

THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: November 2, 2010

REPORT NO: 10-145

ATTENTION: Council President and City Council

SUBJECT: San Diego Foreign-Trade Zone No. 153- Alternative Site Framework Application

REFERENCE:

REQUESTED ACTION:

Adopt and authorize the following action in order to reorganize the existing San Diego Foreign-Trade Zone No. 153 under the Alternative Site Framework:

1. Authorize the Mayor or his designee to submit an application to the U.S. Department of Commerce, Foreign-Trade Zones Board, to reorganize the San Diego Foreign-Trade Zone No. 153 from the existing traditional management structure to the Alternative Site Framework.

STAFF RECOMMENDATION: Approve actions as requested.

SUMMARY:

**BACKGROUND**

The City of San Diego, as Zone Grantee, administers Foreign-Trade Zone (FTZ) No. 153, established in San Diego, California on October 14, 1988 (pursuant to the Foreign-Trade Zones Board Order No. 394 and published in 53 Federal Register 41616). As Grantee, the city is responsible for the management of the zone and the annual reporting of zone activity to the FTZ Board. The FTZ Board, chaired by the Secretary of Commerce, administers the U.S. Foreign-Trade Zones program. U.S. Customs and Border Protection (CBP) oversee day-to-day operations. The legislative purpose of the FTZ Act, approved by Congress on June 18, 1934, is "to provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States to expedite and encourage foreign commerce ..."

The City of San Diego utilizes the FTZ as a vital and effective economic development tool to stimulate the local economy in terms of job creation and business attraction and retention efforts. Additionally, the FTZ bolsters international trade activity in the region by lowering barriers to trade, promoting re-exports and expanding U.S. exports abroad. The existing/traditional approach to FTZ site management is essentially focused on drawing users/operators to a very

limited number of FTZ General Purpose sites (as opposed to seeking to serve new needs at new locations).

Foreign-Trade Zones are restricted-access sites that are within the United States but are considered outside the U.S. Customs territory. Under the current structure of SDFTZ, companies that operate in the FTZ can defer, reduce, or eliminate Customs duties on foreign products admitted into zones for storage, exhibition, assembly, manufacture (with limitations or a special permit), and processing. Companies involved in international trade can benefit from the FTZ in several ways. Companies may: 1) utilize the program by activating its facility as a FTZ site within the General Purpose sites (EXHIBIT 1), this process generally takes thirty (30) to sixty (60) days; 2) contract with an FTZ activated third party logistic (3PL) company; 3) may request an expansion to designate and activate a site for companies not located in a General Purpose site, this process generally takes at least six (6) to twelve (12) months; or 4) apply for FTZ Subzone status from the FTZ Board if conducting manufacturing activities, this process can take up to 18 months.

San Diego's FTZ (SDFTZ) General Purpose area located in Otay Mesa has ten designated industrial parks of varying sizes totaling 1,651 acres, however, only approximately 21 acres are currently activated for FTZ use. Companies located in the FTZ General Purpose areas do not have to apply for a designation, a process that can take up to a year for approval. Since these sites are designated by the FTZ Board, companies can simply begin the process of activation by contacting the grantee. Upon concurrence by the City, as grantee, and approval by CBP, the company can start operations as an FTZ User within thirty (30) to sixty (60) days.

Companies not located within the General Purpose area may still utilize the benefits of the FTZ by contracting with an activated site operated by a 3PL company. These operators must operate the 3PL facility and offer FTZ services within the parameters established in the Grantee's Zone Schedule and on file with the FTZ Board.

Another option for companies not located within the General Purpose area is to request an expansion of the General Purpose area to designate its site for FTZ use. Upon approval of the designation, the company must request activation before it can utilize the benefits of the program. This process requires concurrence from the City, approval from CBP, approval from the FTZ Board and may take at least six (6) to twelve (12) months site to complete.

Lastly, manufacturing companies not located within one of eleven (11) designated SDFTZ General Purpose sites may apply for "Subzone" status. A Subzone is an area approved by the FTZ Board for use by a specific company. Subzones allow companies that import or export their products to take advantage of FTZ benefits without having to physically relocate within the FTZ. Subzone companies enjoy all the same benefits as FTZ companies; however, there are two differences between the General Purpose users and Subzones.

