

0150-07660-0001

TRANSMITTAL

TO Eugene D. Seroka, Executive Director Harbor Department	DATE JUL 19 2017	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 15	

**PROPOSED SECOND AMENDMENT TO THE FOREIGN TRADE ZONE (FTZ)
DEVELOPER AGREEMENT NO. 2537 WITH PROLOGIS TARGETED U.S. LOGISTICS
FUND, L.P., FTZ NO. 202, SITE NO. 7**

Transmitted for further processing and Council consideration.
See the City Administrative Officer report attached.


Ana Guerrero
MAYOR

RHL:ABN:101701501

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 12, 2017

CAO File No. 0150-07660-0001

Council File No.

Council District: 15

To: The Mayor

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer

Reference: Correspondence from the Harbor Department dated June 20, 2017, referred by the Mayor for report on June 28, 2017

Subject: **PROPOSED SECOND AMENDMENT TO THE FOREIGN TRADE ZONE (FTZ) DEVELOPER AGREEMENT NO. 2537 WITH PROLOGIS TARGETED U.S. LOGISTICS FUND, L.P., FTZ NO. 202, SITE NO. 7**

RECOMMENDATIONS

That the Mayor:

1. Approve the Harbor Department (Port) Resolution No. 17-8119 authorizing the proposed Second Amendment to Foreign Trade Zone (FTZ) Developer Agreement No. 2537 with Prologis Targeted U.S. Logistics Fund, L.P., to continue operating in FTZ No. 202, Site No. 7, located in the City of Torrance, for an additional five years, from August 2017 to July 2022; and,
2. Return the document to the Port for further processing, including Council consideration.

SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 17-8119 authorizing a proposed Second Amendment (Amendment) to Foreign Trade Zone (FTZ) Developer Agreement (Agreement) No. 2537 with Prologis Targeted U.S. Logistics Fund, L.P. (Prologis), to continue operating in FTZ No. 202, Site No. 7. Prologis is located in Torrance approximately nine miles from the Port of Los Angeles (POLA). As a FTZ Developer, Prologis uses its FTZ status to market and lease property space for offices, general warehousing operations and distribution facilities to qualified FTZ operators, individuals and other companies. The proposed Amendment will extend the contract term for an additional five years, from August 2017 to July 2022. All remaining terms and conditions of the Agreement will remain in effect, with the exception of the incorporations of updated City contractual provisions.

The Agreement with Prologis was for an original term of five years, with three subsequent five-year renewal options, for a total contract term of up to 20 years, contingent upon Board approval. The First Amendment extended the contract term by an additional five years to July 2017. The Prologis site consists of approximately 298,000 square feet of warehouse and office space on 17.5 acres of land. All activities are performed in accordance with the Federal FTZ procedures.

The FTZ Developer sites are under the supervision of the Federal FTZ Board and the U.S. Department of Homeland Security Customs and Boards Protection (Customs). The Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles (City) and the surrounding region. The Port, as the FTZ grantee, establishes Developer Agreements with FTZ site owners to oversee their FTZ developments. A definition of an FTZ is a secure area located in or near the port of entry for Customs, but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

Prologis will market and lease office, distribution and warehouse spaces to registered FTZ operators who will pay under separate direct agreements with the Port. All FTZ operator agreements authorized to use land owned or operated by the FTZ Developers will be submitted to the Mayor and Council under separate consideration and approval. The FTZ Agreement requires no direct use of Port funds. Although there will be no additional direct cost, the Port states that it spent approximately \$48,606 in funds on indirect or outside expenses for FTZ-related consulting services and collected approximately \$336,688 in revenue from the Port FTZ operators in 2016.

The Port states that Prologis has committed to use the Pier Pass program to reduce daytime truck traffic operations and allow open operations in the evenings. Prologis states that it will have its FTZ operators notify truck drivers, brokers and companies that trucks serving the Port's container terminals must confine their routes to the designated Wilmington truck routes. The Port states that if the proposed Agreement is not approved, Prologis has the option to move its facilities to another FTZ region in California, such as the cities of Long Beach or San Diego or another state.

