

0150-07497-0002

TRANSMITTAL

TO
Eugene D. Seroka, Executive Director
Harbor Department

JAN 29 2020

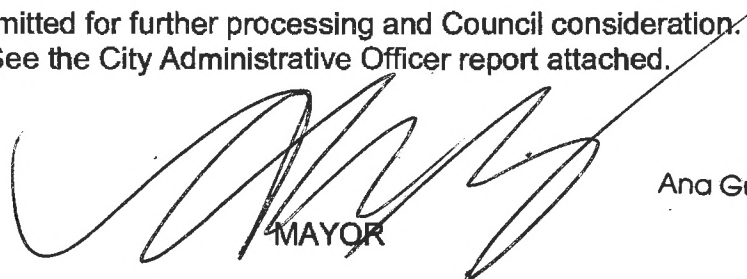
COUNCIL FILE NO.
15-0164

FROM
The Mayor

COUNCIL DISTRICT
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PROPOSED THIRD AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT NO. 09-2346 WITH CITIZEN WATCH COMPANY OF AMERICA, INC., FTZ 202, SITE 7D

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



MAYOR

Ana Guerrero

RHL:JCY:102000771

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 28, 2020

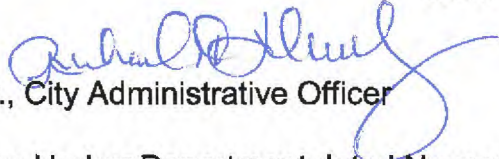
CAO File No. 0150-07497-0002

Council File No. 15-0164

Council District: --

To: The Mayor

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



Reference: Correspondence from the Harbor Department dated November 22, 2019

Subject: **PROPOSED THIRD AMENDMENT TO FOREIGN-TRADE ZONE (FTZ)
AGREEMENT NO. 09-2346 WITH CITIZEN WATCH COMPANY OF AMERICA,
INC., FTZ 202 SITE 7D**

RECOMMENDATIONS

1. Approve the Harbor Department (Port) Resolution No. 19-9559 and Agreement No. 19-2346-C authorizing the proposed Third Amendment to Foreign-Trade Zone (FTZ) Operating Agreement (Agreement) No. 09-2346 with Citizen Watch Company of America, Inc., FTZ 202, Site 7D, which will extend the Agreement by an additional five years, through January 3, 2025; 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. 19-9559 and Agreement No. 19-2346-C authorizing the proposed Third Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 09-2346 (Agreement) with Citizen Watch Company of America, Inc. (Citizen), to continue operating its facility within FTZ 202, Site 7D, located in Torrance, California. The proposed Third Amendment exercises the third of three five-year renewal options to extend the Agreement term, from January 4, 2020 to January 3, 2025. Additionally, Agreement terms related to evidence and submission of insurance are updated to meet the City's insurance compliance standards, and the Operator contact name is updated. Except for these provision changes, all other terms and conditions of the Agreement will remain in effect. Board approval is required to exercise any renewal options and changes to the Agreement.

The original Agreement for FTZ 202, Site 7D with Citizen was for an initial term of five years beginning in January 2005, with three subsequent five-year renewal options, for a term of up to 20 years. Citizen makes, imports, warehouses and distributes watches and related accessories. FTZ 202, Site 7D consists of approximately 129,934 square feet of warehouse and office space on 5.69

acres of land owned by Cognac Pacific Gateway, LLC and is located within the larger FTZ 202, Site 7. Citizen employs approximately 100 full-time employees at the FTZ site and will continue to operate Site 7D as a single-usage FTZ warehouse, receiving, storing, repackaging and relabeling, managing logistics and inventory, and distributing watches and related accessories for the domestic, and occasionally, international market.

Citizen will continue to operate under Federal FTZ Operating rules and regulations. The United States (U.S.) Government's Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles and the surrounding region. An FTZ is a secure area located in or near the port of entry for U.S. Customs and Border Protection Agency (Customs), but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. All activities are performed in accordance with Federal FTZ procedures. The goal of the FTZ program and the Port is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, state and national economy. The FTZ is provided by the Port as a service to its customers to promote international trade and commerce in the region and throughout the U.S. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The Port will receive, per FTZ Tariff No. 2, an annual payment from Citizen in the amount of \$10,000 for a total of \$50,000 for the third five-year term. The Port states that it spends these funds on indirect or outside expenses for FTZ-related administrative services. During Fiscal Year 2018-19, the Port states that it spent \$42,281 for FTZ-related consulting expenses and collected \$349,769 in revenue and fees from all FTZ 202 operations.

The proposed Amendment is in compliance with City requirements and has been approved as to form by the City Attorney. Port staff has determined that this is an administrative action and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles CEQA guidelines.

FISCAL IMPACT STATEMENT

The proposed Third Amendment to the FTZ Operating Agreement No. 09-2346 between the Harbor Department and Citizen Watch Company of America, Inc. (Citizen) will have no impact on the City General Fund. Citizen will be required to pay an annual fee of \$10,000 per year or \$50,000 for the five-year term. All funds will be deposited in the Harbor Revenue Fund. The recommendations in this report comply with Port Financial Policies in that any expenditures made for FTZ-related expenses will be paid by appropriate Port revenues and fees.

RHL:JCY:10200077

Attachment

ATTACHMENT

OVERVIEW OF FOREIGN-TRADE ZONES (FTZ), OPERATING AGREEMENT

The Federal 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. The following is an overview of FTZ Operator policies and guidelines.

The FTZ Operating Agreements are entered into with various companies who 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 1934, 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 U.S. instead of offshore. The goal of the Port and FTZ program 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 are 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. In this case, the published rates applicable are the Port Tariff (No. 2) rates, terms and conditions. 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 42 sites with 35 contracted FTZ general purpose operators and four Subzone operators. The sites include facilities in the Port area, Los Angeles International Airport, nearby industrial parks and other outlying locations. The FTZ is not intended to 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 under the supervision of the Federal FTZ Board and Customs and are required to operate within U.S. law.

The FTZ Operator is normally required to pay a one-time application fee of \$7,500 and an annual administrative operating fee of \$7,750 or \$10,000 per year for an initial term of five years, with three subsequent five-year renewal options, in the same amount, for a contract term up to a total of 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 with the FTZ Operator 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 Operator can terminate the proposed Agreement at the end of the each term or by submitting a 180-day prior written notice.