The first difference is that Subzones are generally located outside the General Purpose Zone, but are within 60 miles/90 minutes driving time from CBP Port of Entry boundaries. The second is that a business seeking to apply for Subzone status must go through a designation and activation approval process. This process requires the applicant to submit an application to the FTZ Board, include a feasibility study, and receive concurrence from the grantee and CBP. The timeframe

for this process is anywhere from twelve (12) to twenty-four (24) months in order for staff to review the application and adhere to the prescribed public noticing periods required by statute. SDFTZ has five subzones of which only three are currently activated: DNP Electronic in Chula Vista, FTZ No. 153C; Callaway Golf in Carlsbad, FTZ No. 153D; and NASSCO/General Dynamic in San Diego, FTZ No. 153E.

## DISCUSSION

### Benefits of the Foreign Trade Zone

Despite the continuing slowdown of the overall U.S. economy, the SDFTZ has experienced significant increases in inbound shipments and international trade activity. During the most recent federal fiscal year (October 1, 2008 to September 30, 2009), the SDFTZ handled 151 different items from 29 countries of origin and served 67 businesses (compared to 40 different items from 20 countries of origin and serving 36 businesses the previous year). In FY 2009 the value of the merchandise moved within the SDFTZ totaled \$747.8 million compared to \$425.8 million in FY 2008. The value of merchandise forwarded from SDFTZ facilities in FY 2009 totaled \$683.3 million compared to \$371.4 million in FY 2008.

As the economy remains slow, the zone usage increases due to the need to save on costs and improve efficiency. The FTZ allows companies to cut costs and fight the recession while still contributing to the economy. In other words, the FTZ indirectly helps companies maintain a competitive advantage and remain a player in the national and local economies. This helps prevent companies from moving assembly off-shore to markets where labor costs are less.

Companies have not only utilized the SDFTZ for warehousing, but also for several other services such as packaging, inspections, labeling, quality control testing and exhibition of transshipped goods from Asia to Mexico. In addition, companies have used the SDFTZ as a distribution hub for finished goods bound for the U.S. and/or other NAFTA territory.

### The Alternative Site Framework

In January 2009, the FTZ Board adopted and made available the Alternative Site Framework (ASF) for grantees to designate and manage General Purpose FTZ sites through reorganization. The ASF is a new option implemented by the FTZ Board to streamline the process for a company to utilize the FTZ. With the ASF, the addition of new FTZ sites can occur within thirty (30) days with the concurrence of CBP. The fundamental trade-off addressed in this proposal is greater flexibility and increased predictability to approve FTZ sites through simple and rapid “minor boundary modification” actions. In exchange, a grantee may maximize the linkage between designation of FTZ space and actual use of that space for FTZ activity upon receiving “activation” approval by CBP. Many FTZ projects have been started with the philosophy of “establish it, and they will come”. The reality is that for FTZ grantees to receive the economic development benefits they desire, the right choices in many areas must be made. The ASF provides the flexibility needed to meet the evolving changes facing international trade.

Under the current structure, non-manufacturing companies not already doing business in one of eleven (11) approved FTZ General Purpose sites in Otay Mesa can utilize the FTZ by: 1)

contracting with an FTZ activated 3PL company; 2) requesting a minor boundary modification; or 3) relocating to one of the General Purpose sites in Otay Mesa. All of these options can be costly and/or very time consuming. The ASF is far more predictable and flexible because it allows a grantee the ability to designate new sites through a relatively quick minor boundary modification and requires little paperwork. Also, sites designated under the ASF would be subject to "sunset" time limits that would automatically remove the FTZ designation if no FTZ activity occurs within five years. This is designed to reduce speculative sites while providing significantly improved access to the program for actual zone users. De-designated sites may be reactivated upon request from the property or business owner and approval by CBP.

