

17-2633-B

0150-10998-0000

**TRANSMITTAL**

<b>TO</b> Eugene D. Seroka, Executive Director Harbor Department	<b>DATE</b>  9/8/17	<b>COUNCIL FILE NO.</b>
<b>FROM</b> The Mayor		<b>COUNCIL DISTRICT</b> 15

**PROPOSED SECOND AMENDMENT TO FOREIGN TRADE ZONE (FTZ)  
OPERATING AGREEMENT NO. 17-2633 WITH SCHAFER BROTHERS DISTRIBUTION  
CENTER, INC. FTZ NO. 202, SITE NO. 12**

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



(Ana Guerrero)

MAYOR

RHL:ABN:10180018t

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: September 5, 2017

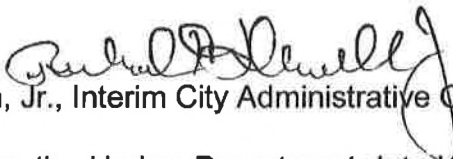
CAO File No. 0150-08244-0005

Council File No.

Council District: 15

To: The Mayor

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



Reference: Correspondence from the Harbor Department dated July 28, 2017; referred by the Mayor for report dated August 11, 2017

Subject: PROPOSED SECOND AMENDMENT TO FOREIGN TRADE ZONE (FTZ) OPERATING AGREEMENT NO. 17-2633 WITH SCHAFER BROTHERS DISTRIBUTION CENTER, INC. FTZ NO. 202, SITE NO. 12

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### RECOMMENDATIONS

1. Approve the Harbor Department (Port) Resolution No. 17-8135 authorizing the proposed Second Amendment to Foreign Trade Zone (FTZ) Operating Agreement No. 17-2633 with Schafer Brothers Distribution Center Inc., to continue operating in FTZ No. 202, Site No. 12, located in the City of Carson for an additional five-year term, to September 2022; 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. 17-8135 authorizing a proposed Second Amendment (Amendment) to FTZ Operating Agreement (Agreement) No. 17-2633 with Schafer Brothers Distribution Center Inc. (Schafer) to continue operating in FTZ No. 202, Site No. 12. Schafer is located in the City of Carson, approximately nine miles from the Port of Los Angeles (POLA). The proposed Amendment will extend the contract term for an additional five years, from October 2017 to September 2022. All other terms and conditions of the Agreement will remain in effect, with the exception of the incorporation of updated City's contractual provisions. Board and Council approval are required to exercise any renewal options and changes to the contract.

The original Agreement with Schafer was for an initial term of five years, with three subsequent five-year renewal options, for a contract term up to 20 years, contingent upon Board approval. The First Amendment extended the contract term by an additional five years to September 2017. The Schafer site includes approximately 191,000 square feet of office and warehousing facility space on approximately 7.76 acres of land. Schafer employs 29 full-time and part-time employees. Schafer will be operating its warehouse facilities as a multi-usage site, which provides FTZ services to the general public.

The Port states that Schafer is a United States (U.S.) based company with corporate headquarters located in Carson. Schafer will continue to store, receive, re-label, repackage, manage inventory, and distribute various imported products for sale nationally and, sometimes, internationally. Schafer has general warehousing, distribution and office facilities for domestic and imported consumer and office products, machineries and other merchandise for sale to various markets.

The Port states that Schafer has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Schafer 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 procedures. The Port, as the FTZ grantee, establishes General Purpose Agreements with FTZ site owners to oversee FTZ operations. Schafer operates FTZ Site No. 12 under Federal FTZ Operating rules and regulations. The FTZ Agreement requires no 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 CEQA in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

## **FISCAL IMPACT STATEMENT**

Schafer has paid the Port a one-time application fee of \$5,000 and an annual fee from the beginning of its FTZ Agreement. Schafer will continue to pay to the Port an annual fee of \$7,750 per year or \$38,750 in each of the remaining five-year contract terms. Schafer will have two additional renewal options, subject to approval by the Board, up to the total 20-year contract term. Total revenue amount is \$160,000, including the \$5,000 application fee. However, the Port has incurred expenses of approximately \$48,606 for outside FTZ related consulting services and \$336,688 in revenue has been collected from the 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:10180018*

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. 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.