The proposed Amendment is in compliance with City requirements and has been approved as to form by the City Attorney. Pursuant to Charter Section 373 and LAAC Section 10.5, Council approval is required because the cumulative contract term exceeds three years. The Port Director of Environmental Management has determined that the Amendment is an administrative action and therefore exempt from the relevant requirements of CEQA and the City's CEQA Guidelines.

FISCAL IMPACT STATEMENT

The proposed Second Amendment to FTZ Developer Agreement will authorize Prologis an additional five-year contract term. Prologis has paid an initial fee of \$2,500 to the Port as a one-time activation fee to lease to FTZ operators. Under separate contracts, FTZ Operators will lease the land from Prologis (FTZ Developer) and submit their FTZ agreements to the Board, Mayor and Council for review and consideration of approval. FTZ operators are required to pay the Port a one-time application fee of \$5,000 and an administrative fee of \$7,750 per year for a total of \$38,750 for each five-year term and a maximum of \$160,000 for the proposed 20-year life of the Agreement. Approval of the Agreement provides tax and operating benefits to Prologis and economic development in the region. There will be no additional payment to the Port and impact on the City General Fund.

RHL:ABN:10170150

Attachment

ATTACHMENT

OVERVIEW OF FOREIGN TRADE ZONES, DEVELOPER AGREEMENT

The Federal Foreign Trade Zone (FTZ) Board designated the Harbor Department (Port) as the Grantee/Administrator of FTZ No. 202 for the City of Los Angeles and the surrounding region. Below is an overview of FTZ policies and guidelines.

The FTZ Developer Agreements are entered into with various companies that have applied for FTZ status with the Federal FTZ Board and have been approved by the United States (U.S.) Department of Homeland Security Customs and Border Protection (Customs) to activate a site. Authority is granted by the Federal FTZ Board under the amended FTZ Act of 1943, which is administered through Federal FTZ and Customs Regulations. The FTZ Act was established to support U.S. commerce and create jobs by reducing import duties or excise taxes by deferring payment of duty thereby making it appealing for companies to perform work on their products in the US instead of offshore. The goal of the FTZ program and Port is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, State and national economy.

An FTZ is a secure area located in or near the port of entry for Customs, but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. It is the U.S. version of what is known internationally as free-trade zones. An FTZ is sponsored by qualified public or private companies, which may operate the facilities themselves or contract for the operation with public or private firms. The operations are conducted on a public use basis, which opens its services to the public, with published tariff rates. These spaces and operations will be under the supervision of the Federal FTZ Board and Customs and will be required to operate within U.S. law.

The Port FTZ No. 202 is a multi-zone FTZ currently operating 23 sites with 15 contracted FTZ general purpose operators and five Subzone operators. The sites include facilities in the Port area, Los Angeles International Airport, nearby industrial parks and other outlying locations. The FTZ does not generate a profit for the Port, but is provided as a service to its customers to promote international trade in the U.S. These operations will be monitored by the Port, but are under the supervision of the Federal FTZ Board and Customs and required to operate within U.S. law.

The FTZ Developers pay a one-time application fee of \$2,500 and are not obligated to pay an annual administrative fee to the Port as it would if it was an FTZ Operator. The FTZ Developer leases the land to eligible FTZ Operators for warehousing, distribution and office facilities. The standard FTZ Operating Agreement includes payment to the Port of a one-time application/activation fee (normally \$5,000) and an annual administrative operating fee of \$7,750 per year for a total of \$43,750 for the first five-year term. Upon approval by the Board of Harbor Commissioners (Board), the Port will be paid up to \$38,750 for each of three five-year renewal options, for an additional \$116,250, and a total contractual amount of approximately \$160,000 over 20 years. The proposed Agreement renewal options will be subject to approval by the Board and based upon terms and conditions negotiated prior to the end of each five-year term. The proposed Agreement will become effective the first of the month following Council approval and will remain in effect for an initial term of five years. Either the Port or FTZ Developer can terminate the proposed Agreement at the end of each term or by submitting a 180-day prior written notice.