Since 1988, SDFTZ has had approximately 1,500 acres designated for FTZ General Purpose use. Over the years this area has expanded to include three (3) additional industrial parks to its present size of 1,651 acres. Since inception, no more than 30 acres have ever been activated at any one time, leaving an excess of 1,600 acres available for FTZ activation. Currently there are three (3) General Purpose users of which two (2) are 3PL's. In FY 2009, sixty-three (63) companies utilized the benefits of the FTZ. With over 3,000 San Diego companies involved in international trade, according to the San Diego World Trade Center, the FTZ is underutilized as an economic development tool in the region. The ASF provides more flexibility for companies to utilize the FTZ benefits that under the existing FTZ structure they do not have access to because it is too costly and time consuming to get facilities FTZ designated through a boundary modification or expansion.

Under the ASF, the grantee identifies the "Service Area", i.e., county, for proposed future FTZ sites. Although there is not a limitation on the size of the Service Area, the ASF has an activation limit of 2,000 acres for any FTZ grantee. The 2,000 activation limit applies for all FTZ site users cumulatively. However, should an FTZ Grantee require additional acreage, an expansion to exceed the 2,000 acres could be requested to the FTZ Board. The Service Area must also comply with the "adjacency" requirement of the FTZ Board regulations, within 60 miles/90 minutes driving time from CBP Port of Entry boundary. Within the Service Area the designation/activation process for subzone users remains unchanged; however, there are two types of users identified by the type of FTZ site.

The first are "Magnet" sites, intended to attract multiple potential FTZ operators/users. Generally, a Magnet site is an industrial park with a preset activation limit. For example, a 200-acre industrial park could have 50-acre activation limit so that no more than 50-acres could be activated simultaneously. The second are "Usage-Driven" sites. Usage-Driven sites are designated to meet a specific operator/user's present need for FTZ designation. A Usage-Driven site is tied to the specific operator/user for which it was designated and could not be used by any other entity. However, a site vacated by one operator/user could easily be designated as a Usage-Driven site for another operator/user through a simple minor boundary modification action.

The ASF will allow for significant increased targeting of FTZ site designations to known proposed users. In addition, for small and medium-sized businesses, there will be a reduction of burden (in time and paperwork) resulting in an increased responsiveness to the program. In an increasingly challenging economic environment, FTZ procedures can represent a critical additional increment of cost savings for U.S. facilities struggling to compete with facilities abroad. Lastly, the ASF program will allow the City of San Diego, as grantee, to devote more

time to marketing the program benefits, educating potential users, and then quickly and simply bringing FTZ designation to the facilities of companies that are ready to pursue the use of FTZ procedures.

The City was considering filing an application to change the existing FTZ site-management to the new ASF when it received a request from Abbott Vascular (Abbott) in Temecula, CA, Riverside County. Abbott's request was for San Diego to consider the Temecula/Murrieta area in its ASF Service Area for FTZ No. 153. Riverside County does have an FTZ (FTZ No. 244), however, Abbott's facilities are not within Riverside's FTZ Service Area. A request by Riverside County to the Los Angeles CBP Port of Entry to expand its Service Area was denied due to the fact that it did not comply with the FTZ Board's adjacency requirement. The City has met with officials from the Otay Mesa CBP Port of Entry to discuss the ASF option and determine CBP's position on adding the Riverside County sites which does meet the adjacency requirement for the SDFTZ. The Otay Mesa Port Director has issued a concurrence letter supporting both proposals (EXHIBIT 2) and the County of Riverside Board of Supervisors took formal action to support the inclusion of Riverside County in the SDFTZ Service Area (EXHIBIT 3).

The City is also required to seek the support from the County of San Diego to reorganize in accordance with FTZ Board regulations. Staff discussed with County staff the FTZ program and delivered information regarding the ASF and its benefits to the Service Area (which encompasses the entire county). The County is supportive of the application and has issued a concurrence letter (EXHIBIT 4).

A preliminary draft ASF application was sent to the FTZ Board for feedback and comments which included Riverside County with the SDFTZ Service Area. The FTZ Board has reviewed the preliminary draft and indicated a favorable response.

