board Secretary to transmit the 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;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the Foreign-Trade Zone Operating Agreement; and
4. Adopt Resolution No. \_\_\_\_\_.

**DATE: APRIL 9, 2013**

**PAGE 2 OF 4**

**SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE AND CUSTOM GOODS LLC, FTZ 202, SITE 32**

**DISCUSSION:**

Background and Context – The Foreign-Trade Zone Act of 1934, as amended (19 U.S.C. 81a-81u) was established to support United States (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 (CBP) 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 with FTZ site operators. The Harbor Department received a request from Custom Air to operate FTZ warehouse Site 32. Custom Air employs approximately 8 full-time employees. The facility is 240,000 square feet of warehouse on 15.08 acres (Transmittal 2). The warehouse area consists of office and general warehouse space. All activities shall be performed in accordance with FTZ procedures. Custom Air agrees to keep its warehouses open to support the PierPass Program. Custom Air 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 – Custom Air is requesting approval from the Harbor Department to execute the proposed Agreement (Transmittal 1) to operate Site 32 as a FTZ warehouse. Custom Air receives, stores, manages inventory and distributes consumer products, apparel, accessories, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Custom Air, Site 32 is located within a designated FTZ 202 Service area. As such, this company is not required to submit an application to the FTZ Board. However, the company does need approval from CBP to activate as a FTZ site.

**DATE: APRIL 9, 2013**

**PAGE 3 OF 4**

**SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE AND CUSTOM GOODS LLC, FTZ 202, SITE 32**

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. Custom Air paid a \$1,500 Minor Boundary application fee and \$5,000 activation application fee and will pay an annual fee of \$5,000 to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$25,000.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a proposed agreement with Custom Air to activate its site within FTZ 202, Site 32, located in Rancho Cucamonga, California. As an activity involving the approval 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) in accordance with Article III, Class 1 (14) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

This Board action will have no employment impact.

**FINANCIAL IMPACT:**

Custom Air has already paid the Harbor Department a \$1,500 Minor Boundary application fee and \$5,000 activation application fee. Compensation is expected to be \$5,000 per year should the renewal options to be exercised totaling \$25,000. 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 2012, approximately \$80,000 was spent on outside FTZ related consulting services while \$159,000 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with Custom Air 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 Custom Air allows more efficient operations and allows Custom Air to remain competitive.

DATE: APRIL 9, 2013

PAGE 4 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE AND CUSTOM GOODS LLC, FTZ 202, SITE 32

**CITY ATTORNEY:**

The City Attorney's Office has prepared and approved proposed Agreement as to form and legality.

**TRANSMITTALS:**

1. Proposed FTZ Operating Agreement for Customs Air Warehouse and Custom Goods LLC, FTZ 202, Site 32
2. Customs Air Warehouse and Custom Goods LLC, FTZ 202, Site 32 map

FIS Approval:  (initials)

CA Approval:  (initials)



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Director of Business Development

  
FOR KATHRYN McDERMOTT  
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.  
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