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RECOMMENDATION APPROVED;
RESOLUTION 18-8315 ADOPTED; AND
AGREEMENT 18-2605-B APPROVED;
BY THE BOARD OF HARBOR COMMISSIONERS

July 17, 2018



AMBER M. KLESGES
Board Secretary



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: JUNE 19, 2018

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 18 8315 - APPROVAL OF SECOND AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 13-2605 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND KW INTERNATIONAL, INC., FTZ 202, SITE 4C

SUMMARY:

Staff requests the approval of a Second Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 13-2605 (Agreement) between the City of Los Angeles Harbor Department (Harbor Department) and KW International, Inc., (KWI) to continue operating its warehouse within FTZ 202, Site 4C, located at 18655 South Bishop Ave., Carson, California. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site owners to oversee their FTZ operations.

KWI's current FTZ Operating Agreement No. 13-2605 will expire on October 31, 2018. The terms of the agreement is five-years with three, five-year renewal options. KWI as a result requests to continue operating its warehouse as a FTZ warehouse. The Harbor Department needs to execute a Second Amendment to extend the Agreement, as required by the FTZ Board.

Site 4C consists of 56,733 square feet of a warehouse and office space within 353 acres of FTZ 202 Magnet Site 4 located approximately 10 miles from the Port of Los Angeles. KWI will operate its warehouse under FTZ procedures as a multi-usage site. This proposed Second Amendment will not require funding by the Harbor Department. If the proposed amendment is approved, the Harbor Department will receive \$7,750 annually from KWI (per FTZ Tariff No. 2).

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 administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2 (f), of the Los Angeles City CEQA Guidelines;

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2. Approve the proposed Second Amendment of the Foreign-Trade Zone Operating Agreement No. 13-2605 between the City of Los Angeles Harbor Department and KWI International, Inc.;
3. Direct the Board Secretary to transmit the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 13-2605 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 Second Amendment of Foreign-Trade Zone Operating Agreement No. 13-2605; and
5. Adopt Resolution No. 18-8315.

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 territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. for consumption. The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators.

Need for Agreement – This proposed Second Amendment (Transmittal 1) will extend the term of this Agreement to October 31, 2023. KWI is a U.S. company with its headquarters located in Carson, California, employing approximately 15 full-time and part-time employees working within the FTZ activated area. KWI has continually operated its FTZ warehouses at 18655 South Bishop Ave, Carson, California, FTZ 202, and Site 4C since 2008. This facility consists of approximately 56,733 square feet of warehouse and office space within the FTZ 202 Magnet Site 4C (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Need for Approval – KWI is requesting approval from the Harbor Department to execute the proposed amendment to operate Site 4C as a multi-usage FTZ warehouse for a term of five years to continue operating this site as a FTZ warehouse. KWI receives, stores, re-labels, repackages, manages inventory, and distributes various imported products which will be distributed for U.S. consumption. Occasionally, products are re-exported from this warehouse.

If a company does not obtain approval as an operator with FTZ status from the Harbor Department, they potentially have the choice of going to another FTZ in California such as Long Beach, San Diego, Palmdale, etc., or even going out of state. Since FTZ facilities

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exist in every state, a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

KWI 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.

Upon approval of the second amendment, KWI will have a third and last five-year renewal option available. Each renewal option requires Board approval.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed Second Amendment with KWI, to operate its site within the FTZ 202 service area at Site 4C, located in Carson, California, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the CEQA in accordance with Article II Section 2 (f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed Second Amendment is approved, the Harbor Department will receive \$7,750 annually from KWI (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 Fiscal Year 2017, approximately \$36,025 was spent on outside FTZ related consulting services, while \$337,172 in revenue was collected from the Harbor Department FTZ operators.

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CITY ATTORNEY:

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

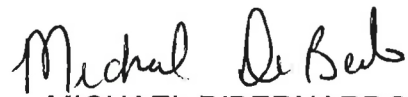
TRANSMITTALS:

1. Proposed Second Amendment to FTZ Operating Agreement for KW International, Inc., FTZ 202, Site 4C
2. FTZ 202, Site 4C Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: MB
CA Approval: gm



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

ES:MD:EC:ms
Author: Masa Morimoto