0150-11008-0000

TRANSMITTAL

TO	DATE	COUNCIL FILE NO.
Eugene D. Seroka, Executive Director Harbor Department	9/8/17	
FROM The Mayor		COUNCIL DISTRICT

PROPOSED FOREIGN TRADE ZONE OPERATING AGREEMENT NO. 17-3515 WITH MOLEX LLC, FTZ NO. 202 SITE NO. 51

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

(Ana Guerrero) for

ERIC GARCETTI
Mayor

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date:	September 1, 2017	CAO File No.	0150-11008-0000
		Council File No.	
		Council District:	15

To: The Mayor

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer JH fw

Reference: Correspondence from the Harbor Department dated July 28, 2017; referred by the Mayor for report dated August 14, 2017

Subject: **PROPOSED FOREIGN TRADE ZONE OPERATING AGREEMENT NO. 17-3515 WITH MOLEX LLC., FTZ NO. 202, SITE NO. 51**

RECOMMENDATIONS

1. Approve the Harbor Department (Port) Resolution No.17-8144 authorizing a proposed Foreign Trade Zone (FTZ) Operating Agreement No. 17-3515 with Molex LLC, in FTZ No. 202, Site No. 51 in the City of Rancho Cucamonga for an initial term of five years, with three subsequent five-year renewal options, for a contract term up to a total of 20 years; 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. 17-8144 authorizing a proposed FTZ Operating Agreement (Agreement) No. 17-3515 with Molex, LLC (Molex), in FTZ No. 202, Site No. 51. Molex is located in the City of Rancho Cucamonga, approximately 60 miles from the Port of Los Angeles (POLA). The proposed Agreement with Molex is for an initial term of five years, with three subsequent five-year renewal options, contingent upon Board approval, for a total contract term of 20 years. Molex plans to activate, operate and manage its FTZ facilities and operations as a single-usage FTZ warehousing site.

The Port, as the FTZ grantee, establishes Agreements with FTZ site owners to oversee their operations. The Port states that Molex is a United States (U.S.) company with its headquarters located in Lisie, Illinois. The Molex FTZ site includes approximately 249,000 square feet of space of office and warehouse facility spaces on approximately 15.08 acres of land. Molex employs eight full-time and part-time employees. Molex will store, receive, re-label, repackage, manage inventory, and distribute various imported products for sale nationally and, sometimes, internationally. The Molex site is within the FTZ 202 service area.

The Port states that Molex has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Molex will notify truck drivers, brokers and companies that trucks serving the FTZ site and Port container terminals must confine their routes to the designated Wilmington truck routes.

The Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles and the surrounding region. All activities are performed in accordance with the Federal FTZ procedures. The Port, as the FTZ grantee, establishes General Purpose Agreements with FTZ site owners to oversee FTZ operations. Molex operates FTZ Site No. 51 under Federal FTZ Operating rules and regulations. The FTZ Agreement requires no direct use of Port funds. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The proposed Amendment 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 the Amendment is an administrative action and therefore exempt from the requirements of CEQA in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

Molex has paid the Port a one-time application fee of $5,000 and an annual fee from the beginning of its FTZ Agreement. Molex will pay the Port an annual administrative fee of $10,000 per year or $50,000 for one five-year contract term, and each subsequent five-year contract term. Molex will have three additional renewal options, subject to approval by the Board, up to a total 20-year contract term. Total revenue amount may generate up to $205,000, including the $5,000 application fee. In 2016, the Port incurred expenses of approximately $48,606 for outside consultants for all FTZ related consulting services and collected $336,688 in revenue from Port FTZ operators. The Port provides FTZ sites as a service to its customers to promote international trade and commerce in the region.

RHL:ABN:10180024

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 $7,750 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.