#### CONCLUSION:

The ASF is a new option implemented by the FTZ Board to streamline the process for a company to be added to an FTZ. The ASF will allow the addition of new FTZ sites for companies within a reasonable timeframe with the concurrence of U.S. Customs and Border Protection. Reorganizing FTZ No.153 to the ASF will further enhance the City's agenda for economic development to help San Diego weather the national economic downturn. Identifying businesses that can take advantage of the FTZ (a federal incentive program) and quickly activating their sites, will give the business community the opportunity to grow and create new jobs.

Because San Diego's economy is regional in nature and San Diego's FTZ No. 153 covers the entire county, the City, as grantee, will continue to expand the collaborative relations with other local cities and the county. The City recognizes that business incentives increase the region's ability to compete with other regions, create new jobs and increase investment in our county. The SDFTZ program offers critical incentives for cost savings for local companies to be competitive with foreign companies. This, in turn, helps the region assist existing employers, attract new ones and address employment needs of the region.

The Mayor has determined, in accordance with the FTZ Act, that it is advantageous to the City's economic development strategy to reorganize FTZ No. 153 under the ASF regulations as announced by the Board in 74 Federal Register 1170 on January 12, 2009. Therefore, Economic Growth Services is seeking City Council authorization to file an ASF Application with the FTZ Board with the Service Area (EXHIBIT 5).

FISCAL CONSIDERATIONS:

There will be ongoing staff time required to administer the SDFTZ. Funding for the administration of the program is generated by an FTZ Operator fee of \$10,000 per fiscal year. There are currently five operators with a new operator currently in the application process for activation. The ASF will attract additional operators. The FTZ program is anticipated to be fully cost reimbursable via revenue generated by the aforementioned sources.

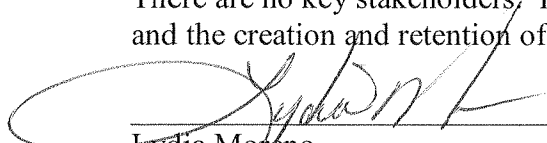
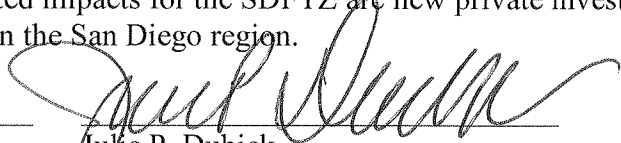
PREVIOUS COUNCIL and/or COMMITTEE ACTION:

This item was presented to Rules Committee on October 20<sup>th</sup>, 2010.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

