

0150-07497-0001

**TRANSMITTAL**

TO  
Eugene Seroka, Executive Director  
Harbor Department

DATE  
**FEB 05 2015**

COUNCIL FILE NO.

FROM  
The Mayor

COUNCIL DISTRICT  
15

**PROPOSED SECOND AMENDMENT TO FOREIGN TRADE ZONE OPERATING  
AGREEMENT NO. 09-2346 WITH CITIZEN WATCH COMPANY OF AMERICA, INC.,  
FTZ 202, SITE NO. 7D**

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



MAYOR

(Ana Guerrero)

MAS:ABN:10150062t

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---

Date: February 4, 2015

CAO File No. 0150-07497-0001

Council File No.

Council District: 15

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Correspondence from the Harbor Department dated December 30, 2014; referred by the Mayor for report dated January 5, 2015

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

---

### SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 14-7725 (Resolution) authorizing a proposed Second Amendment (Amendment) to Foreign Trade Zone (FTZ) Operating Agreement (Agreement) No. 09-2346 with Citizen Watch Company of America Inc. (Citizen) to continue operating in FTZ No. 202, Site No. 7D. Citizen is a United States (U.S.) company located in the City of Torrance. The original Agreement with Citizen was approved for an initial contract term of five years, from 2005 to 2010, with renewal options for three subsequent five-year terms, for a total contract term of up to 20 years. According to the Port, the First Amendment was approved to extend the FTZ term from 2010 to 2015. The proposed Second Amendment requests approval to extend the term of the Agreement for an additional five years, from January 2015 to January 2020. All remaining terms and conditions of the Agreement will remain in effect, with the exception of the incorporation of updated City's contractual provisions.

The above-referenced Resolution No. 14-7725, amending the proposed Agreement with Citizen and this report, incorporate revised information received from the Port subsequent to the initial request submittal.

Citizen will continue to operate the FTZ Site 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. A definition of 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 Port is to stimulate economic growth and development in the United States, facilitate efficient cargo transit and support the local, State and national economy. The FTZ does not generate a direct profit for the Port, but is provided by the Port as a service to its customers to promote international trade and commerce in the region and U.S.

The Port state that FTZ Site 7D is owned by Cognac Pacific Gateway, LLC., and has been leased by Citizen since 2005. Citizen imports watches and related accessories to its warehouse to package for sale in the domestic market. The Port states that the FTZ site for Citizen includes approximately 165,000 square feet of warehouse and office space on 93 acres of land and employs approximately 100 full-time employees. Extending the proposed Agreement will authorize Citizen to continue its operation, as a single-usage site, to receive, store, manage inventory and distribute watches and other accessories for sale in national markets and, occasionally, re-export to internationally market.

Citizen has already paid a FTZ application fee of \$5,000 and has paid the Port \$5,000 in administrative fees per year for a total of \$30,000 for the original five-year contract term. The First Amendment included administrative fees of \$25,000 for five years. Subsequently, the Port increased the annual administrative fee to \$10,000 per year or \$50,000 for every five-year contract term. The total FTZ administrative fee to the Port for the 20 year contract term will be approximately \$155,000, subject to approval by the Board. Agreements for FTZ Operators will require no direct use of Port funds. However, the Port states that it does spend funds on indirect or outside expenses for FTZ-related administrative services. During the 2013 calendar year, the Port states that it spent approximately \$60,000 for FTZ-related expenses and collected approximately \$264,000 in revenue and fees from all the FTZ operators.

The Port states that Citizen has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Citizen has agreed to notify truck drivers, brokers and companies that trucks serving the FTZ site and Port's container terminals must confine their routes to the designated Wilmington truck route. The Port states that if the proposed Agreement is not approved, Citizen has the option to move its facilities to another FTZ region in California, such as Long Beach or San Diego, Palmdale or another state. The Port states that approval of the Agreement is in the best interest of the City and Port economically. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The proposed Agreement is in compliance with City requirements and has been approved as to form by the City Attorney. Pursuant to Charter Section 373 and the Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds three years. The Port Director of Environmental Management 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 III, Section 1 (14) of the Los Angeles City CEQA guidelines. The proposed Amendment would extend the existing Agreement with no changes to the operations.

## **RECOMMENDATION**

That the Mayor approve Harbor Department (Port) Resolution No. 14-7725 authorizing a proposed Second Amendment to Foreign Trade Zone (FTZ) Operating Agreement (Agreement) No. 09-2346 with Citizen Watch Company of America Inc. to continue operating in FTZ No. 202, Site No. 7D, located in the City of Torrance, for an additional five-year term, from January 2015 to January 2020, and return the document to the Port for further processing, including Council consideration.

## **FISCAL IMPACT STATEMENT**

The proposed Second Amendment to the FTZ Operator Agreement with Citizen Watch Company of America Inc. (Citizen) will have no impact on the City General Fund. Citizen has already paid an application fee of \$5,000 and has paid the Port \$5,000 administrative fee per year for a total of \$50,000 for the renewal options for two of the five-year contract terms. The Port subsequently increased the annual administrative fee to \$10,000 per year or \$50,000 for every additional five-year contract term. The total FTZ administrative fee to the Port for the 20 year contract term will be approximately \$155,000, if the Agreement is renewed for each of the two optional terms of five-year. All Funds will be deposited in the Harbor Revenue Fund.

## **TIME LIMIT FOR COUNCIL ACTION**

Pursuant to Charter Section 373, "Long Term Contract Approved by Council," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than three years within 60 days after submission to Council, the contract will be deemed approved.

*MAS:ABN:10150062*

Attachment

## **ATTACHMENT**

### **OVERVIEW OF FOREIGN TRADE ZONES, 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 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. 1) 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 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 under the supervision of the Federal FTZ Board and Customs and required to operate within U.S. law.

The FTZ Operator is normally required to pay a one-time application fee of \$5,000 and an annual administrative operating fee of \$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 one-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.