

0150-12373-0000

T R A N S M I T T A L

TO Eugene D. Seroka, Executive Director Harbor Department	DATE 11/03/2023	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 15	

PROPOSED FOREIGN TRADE ZONE OPERATING AGREEMENT NO. 23-9925 BETWEEN THE HARBOR DEPARTMENT AND PORT LOGISTICS GROUP, LLC, FTZ 202, SITE NO. 42

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



MAYOR

(Chris Thompson for)

MWS:PJH:BC:JVW:SF:JFH:10230186t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 27, 2023

CAO File No. 0150-12373-0000

Council File No.

Council District: 15

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



for

Reference: Correspondence from the Harbor Department dated January 26, 2022; referred by the Mayor for report on January 26, 2022

Subject: **PROPOSED FOREIGN TRADE ZONE OPERATING AGREEMENT NO. 23-9925 BETWEEN THE HARBOR DEPARTMENT AND PORT LOGISTICS GROUP LLC., FTZ 202, SITE NO. 42**

RECOMMENDATIONS

That the Mayor:

1. Approve Los Angeles Harbor Department (Port) Resolution No. 23-10125 authorizing approval of the Foreign Trade Zone Operating Agreement No. 23-9925 with Port Logistics Group, LLC., FTZ 202, Site No. 42, for a term of five years with three, five-year renewal options commencing on the first day of the month following approval by the City;
2. Adopt the January 26, 2023 Board of Harbor Commissioners finding 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; and
3. Return the Resolution documents to the Port for further processing, including Council consideration.

SUMMARY

On January 26, 2023, the Board of Harbor Commissioners (Board) adopted Resolution No. 22-10125 authorizing approval of Foreign Trade Zone Operating Agreement (FTZ) No. 23-9925 with Port Logistics Group, LLC (Port Logistics) to operate a warehouse and office at FTZ 202, Site 42 for a five-year term, including three, five-year renewal options.

The definition of a FTZ is a restricted access site located in the 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 Federal FTZ Board designated the Los Angeles Harbor Department (Department/Port) as the Grantee/Administrator of FTZ No. 202 for the City of Los Angeles and the surrounding region.

Port Logistics Group, Inc. was acquired by Ryder Systems, Inc., in January 2022 resulting in a change of the legal entity to an LLC. Port Logistics Group, Inc. had been the operator of Site 42 up until that time. As a result of the sale and name change, the Department indicates that a new FTZ Operating Agreement is required.

Approval of the proposed Agreement will result in an annual payment to the Port of \$7,750 in accordance with FTZ Tariff No. 2. Approval of the Agreement is not projected to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department.

The proposed Agreement has been approved by the City Attorney. Pursuant to Charter Section 373, Council approval is required because the cumulative contract term exceeds three years. Our Office has reviewed the request and recommends approval.

BACKGROUND

The Foreign Trade Zone (FTZ) Act of 1934, as amended (19 U.S.C. 81a-81u), was enacted 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

FTZ No. 202 is a multi-zone FTZ currently operating more than 35 general purpose sites. The sites include facilities in the Port area, near Los Angeles International Airport, nearby industrial parks and other outlying areas

Port Logistics is a U.S. company with its headquarters office located in the City of Industry, California, 50 miles north of the Port. In January 2022, Port Logistics Group, Inc. was acquired by Ryder Systems, Inc., resulting in a change in the legal entity to an LLC. Prior to the purchase, Port Logistics Group, Inc. had been the operator of FTZ 202, Site 42. The Department indicates that as a result of the ownership and name change, a new Operating Agreement is required.

General Purpose Operating Agreement No. 23-9925 authorizes Port Logistics to operate a warehouse and office space on 20.57 acres at Site 42 located at 501 S. Sheryl Lane, City of Industry, CA 91789. Site 42 is operated as a multi-usage FTZ facility where approximately 7 full-time and part-time employees work within the proposed FTZ warehouse area. The proposed Agreement allows the firm to operate at Site 42 for a five-year term commencing upon approval by the City, with three five-year renewal options.

Port Logistics will operate its facility under FTZ procedures as a multi-usage FTZ facility. Port Logistics must continue to follow all rules and procedures as outlined in the Department of Homeland Security's FTZ manual including the provision of a secured area within the FTZ site. The Department indicates that Port Logistics shall notify truck drivers, truck brokers and trucking companies that that the trucks serving the Port of Los Angeles must confine their routes to the designated Wilmington Truck Route. Attachment 2 to this report provides a more detailed overview of FTZ Operating Agreements.

FTZ Revenues - During Fiscal Year (FY) 2022, unaudited revenues of \$289,336 were collected from Harbor Department FTZ operators. However, during FY 2022, the Harbor Department incurred

only \$30,594 in expenses for FTZ consulting services. Approval of the proposed Agreement will result in an annual payment to the Port of \$7,750 in accordance with FTZ Tariff No. 2. Approval of the Agreement requires no direct use of Port funds.

In the event Port Logistics does not obtain approval from the Harbor Department as an operator with FTZ status, the firm has a choice of going with another FTZ in California such as the one operated by the Port of Long Beach. Since FTZ facilities exist in every state a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

CITY COMPLIANCE

Pursuant to Charger Section 373 and Los Angeles Administrative Code Section 10.5; Council approval is required because the cumulative contract term exceeds three years. The proposed Agreement has been approved as to form by the City Attorney.

CEQA – The proposed approval of Foreign Trade Zone Operating Agreement No. 23-9925 with Port Logistics Group, LLC. for a five-year term involves an administrative activity. The Harbor Department 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.

FISCAL IMPACT STATEMENT

Approval of the proposed FTZ Operating Agreement No. 23-9925 with Port Logistics Group, LLC. will result in the Harbor Department receiving \$7,750 annually in accordance with FTZ Tariff No. 2. Approval of the Agreement is not projected to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. The recommendations in this report comply with the Port's Financial Policies. There is no impact on the City's General Fund.

Attachment 1 – January 26, 2023 BOHC report, Resolution No. 23-10125 and Agreement (No. 23-9925) with Port Logistics Group, LLC

Attachment 2 – Overview of Foreign Trade Zone (FTZ), and Operating Agreements