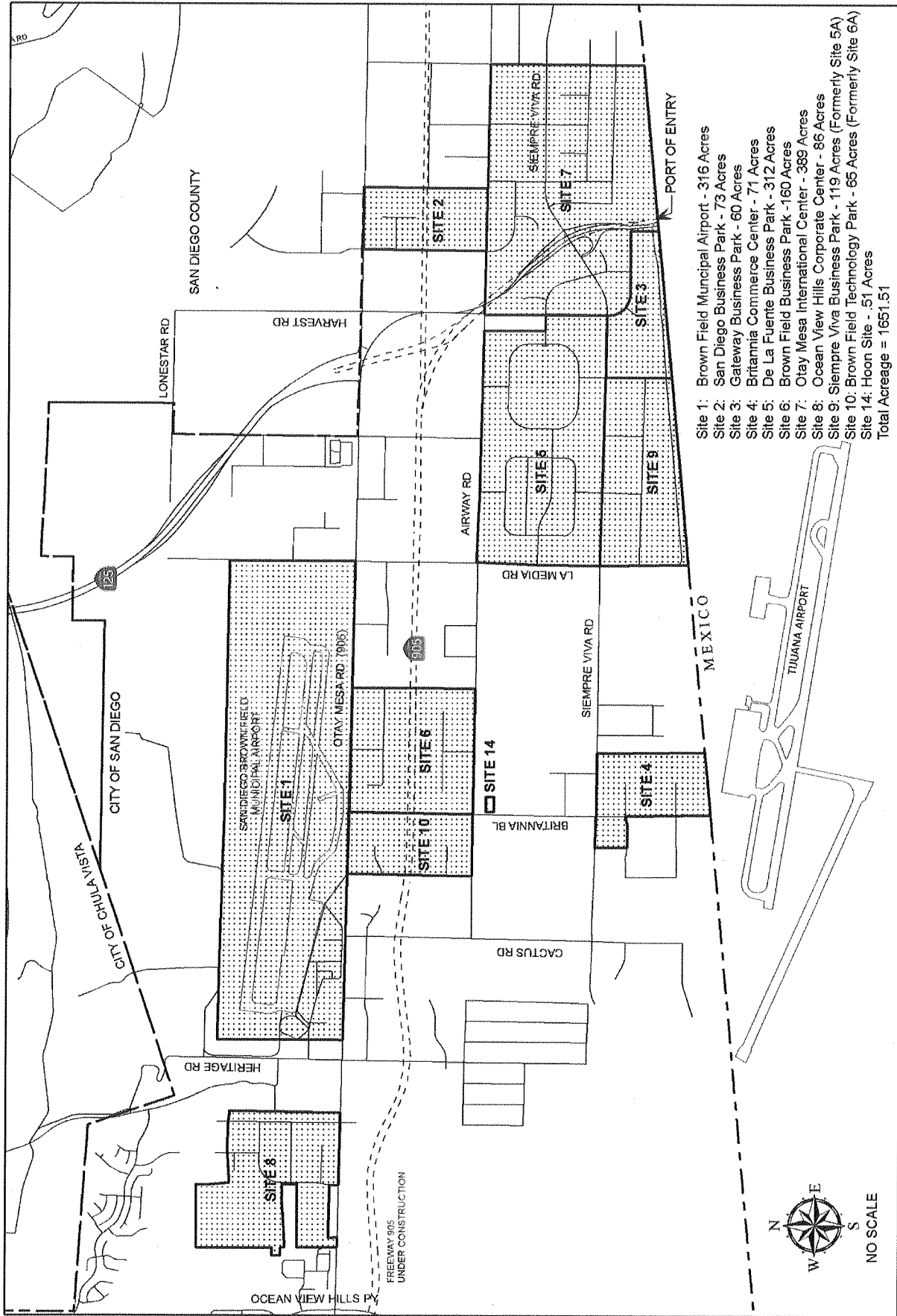
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

There are no key stakeholders. Projected impacts for the SDFTZ are new private investments and the creation and retention of jobs in the San Diego region.

  
Lydia Moreno  
Originating Department  
Julie P. Dubick  
Deputy Chief/Chief Operating Officer

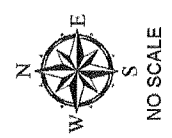
ATTACHMENTS:

- EXHIBIT "1"            FTZ No. 153 General Purpose Sites
- EXHIBIT "2"            CBP Letter of Support for ASF
- EXHIBIT "3"            County of Riverside Letter of Support (3 pages)
- EXHIBIT "4"            County of San Diego Letter of Support
- EXHIBIT "5"            FTZ No. 153 – ASF Service Area



Map prepared by: City of San Diego Planning Department  
 2010/08 - 8:45 AM  
**SACIS**  
 THE SAN DIEGO COUNTY INFORMATION SYSTEMS CENTER  
 10500 LA JOLLA VILLAGE CENTER DRIVE, SUITE 100  
 SAN DIEGO, CALIFORNIA 92128  
 TEL: 619-495-5000 FAX: 619-495-5001  
 WWW.SAN-DIEGO.CA.GOV

**Foreign Trade Zone**  
 City Planning & Community Investment





**U.S. Customs and  
Border Protection**

9777 Via De La Amistad  
San Diego, CA 92154

FILE:ADM-2-OTMC:SF

DATE: SEP 1 2010

Mr. Andrew McGilvray  
Executive Secretary  
Foreign-Trade Zones Board  
U.S. Department of Commerce  
1401 Constitution Avenue, NW  
Room 2111  
Washington, D.C. 20230

