

RECOMMENDATION APPROVED;
RESOLUTION NO. 17-8158 ADOPTED; AND
AGREEMENT NO. 17-3074-A APPROVED
BY THE BOARD OF HARBOR COMMISSIONERS



Executive Director's

Report to the

Board of Harbor Commissioners

September 7, 2017

Amber M. Klesges

AMBER M. KLESGES
Board Secretary

9-7-17
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DATE: AUGUST 22, 2017

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 17-8158 - APPROVAL OF FIRST AMENDMENT FOR FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 12-3074 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND LAXFUEL CORPORATION. FTZ 202, SITE 25

SUMMARY:

Staff requests the approval of a First Amendment (First Amendment) of Foreign-Trade Zone (FTZ) Operating Agreement No. 12-3074 between the City of Los Angeles Harbor Department (Harbor Department) and LAXFUEL Corporation (LAXFUEL) to continue operating its facilities located within the Los Angeles International Airport and off-site facilities and pipelines for the storage and delivery of jet fuel serving the Los Angeles International Airport (LAX). The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site operators to oversee their FTZ operations.

FTZ Operating Agreement No. 12-3074 (Agreement) between the Harbor Department and LAXFUEL has an original term of a five year agreement with three, five year renewal options. The original term commenced on October 1, 2012, and is set to expire on September 30, 2017. LAXFUEL wishes to continue operating its facilities and pipeline under the FTZ program and is requesting the Harbor Department to extend the Agreement, as required by the FTZ Board. The extension will be for five years at an annual compensation of \$7,750 per year.

Site 25 consists of seven storage terminals connected by pipelines totaling approximately 669.4 acres located LAX and off-site storage facilities. LAXFUEL will be operating its facilities under FTZ procedures as a multi-usage site. This proposed First Amendment will not require funding by the Harbor Department.

This First Amendment includes updated Indemnification and Insurance language provisions. All remaining terms and conditions of the Agreement shall remain in full force and effect, except as amended herein. Upon approval, the agreement will extend for five years through September 30, 2022.

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH LAXFUEL CORPORATION. FTZ 202, SITE 25

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 exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 1 (14), of the Los Angeles City CEQA Guidelines;
2. Approve the proposed First Amendment of the Foreign-Trade Zone Operating Agreement No. 12-3074 between the City of Los Angeles Harbor Department and LAXFUEL Corporation;
3. Direct the Board Secretary to transmit the proposed First Amendment of Foreign-Trade Zone Operating Agreement No. 12-3074 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 First Amendment of Foreign-Trade Zone Operating Agreement No. 12-3074; and
5. Adopt Resolution No. 17-8158.

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 (CBP) territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. for consumption.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators. This proposed First Amendment will extend the term of this Agreement to September 30, 2022 (Transmittal 1). LAXFUEL is a U.S. company with its head office located in Los Angeles, California, employing approximately 38 full-time employees to run its airport operations. The total acreage of the jet fuel delivering system is 699.4 acres including refineries, terminals,

DATE: AUGUST 22, 2017

PAGE 3 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH LAXFUEL CORPORATION. FTZ 202, SITE 25

pipelines and office space. (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

LAXFUEL 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.

Need for Approval – LAXFUEL is requesting approval from the Harbor Department to execute the proposed amendment to continue operate Site 25 as a multi-usage FTZ jet fuel delivering systems for their customers serving LAX for a term of 5 years.

Harbor Department Fiscal Requirements –This proposed First Amendment will not require funding by the Harbor Department. LAXFUEL will pay an annual fee of \$7,750 to the Harbor Department for the five year term of the proposed Amendment.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the First Amendment with LAXFUEL, to operate its site within the FTZ 202 service area at Site 25, located in LAX and off-site storage and pipelines. As an activity involving the amendment of a permit to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III, Class 1 (14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed First Agreement is approved, the Harbor Department will receive \$7,750 annually from LAXFUEL (per FTZ Tariff No. 2).

Although there is no direct cost to the Harbor Department arising from this proposed Board action, the Harbor Department does incur FTZ related expenses. During calendar year 2016, approximately \$48,606.25 was spent on outside FTZ related consulting services, while \$336,688 in revenue was collected from the Harbor Department FTZ operators.

DATE: AUGUST 22, 2017

PAGE 4 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH LAXFUEL CORPORATION. FTZ 202, SITE 25

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed FIRST Amendment of FTZ Operating Agreement for LAXFUEL Corporation
FTZ 202, Site 25
2. FTZ 202, Site 15 Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: MB (initials)
CA Approval: MB (initials)



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director