

RECOMMENDATION APPROVED;  
RESOLUTION NO. 17-8135 ADOPTED; AND  
AGREEMENT NO. 17-2633-B APPROVED  
BY THE BOARD OF HARBOR COMMISSIONERS



Executive Director's  
Report to the

Board of Harbor Commissioners

July 20, 2017

*Amber M. Klesges*

AMBER M. KLESGES  
Board Secretary

DATE: JULY 6, 2017

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 17-8135 - APPROVAL OF SECOND AMENDMENT FOR FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 2633 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND SCHAFER BROTHERS DISTRIBUTION CENTER, INC. FTZ 202, SITE 12

**SUMMARY:**

Staff requests the approval of a Second Amendment (Second Amendment) of Foreign-Trade Zone (FTZ) Operating Agreement No. 2633 between the City of Los Angeles Harbor Department (Harbor Department) and Schafer Brothers Distribution Center, Inc. (Schafer) to continue operating its warehouse within FTZ 202, Site 12, located at 1981 E. 213<sup>th</sup> Street, Carson, CA 90749. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site owners to oversee their FTZ operations.

FTZ Operating Agreement No. 2633 (Agreement) between the Harbor Department and Schafer has an original term of a five year agreement with three, five year renewal options. The first extension commenced October 1, 2012, and is set to expire on September 30, 2017. Schafer wishes to continue operating its warehouse under the FTZ program and is requesting the Harbor Department to extend the Agreement, as required by the FTZ Board.

Site 12 facilities consist of one warehouse totaling approximately 191,000 square feet and office space on 7.76 acres located approximately nine miles from the Port of Los Angeles. Schafer will be operating its warehouse under FTZ procedures as a multi-usage site. This proposed Second Amendment will not require funding by the Harbor Department.

Upon approval, the Agreement will extend the term for five years through September 30, 2022.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

**SUBJECT: SECOND AMENDMENT OF FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER, INC. FTZ 202, SITE 12**

1. Find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 1 (14), of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Second Amendment of the Foreign-Trade Zone Operating Agreement No. 2633 between the City of Los Angeles Harbor Department and Schafer Brothers Distribution Center Inc.;
3. Direct the Board Secretary to transmit the proposed Second Amendment of Foreign-Trade Zone Operating Agreement No. 2633 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. 2633; and
5. Adopt Resolution No. 17-8135.

**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 (CBP) territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. for consumption.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators. This proposed Second Amendment will extend the term of Agreement through September 30, 2022 (Transmittal 1). Schafer is a U.S. company with its head office located in Carson California, employing approximately 29 full-time and part-time employees working within the FTZ activated area. Schafer has continually operated its FTZ warehouse at 1981 E. 213th Street, Carson, CA FTZ 202, Site 12 since 2002. This facility consists of approximately 191,000 square feet of warehouse and office space on 7.76 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

**SUBJECT: SECOND AMENDMENT OF FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER, INC. FTZ 202, SITE 12**

Schafer 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. Schafer agrees to keep its warehouse open to support the PierPass Program and shall notify truck drivers, truck brokers, and trucking companies that the trucks serving the container terminals must confine their routes to the designated Wilmington Truck Route.

Need for Approval – Schafer is requesting approval from the Harbor Department to execute the proposed Second Amendment to operate Site 12 as a multi-usage FTZ warehouse for a term of 5 years to continue operating this site as a FTZ warehouse. Schafer 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 exist in every state, a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements –This proposed Second Agreement will not require funding by the Harbor Department. Schafer will pay an annual fee of \$7,750 to the Harbor Department for the term of the proposed Second Amendment.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a proposed Second Amendment with Schafer, to operate its site within the FTZ 202 service area at Site 12, located in Carson, which an activity is involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. Therefore, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1 (14) of the Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

If the proposed Second Agreement is approved, the Harbor Department will receive \$7,750 from Schafer annually (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 calendar year 2016, approximately \$48,606.25 was spent on outside FTZ related consulting services, while \$336,688 in revenue was collected from the Harbor Department FTZ operators.

DATE: JULY 6, 2017

PAGE 4 OF 4

SUBJECT: SECOND AMENDMENT OF FOREIGN-TRADE ZONE GENERAL  
PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS  
DISTRIBUTION CENTER, INC. FTZ 202, SITE 12

**CITY ATTORNEY:**

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

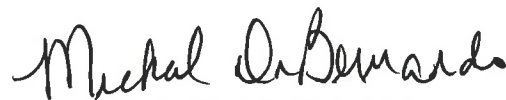
**TRANSMITTALS:**

1. Proposed Second Amendment of FTZ Operating Agreement for Schafer FTZ 202, Site 12
2. FTZ 202, Site 12 Map
3. FTZ 202, Service Area Map

FIS Approval:  (initials)  
CA Approval:  (initials)



ERIC CARIS  
Director of Cargo Marketing



MICHAEL DiBERNARDO  
Deputy Executive Director

APPROVED:

  
FOR

EUGENE D. SEROKA  
Executive Director