Re: Foreign-Trade Zone No. 153  
San Diego Alternative Site Framework Application  
Abbott Cardiovascular Systems Inc.  
Temecula and Murrieta, California

Dear Mr. McGilvray:

We have been consulted regarding the Alternative Site Framework Application for Foreign-Trade Zone No. 153. This includes three usage-driven sites for the use of Abbott Cardiovascular Systems Inc. for the facilities located at: Site 11-26531 Ynez Road in Temecula, California; Site 12-42301 Zevo Drive in Temecula, California; and Site 13-30590 Cochise Circle in Murrieta, California. We understand Abbott is also requesting manufacturing authority for these sites. Customs and Border Protection has no issues with oversight of the proposed sites, Abbott Request for Manufacturing Authority, or Alternative Site Framework Application

Sincerely,

A handwritten signature in black ink, appearing to read "Rosa E. Hernandez", written over a horizontal line.

Rosa E. Hernandez  
Port Director  
Otay Mesa, Cargo





COUNTY OF RIVERSIDE

## Board of Supervisors

District 1 <i>Vice-Chairman</i>	Bob Buster 951-955-1010
District 2	John F. Tavaglione 951-955-1020
District 3	Jeff Stone 951-955-1030
District 4	John J. Benoit 951-955-1040
District 5 <i>Chairman</i>	Marion Ashley 951-955-1050

September 1, 2010

The Honorable Jerry Sanders  
Mayor of the City of San Diego  
202 C Street, 11<sup>th</sup> Floor  
San Diego, CA. 92101

Re: Support for Foreign Trade Zone 153 expansion into the County of Riverside

Dear Mayor Sanders:

The Riverside County Board of Supervisors, during its regular session on Tuesday, August, 31, 2010, voted unanimously to support the proposed expansion of Foreign Trade Zone 153 into the southwest portions of our county.

Further, the Chairman of the Board of Supervisors has directed me to convey the support of the board and attach the legislative document to this correspondence that officially authorizes county support for your efforts with the Foreign Trade Zone Board, United States Department of Commerce. Additionally, the direction from the Board of Supervisors and a condition of our support requires me to respectfully request ex officio membership status on the governing body of Foreign Trade Zone Board 153 in the spirit of cooperation.

Thank you in advance for your thoughtful consideration of our request and we look forward to working with you to foster economic development and recovery in our region. If I may be of further assistance please contact me at [tomfreeman@rivcoeda.org](mailto:tomfreeman@rivcoeda.org) or via telephone at 951.955.1308.

FOR THE CHAIRMAN OF THE BOARD OF SUPERVISORS:



Thomas L. Freeman, Commissioner  
Office of Foreign Trade-EDA  
County of Riverside, California

cc: Chairman of the Board  
County Executive Officers  
Assistant County Executive Officers

SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA




FROM: Supervisor Bob Buster & Supervisor Jeff Stone    SUBMITTAL DATE: August 31, 2010


SUBJECT: Expansion of Foreign Trade Zone Number 153 to include significant portions of Southwest Riverside County for the purpose of business retention, attraction, and assistance to manufactures

RECOMMENDED MOTION: That the Board of Supervisors:

1. Direct the Assistant County Executive Officer/EDA and the County Foreign Trade Commissioner to use any and all county resources necessary to secure inclusion of significant portions of Southwest Riverside County within Foreign Trade Zone Number 153
2. Direct the Assistant County Executive Officer/EDA and the County Foreign Trade Commissioner to convey to the United States Department of Commerce the support of the County of Riverside to be included in Foreign trade Zone 153 in partnership with the City of San Diego, California
3. Convey to the United States Department of Commerce and the City of San Diego that support for the expansion of Foreign Trade Zone 153 into this county is predicated on benefits of said zone being extended to, on a uniformed basis, to companies in this county, in a manner consistent with the legal requirements that each Foreign Trade Zone is operated as a public utility

(continued on 2<sup>nd</sup> page)


