0150-10156-0001

TRANSMITTAL

TO	DATE	COUNCIL FILE NO.
Eugene D. Seroka, Executive Director Harbor Department	JAN 28 2019	
FROM The Mayor		COUNCIL DISTRICT 15

PROPOSED SECOND AMENDMENT FOREIGN TRADE ZONE DEVELOPER AGREEMENT NO. 08-2723 WITH COGNAC PACIFIC GATEWAY, FTZ SITE NO. 7

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

Ana Guerrero

MAYOR

RHL:ABN:10190063t

CAO 649-d

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date:	January 24, 2019	CAO File No.	0150-10156-0001
		Council File No.	
		Council District:	15

To: The Mayor

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

Reference: Correspondence from the Harbor Department dated December 21, 2018; referred by the Mayor for report dated January 4, 2019

Subject: **PROPOSED SECOND AMENDMENT FOREIGN TRADE ZONE DEVELOPER AGREEMENT NO. 08-2723 WITH COGNAC PACIFIC GATEWAY, FTZ SITE NO. 7**

RECOMMENDATIONS

That the Mayor:

1. Approve Harbor Department (Port) Resolution No. 18-8398 authorizing a Second Amendment to the Foreign Trade Zone (FTZ) Developer Agreement No. 08-2723 with Cognac Pacific Gateway LLC, to continue operating in FTZ No. 202, Site No. 7, located in the City of Torrance, California, for an additional five years, from February 2019 through January 2024; 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. 18-8398 authorizing a proposed Second Amendment (Amendment) to the Foreign Trade Zone (FTZ) Developer Agreement (Agreement) No. 08-2723 with Cognac Pacific Gateway, LLC (Cognac) to continue operating in FTZ 202, Site No. 7 (Site 7). The proposed Amendment will allow Cognac to maintain its FTZ status on property in the City of Torrance, in FTZ Site 202. Cognac is located approximately 10 miles from the Port of Los Angeles (POLA).Cognac is a real estate investment firm whose head office is located in the City of Brea, California. The proposed Amendment will extend the contract term for an additional five years, from February 2019 through January 2024. All remaining terms and conditions of the Agreement will remain in effect, with the exception of the inclusion of any City of Los Angeles (City) updated contractual provisions.

In 2008, the Board approved the original Agreement with Cognac for a term of five years, with three subsequent five-year renewal options, for a contract term up to a total of 20 years. Board approval is required to exercise any renewal options and changes to the Agreement. Under Federal FTZ procedures, the Port, as the grantee, establishes Developer Agreements with FTZ site operators to oversee operations in FTZ 202 region. Cognac leases the land to eligible FTZ operators to use as general warehousing, distribution and office facilities to process consumer goods and products for domestic and, sometimes, export markets. The First Amendment extended the Agreement by an additional five years to its current expiration date in January 2019.

The Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City and the surrounding region. The FTZ Act was established to support United States (U.S.) commerce and create jobs by reducing import duties and excise taxes by deferring duty payments and making it beneficial for companies to perform some work on U.S. property, instead of offshore. The definition of a FTZ is a restricted access site under the general supervision of the Federal FTZ Board and located in or near U.S. Customs and Border Protection territories. The importer may defer payments of duties and other fees until merchandise is brought into the U.S. for consumption. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The Cognac FTZ Site consists of approximately 93 acres of land. As a FTZ Developer, Cognac uses its FTZ site status to market and lease property space for offices, general warehousing operations, and distribution facilities to multiple, qualified FTZ operators, individuals and other companies. The FTZ operators that lease, pay and contract with the Port will do so under separate direct agreements. All FTZ operator agreements operating under FTZ Developers must be submitted to the Board, Mayor and Council under separate consideration and approval.

The FTZ Agreement requires no direct use of Port funds. Cognac has paid the Port an initial one-time application/activation fee for its FTZ designation of $2,500. All approved FTZ operators will be required to pay the Port a one-time activation fee of $5,000 and an annual administrative fee of $7,750 for a total of $38,750 for the first five-year term and a maximum of $160,000 over the proposed 20-year life of the Agreement, subject to Board approval. The Port states that it has incurred expenses of approximately $36,575 for FTZ-related consulting services and generated revenue of approximately $344,746 from FTZ operators for the 2018 calendar year.

The Port states that Cognac has committed to use the Pier Pass program to reduce daytime truck traffic operations and allow open operations in the evenings. Cognac states that it will have its FTZ operators notify their 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, Cognac has the option to move its facilities to another FTZ region in California, such as the cities of Long Beach, San Diego, Palmdale or another state.

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

FISCAL IMPACT STATEMENT

The proposed Second Amendment with Cognac Pacific Gateway LLC (Cognac) will authorize the FTZ Developer to continue operations for an additional five-year contract term. Cognac has paid a one-time application fee of $2,500 to the Port. Under separate contracts, FTZ Operators leases land from Cognac and submit the FTZ agreements to the Board, Mayor and Council for review and consideration of approval. Approval of the Agreement provides tax and operating benefits to Cognac and economic development in the POLA region.

RHL:ABN:10190063

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.