

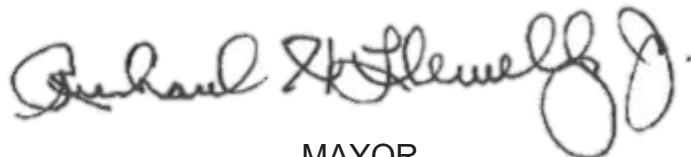
0150-10533-0001

T R A N S M I T T A L

TO Eugene D. Seroka, Executive Director Harbor Department	DATE 07/26/21	COUNCIL FILE NO. 15-1429
FROM The Mayor	COUNCIL DISTRICT 14	

PROPOSED FIRST AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT NO. 15-3353 WITH KANSAS MARINE CO. FOR FTZ 202, SITE 45

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



MAYOR

RHL:JCY:10210151t

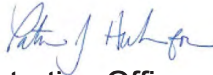
(Rich Llewellyn for)

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 1, 2021
To: The Mayor
From: Richard H. Llewellyn, Jr., City Administrative Officer
Reference: Correspondence from the Harbor Department dated December 17, 2020; referred by the Mayor for report January 26, 2021
Subject: **PROPOSED FIRST AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) AGREEMENT NO. 15-3353 WITH KANSAS MARINE CO. FOR FTZ 202, SITE 45**

CAO File No. 0150-10533-0001
Council File No. 15-1428
Council District: 14



RECOMMENDATIONS

Approve the Harbor Department (Port) Resolution No. 20-9739 and Agreement No. 20-3353-A authorizing the proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 15-3353 (Agreement) with Prospect Enterprise dba Kansas Marine Co. for FTZ 202, Site 45, to extend the Agreement by an additional four years, through January 31, 2025; and, return the Resolution 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. 20-9739 and Agreement No. 20-3353-A authorizing the proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 15-3353 (Agreement) with Prospect Enterprise dba Kansas Marine Co. (Kansas Marine), to continue operating its facility as FTZ 202, Site 45, located at 625 Kohler Street in downtown Los Angeles, California, approximately 25 miles from the Port of Los Angeles. The proposed First Amendment exercises the first of three renewal options to extend the Agreement term for four years, from February 1, 2021 to January 31, 2025. Additionally, the proposed Amendment updates Agreement terms related to indemnification and evidence and submission of insurance to meet the City's insurance compliance standards. All other terms and conditions of the Agreement remain in effect. The Board intended to approve a five-year extension, through January 31, 2026, per the renewal options of the original Agreement, but an inadvertent error in the First Amendment dated the term as ending on January 31, 2025. Board approval is required to exercise any renewal options and changes to the Agreement.

The original Agreement for FTZ 202, Site 45 with Kansas Marine was for an initial term of five years beginning February 1, 2016, with three subsequent five-year renewal options, for a term of up to 20 years. Kansas Marine provides transport, logistic, warehouse, wholesale and distribution

services for imported food and seafood products for the cruise ship industry. FTZ 202, Site 45 consists of approximately 88,500 square feet of warehouse and office space on three acres of land. Kansas Marine employs 16 full-time employees at the FTZ site and will continue to operate Site 45 as a multi-usage FTZ facility, receiving, storing, repackaging and relabeling, managing logistics and inventory, and distributing various products mainly related to the cruise ship industry.

Kansas Marine 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 the FTZ 202 region for the City of Los Angeles and the surrounding region. An FTZ is a secure, U.S. Customs and Border Protection Agency (Customs)-regulated area located in or near a U.S. port of entry where merchandise may be stored, manipulated, or manufactured prior to import or export without being subject to Customs tariffs or fees. Tariff and import fees are only charged if the merchandise is officially imported into the US for consumption. The Port's and the FTZ program's goal is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, state and national economy. The Port administers FTZ 202 as a service to its customers and the surrounding business community to promote international trade and commerce in the region and throughout the U.S. All activities are performed in accordance with Federal FTZ procedures. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The Port receives, per FTZ Tariff No. 2, an annual payment from Kansas Marine of \$7,750 totaling \$31,000 for the second four-year term. The Port states that it spends these funds on indirect or outside expenses for FTZ-related administrative services. During Fiscal Year, 2019-20, the Port states that it spent \$30,181 for FTZ-related consulting expenses and collected \$361,536 in revenue and fees from all FTZ 202 operations.

The proposed Amendment complies with City requirements and has been approved as to form and legality by the City Attorney. The Port states, and the City Attorney concurs, that upon deliberation of the second renewal option, the Port may consider a six-year extension to compensate for the inadvertently shortened first renewal term. The Port reports that the proposed action is an administrative activity and is therefore administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

The proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 15-3353 between the Harbor Department (Port) and Prospect Enterprise dba Kansas Marine Co. (Kansas Marine) has no impact on the City General Fund. Kansas Marine will be required to pay an annual fee of \$7,750 per year or \$31,000 for the four-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.

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 Port enters into FTZ Operating Agreements 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. The Federal FTZ Board grants authority under the amended FTZ Act of 1934, which is administered through Federal FTZ and Customs regulations. The federal government established the FTZ Act 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 FTZ program's goal 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 an area comprised of individual, secure access sites located in or near the port of entry for Customs, but legally considered to be outside the U.S. 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. Qualified public or private companies sponsor FTZ sites and may operate the facilities themselves or contract for the operation with public or private firms. The operations are either multi-use—such as distribution and logistics companies opening their services to the public, or single-use—run by a company importing and managing its own goods for sale. All operations must adhere to published tariff rates—in this case, the published rates applicable are the Port Tariff No. 2 rates, terms and conditions. These spaces and operations are under the supervision of the Federal FTZ Board and Customs and are required to operate within U.S. law.

The Port FTZ No. 202 is a multi-zone FTZ currently operating more than 30 sites with contracted FTZ general purpose operators and four Subzone operators. The sites include approximately 5,400 acres of facilities on Port property and at 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 and the surrounding business community to promote international trade in the U.S. These operations are monitored by the Port 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 are subject to approval by the Board and Customs concurrence. The proposed Agreement with the FTZ Operator becomes effective the first of the month following Council approval and remains 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.