

TRANSMITTAL

0150-11150-0000

TO
Eugene D. Seroka, Executive Director
Harbor Department

DATE
JUN 11 2018

COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT
15

**PROPOSED FOREIGN TRADE ZONE SUBZONE OPERATING AGREEMENT
NO. 18-3578 WITH FOREVER 21 LOGISTICS, LLC, FTZ 202, SITE G**

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



MAYOR

Ana Guerrero

RHL:ABN:10180096t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 8, 2018

CAO File No. 0150-11150-0000

Council File No.

Council District: 15

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Correspondence from the Harbor Department dated May 18, 2018; referred by the Mayor for report dated May 29, 2018.

Subject: **PROPOSED FOREIGN TRADE ZONE SUBZONE OPERATING AGREEMENT NO. 18-3578 WITH FOREVER 21 LOGISTICS, LLC, FTZ 202, SITE G**

RECOMMENDATIONS

1. Approve the Harbor Department (Port) Resolution No. 18-8280 authorizing a proposed Foreign Trade Zone (FTZ) Operating Agreement No. 18-3578 with Forever 21 Logistics, LLC, in FTZ No. 202, Site G, in the City of Los Angeles 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. 18-8280 authorizing a proposed FTZ Subzone Operating Agreement (Agreement) No. 18-3578 with Forever 21 Logistics, LLC (Forever 21), in FTZ No. 202, Site G. Forever 21 will operate warehouse buildings approximately 20 miles north of the Port of Los Angeles (POLA) in two separate City of Los Angeles (L.A.) locations: Building 1 is located at 3880 N. Mission Road and Building 2 is located at 2011 N. Soto Street. The proposed Agreement with Forever 21 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. In February 2018, Port staff states that the Board approved a minor boundary modification to establish a FTZ Subzone Site 202-G for the sole use of Forever 21. The Port, as the FTZ grantee, establishes General Operating Agreements with FTZ site owners to activate, operate and manage their FTZ facilities and operations.

The Port states that Forever 21 is a United States (U.S.) company with its headquarters in L.A. The two Forever 21 FTZ sites include a total of approximately 1,126,000 square feet of warehouse and office spaces on approximately 32.8 acres of land. Forever 21 will employ about 1,298 full-time and part-time employees working within the FTZ activated area. Forever 21 will store, receive, manage inventory, and distribute products and services for U.S. consumption. The Forever 21 will be operating its warehouses under FTZ procedures as a Subzone-usage site within the FTZ area.

The Port states that Forever 21 has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Forever 21 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 rules and procedures as outlined in the Department of Homeland Security's FTZ manual. Forever 21 operates FTZ Site G under Federal FTZ Operating regulations. The FTZ Agreement will not require any 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 California Environmental Quality Act (CEQA) in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

Forever 21 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. Forever 21 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 \$200,000. In 2017, the Port incurred expenses of approximately \$35,750 for outside consultants for all FTZ related consulting services and collected \$337,172 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:10180096

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. In other agreements, compensation is set at \$10,000 annually or total of \$50,000 over five 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.