

#2
3/21/19

**RECOMMENDATION APPROVED;
RESOLUTION 19-8454 ADOPTED; AND
AGREEMENT 19-2340-C APPROVED;
BY THE BOARD OF HARBOR COMMISSIONERS**



Executive Director's
Report to the
Board of Harbor Commissioners

March 21, 2019

AMBER M. KLESGES

Board Secretary

DATE: MARCH 7, 2019

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 19-8454 - APPROVAL OF THIRD AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 2340 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CUSTOMS AIR WAREHOUSE, INC., FTZ 202, SITE 2A

SUMMARY:

Staff requests the approval of a Third Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 2340 (Agreement) 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 2A, located at 5540 West 104th Street, Los Angeles, California 90045. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site operators to oversee their FTZ operations.

Customs Air's current Agreement will expire on June 22, 2019. The Third Amendment will extend the term of the Agreement by five years. Customs Air has requested to continue operating its warehouse as an FTZ warehouse. The Harbor Department needs to execute the Third Amendment to extend the Agreement, as required by the FTZ Board.

Site 2A consists of 37,000 square feet of warehouse and office space on 1.5 acres. Customs Air will operate its warehouse under FTZ procedures as a multi-usage site. This proposed Third Amendment will not require funding by the Harbor Department. If the proposed amendment is approved, the Harbor Department will receive \$7,750 annually from Customs Air (per FTZ Tariff No. 2).

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 administratively ~~and categorically~~ exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the City of Los Angeles CEQA Guidelines

* administrative error

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE INC. FTZ 202, SITE 2A

2. Approve the proposed Third Amendment to Foreign-Trade Zone Operating Agreement No. 2340 between the City of Los Angeles Harbor Department and Customs Air Warehouse Inc.;
3. Direct the Board Secretary to transmit the proposed Third Amendment of Foreign-Trade Zone Operating Agreement No. 2340 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 Third Amendment of Foreign-Trade Zone Operating Agreement No. 2340; and
5. Adopt Resolution No. 19-8454

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 territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. for consumption. The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators.

Need for Agreement – This proposed Third Amendment (Transmittal 1) will extend the term of the Agreement to June 22, 2024. Customs Air is a U.S. company with its head office located in Los Angeles, California, employing approximately eight full-time and part-time employees working within the FTZ warehouse. Customs Air has continually operated its FTZ warehouse since 2004. This facility consists of approximately 37,000 square feet of warehouse and office space on 1.5 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Need for Approval – Customs Air is requesting approval from the Harbor Department to execute the proposed Third Amendment to continue to operate Site 2A as a multi-usage FTZ warehouse for a term of five years. 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 Customs Air 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: MARCH 7, 2019

PAGE 3 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE INC. FTZ 202, SITE 2A

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

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.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a proposed Third Amendment to FTZ Operating Agreement No. 2340 with Customs Air, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from CEQA in accordance with Article II Section 2 (f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed Third Amendment is approved, the Harbor Department will receive \$7,750 annually from Customs Air (per FTZ Tariff No. 2).

Approval of the Third Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2018, revenue of \$344,746 was collected from Harbor Department FTZ operators relative to FY 2018 expenses of \$36,575 incurred by the Harbor Department for FTZ-related consulting services.

DATE: MARCH 7, 2019

PAGE 3 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE INC. FTZ 202, SITE 2A

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

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.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed Third Amendment to FTZ Operating Agreement No. 2340 with Customs Air to operate their site at 5540 West 104th Street, Los Angeles, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed Third Amendment is approved, the Harbor Department will receive \$7,750 annually from Customs Air (per FTZ Tariff No. 2).

Approval of the Third Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2018, revenue of \$344,746 was collected from Harbor Department FTZ operators relative to FY 2018 expenses of \$36,575 incurred by the Harbor Department for FTZ-related consulting services.

DATE: MARCH 7, 2019

PAGE 4 OF 4


SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH CUSTOMS AIR WAREHOUSE INC. FTZ 202, SITE 2A

CITY ATTORNEY:

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

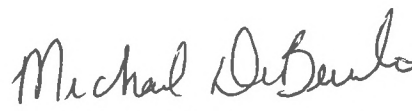
TRANSMITTALS:

1. Proposed Third Amendment to FTZ Operating Agreement for Customs Air Warehouse Inc., FTZ 202, Site 2A
2. FTZ 202, Site 2A Map
3. FTZ 202, Service Area Map



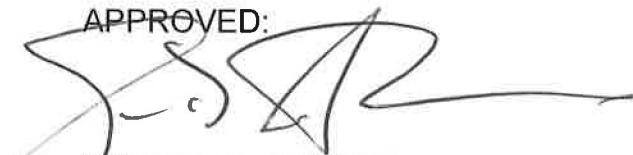
ERIC CARIS
Director of Cargo Marketing

FIS Approval: MB
CA Approval: JD



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director