  
 \_\_\_\_\_  
 Bob Buster  
 Supervisor, 1<sup>st</sup> District

  
 \_\_\_\_\_  
 Jeff Stone  
 Supervisor, 3<sup>rd</sup> District

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Buster      seconded by Supervisor Stone and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes:        Buster, Tavaglione, Stone, Benoit and Ashley  
 Nays:        None  
 Absent:     None  
 Date:        August 31, 2010  
 xc:          Supvr. Stone, Supvr. Buster, EJA

Kecia Harper-Ihem  
 Clerk of the Board  
 By:   
 Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

**RECOMMENDED MOTION continued: Expansion of Foreign trade Zone Number 153**

4. Direct the Assistant County Executive Officer/EDA and the County Foreign Trade Commissioner to support said expansion and request ex officio membership for the County of Riverside on the Grantee Board administering Foreign Trade Zone 153 as a means of developing and maintaining a professional relationship with the leadership and staff of Foreign Trade Zone 153.
5. As a professional courtesy, direct the Assistant County Executive Officer/EDA and the County Foreign Trade Commissioner to inform the Cities of Temecula, Wildomar, Lake Elsinore, and Murrieta, along with the March JPA of the action taken by the board in support of expansion of Foreign Trade Zone 153.

**BACKGROUND:** Western Riverside County is currently served by Foreign Trade Zone 244 operated by the Joint Powers Authority of which the County of Riverside is a member. After a year-long effort lead by the County of Riverside, with the support of the March Joint Powers Authority, Riverside Greater Chambers of Commerce, The Monday Morning Group, and The Southern California Foreign Trade Association of the United States Departments of Commerce and Homeland Security agreed to support the Board of Supervisors' request to expand the zone to extend benefits and service to more businesses located in the zone.

Unfortunately the requested expansion did not include significant portions of Southwest County. By supporting the effort of the City of San Diego, the grantee of Foreign Trade Zone 153 into the Southwest County, businesses located inside the expanded zone will enjoy the same benefits of companies located in Foreign Trade Zone 244. The expanded zone will begin where Interstate 15 south intersects the southern border of the County of Riverside: then westward along the Riverside and San Diego County border until this border meets the Orange County line: then north along the Riverside and Orange County line until it intersects State Route 74: then northeasterly along SR 74 until the highway intersects Grand Avenue in the City of Lake Elsinore: then southeasterly on Grand Avenue through the City of Wildomar until Grand Avenue intersects Clinton Keith Road: then south on Interstate 215 until it intersects Los Alamos Road; then south on I-215 until it intersects Los Alamos Road: then east on Los Alamos Road through the City of Murrieta until this road changes to Thompson Road in the town of Winchester; continuing east on Thompson Road and then south on Maddalena: then east on Shrimp Lane and south on Washington Street and continuing south as this street name changes to Borel Road; then continuing east on Borel Road: then south on Warren Road; then southwesterly on Rancho Road to where it meets I-15, then south on I-15 until it intersects the Riverside County line.



# County of San Diego

CHANDRA L. WALLAR  
DEPUTY CHIEF ADMINISTRATIVE OFFICER

LAND USE AND ENVIRONMENT GROUP

1600 PACIFIC HIGHWAY, ROOM 212, SAN DIEGO, CALIFORNIA 92101-2422  
(619) 531-6256 • FAX (619) 531-5476

July 21, 2010

Ms. Lydia Moreno  
Business Incentives Program Manager  
City of San Diego  
Office of the Mayor, Economic Growth Services  
202 C Street, MS 4A  
San Diego, CA 92101

