

TRANSMITTAL

0150-12401-0000

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

**RESOLUTION NO. 23-10198 AND PROPOSED FOREIGN TRADE ZONE
GENERAL PURPOSE OPERATING AGREEMENT NO. 23-9965
BETWEEN THE HARBOR DEPARTMENT AND
KUEHNE AND NAGEL, INC., FTZ 202, SITE NO. 63**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.



MAYOR
(Chris Thompson for)

Attachment
MWS/PJH/JVW:SHF:amm:10240034t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 28, 2023

CAO File No. 0150-12401-0000

Council File No.

Council District: 15

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from Los Angeles Board of Harbor Commissioners (Board) dated June 22, 2023 regarding June 22, 2023 Board Resolution

Subject: **RESOLUTION NO. 23-10198 AND PROPOSED FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 23-9965 BETWEEN THE HARBOR DEPARTMENT AND KUEHNE AND NAGEL, INC., FTZ 202, SITE NO. 63**

RECOMMENDATION

That the Mayor:

1. Approve Los Angeles Harbor Department (Port) Resolution No. 23-10198 which authorizes the proposed Foreign Trade Zone (FTZ) General Purpose Operating Agreement No. 23-9965 (Agreement) between the Port and Kuehne and Nagel, Inc., FTZ 202, Site No. 63, 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 June 22, 2023 Board of Harbor Commissioners finding that the proposed action is 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; and
3. Authorize the Port Executive Director, or designee, to execute the proposed agreement, already approved as to form by the City Attorney, and return the Resolution documents to the Port for further processing, including Council consideration.

SUMMARY

The Los Angeles Board of Harbor Commissioners (Board) requests approval of its June 22, 2023 Resolution No. 23-10198 (Attachment 1) which authorizes the proposed Foreign Trade Zone (FTZ) Agreement with Kuehne and Nagel, Inc. (K&N) to operate a warehouse and office at FTZ 202, Site 63, for a five-year term, with 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 (Port) as the Grantee/Administrator of FTZ 202 for the City of Los Angeles and the surrounding region.

Approval of the proposed Agreement will result in the Port 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 Port.

The proposed Agreement has been approved as to form 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 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 202 is a multi-zone FTZ currently operating more than 28 general purpose sites. The sites include the facilities in the Port area, near Los Angeles International Airport, nearby industrial parks, and other outlying areas. Attachment 2 to this report provides a more detailed overview of FTZ Operating Agreements.

The Site – General Purpose Operating Agreement No. 23-9965 authorizes K&N to operate a warehouse and offices on 2.6 acres at Site 63. The Site is operated as a multi-usage FTZ facility where approximately five full-time and part-time employees work within the proposed FTZ warehouse area. K&N will manage the logistics, handling, storage, inventory, and quality control of general merchandise, as well as the occasional re-export of products at Site 63. The proposed Agreement allows the firm to operate at Site 63 for a five-year term commencing upon approval by the City, with three five-year renewal options. K&N is an international transport and logistics company with its regional office located in Jersey City, New Jersey.

K&N 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 Port indicates that K&N shall notify truck drivers, truck brokers, and trucking companies that the trucks serving the Port of Los Angeles must confine their routes to the designated Wilmington Truck Route which allows overweight container loads to be transported without special authorization. Attachment 2 to this report provides a more detailed overview of FTZ Operating Agreements.

FTZ Revenues – During Fiscal Year (FY) 2022, revenues of \$289,336 were collected from the Port FTZ operators. However, during FY 2022, the Port incurred only \$30,594 in expenses for FTZ

consulting services. Approval of the proposed Agreement with K&N will result in an annual payment to the Port of \$7,750, which is a fixed rate established by the FTZ Tariff No. 2. Approval of the Agreement requires no direct use of Port funds.

In the event K&N does not obtain approval from the Port to continue as an operator with FTZ status, the company 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

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

California Environmental Quality Act (CEQA) – On June 14, 2023, the Board determined that the proposed action is administratively exempt from 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. 23-9965 with Kuehne and Nagel, Inc. will result in the Harbor Department (Port) 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 - June 22, 2023 Board report, Resolution No. 23-10198 and Agreement (No. 23-9965) with Kuehne and Nagel, Inc.

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