

4

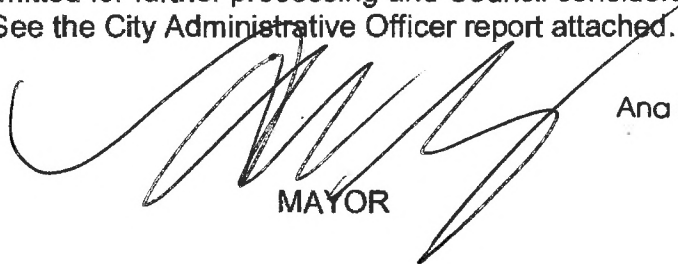
0150-07532-0002

TRANSMITTAL

TO Eugene D. Seroka, Executive Director Harbor Department	DATE JAN 29 2020	COUNCIL FILE NO. 15-0285
FROM The Mayor	COUNCIL DISTRICT 15	

PROPOSED THIRD AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) DEVELOPER AGREEMENT NO. 2369 WITH INDUSTRIAL DEVELOPMENTS INTERNATIONAL, LLC, FTZ 202, SITE 20

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


MAYOR
Ana Guerrero

RHL:JCY:10200076t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 28, 2020

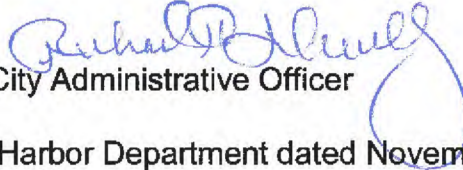
CAO File No. 0150-07532-0002

Council File No. 15-0285

Council District: 15

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)
DEVELOPER AGREEMENT NO. 2369 WITH INDUSTRIAL DEVELOPMENTS
INTERNATIONAL, LLC, FTZ NO. 202, SITE 20**

RECOMMENDATIONS

1. Approve the Harbor Department (Port) Resolution No. 19-9558 and Agreement No. 19-2369-C authorizing the proposed Third Amendment to Foreign-Trade Zone (FTZ) Developer Agreement (Agreement) No. 2369 Industrial Developments International, LLC, FTZ 202, Site 20, which will extend the Agreement by an additional five years, through February 28, 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. 19-9558 and Agreement No. 19-2369-C authorizing the proposed Third Amendment (Amendment) to Foreign-Trade Zone (FTZ) Developer Agreement No. 2369 (Agreement) with Industrial Developments International, LLC (IDI), to continue to maintain its FTZ status and promote the FTZ Program within FTZ 202, Site 20, located in the Mira Loma community of Jurupa Valley, California. The proposed Amendment exercises the third of three five-year renewal options to extend the Agreement term, from February 29, 2020 to February 28, 2025. Additionally, Agreement terms related to indemnification and insurance are updated to meet the City's compliance standards. 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 20 with IDI was under the name Industrial Developments International, Inc., in the City of Mira Loma, for an initial term of five years ending February 28, 2010, with three subsequent five-year renewal options, for a term of up to 20 years. The First Amendment to the Agreement, executed on March 1, 2010, extended the agreement through 2015.

The Second Amendment to the Agreement, executed on March 1, 2015, changed the company name to IDI, extended the agreement through February 28, 2020, and updated its location to reflect the city name change to the newly incorporated City of Jurupa Valley. Additionally, IDI sold portions of its property at Site 20 to Realty Associates Fund IX, L.P. in 2012 (C.F. 12-1345) and to STRS Ohio CA Real Estate Investments II, LLC in 2013 (C.F. 13-0889).

IDI is a real estate investment firm whose principal address is located in El Segundo, California. FTZ 202, Site 20 includes 21.13 acres of warehouse facilities and office space located approximately 60 miles northeast of the Port of Los Angeles. Under the Agreement, IDI will continue to lease and market the land and facilities at Site 20 for general activities such as warehouse operations, distribution centers and office space. Current FTZ operator occupants in IDI's facilities at Site 20 include Boardriders, Inc. at Site 20-C (C.F. 18-0020).

IDI will continue to operate under Federal FTZ rules and regulations, including providing the Port with updated land use information, promoting the FTZ program, and submitting an annual report. 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. The FTZ Developer Agreements are with contractors who have applied for FTZ Developer status with the Federal FTZ Board and have been approved by Customs to develop and market the property as a FTZ site. FTZ Developer Agreements do not permit warehouse operations, only use of the FTZ designation in marketing the industrial park. See the Attachment for an overview of FTZ policies and guidelines for this Developer Agreement.

IDI paid the Port a one-time application fee of \$2,500 to obtain approval from the Federal FTZ Board. As an FTZ Developer, IDI is not obligated to pay an annual administrative fee. Individual FTZ site operators will pay the Port, per FTZ Tariff No. 2, a \$5,000 one-time activation fee and a \$7,750 or \$10,000 annual fee under separate direct agreements with the Port. 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 the FTZ 202 developers and operators.

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 Developer Agreement No. 2369 between the Harbor Department (Port) and Industrial Developments International, LLC (IDI) will have no impact on the City General Fund. IDI paid an initial one-time application fee of \$2,500 deposited in the Harbor Revenue Fund. Approval of the agreement provides tax and operating benefits to IDI and economic development in the region. There will be no additional payment to the Port. 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:10200076

Attachment

ATTACHMENT

OVERVIEW OF FOREIGN-TRADE ZONES (FTZ), DEVELOPER 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. Below is an overview of FTZ Developer 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 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 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 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 are under the supervision of the Federal FTZ Board and Customs and required to operate within U.S. law.

An FTZ Developer is not obligated to pay an annual administrative fee to the Port as it would if it were an FTZ Operator. The FTZ Developer markets and 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 of \$7,500 and an annual administrative operating fee of \$7,750 to \$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 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.