Dear Ms. Moreno,

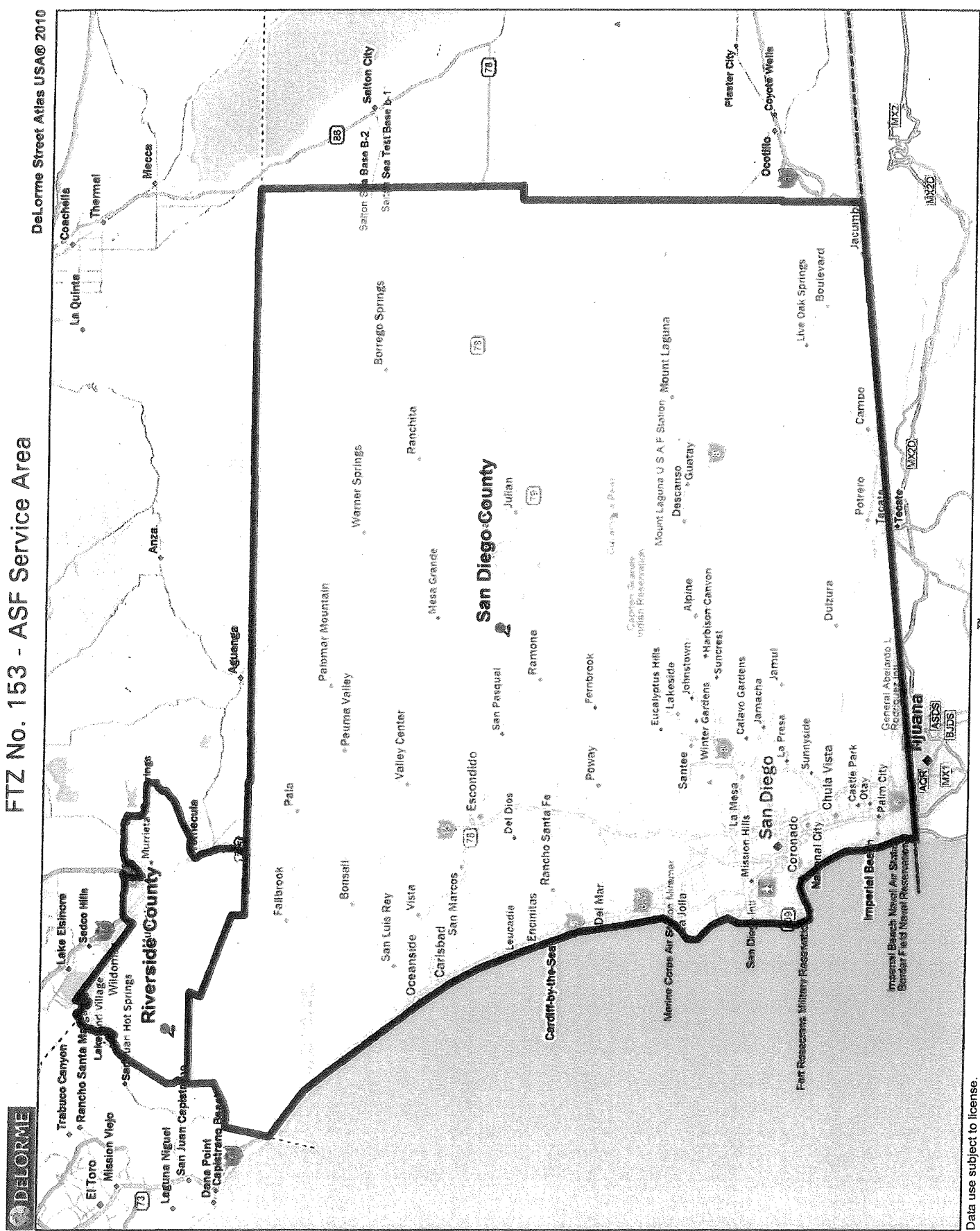
The purpose of this letter is to document the support of this County for inclusion within the Service Area of Foreign-Trade Zone (FTZ) No. 153. We understand that this means that the Grantee, the City of San Diego, will be able to apply to the Foreign-Trade Zone's Board for authority to service sites located within this county based on businesses' trade-related needs.

We also note that the zone will be made available on a uniform basis to companies within this county, in a manner consistent with the legal requirement that each FTZ be operated as a public utility.

Sincerely,

A handwritten signature in cursive script that reads "Chandra Wallar".

CHANDRA L. WALLAR  
Deputy Chief Administrative Officer



FTZ No. 153 - ASF Service Area

DeLorme Street Atlas USA® 2010

Scale 1 : 750,000

1" = 11.84 mi Data Zoom 8-1

Data use subject to license.

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