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Antonio R. Villaraigosa

Mayor, City of Los Angeles

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Sung Won Sohn, Ph.D.

Geraldine Knatz, Ph.D.

Executive Director

August 21, 2012

Honorable Members of the
City Council of the
City of Los Angeles

CD No. 15

Attention: Mr. Michael Espinosa, City Clerk's Office

SUBJECT: RESOLUTION NO. 12-7357 – FIRST AMENDMENT TO FOREIGN-TRADE ZONE
GENERAL PURPOSE OPERATING AGREEMENT NO. 2633 BETWEEN THE CITY OF
LOS ANGELES HARBOR DEPARTMENT AND SCHAFFER BROTHERS DISTRIBUTION
CENTER, INC. FTZ 202, SITE 12

Pursuant to Section 373 of the City Charter, enclosed for your approval is a First Amendment to Agreement No. 2633 between the City of Los Angeles Harbor Department and Schaffer Brothers Distribution Center, Inc. The First Amendment, assigned Harbor Department Agreement No. 12-2633-A, was approved at the July 19, 2012 meeting of the Board of Harbor Commissioners.

RECOMMENDATION:

1. The City Council approve the proposed First Amendment to Agreement No. 2633 between the City of Los Angeles Harbor Department and Schaffer Brothers Distribution Center, Inc.;
2. Adopt the determination by the Los Angeles Harbor Department that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III, Section 1(14) of the Los Angeles City CEQA Guidelines ; and
3. Return to the Board of Harbor Commissioners for further processing.

Respectfully Submitted,

KORLA G. TONDREAULT
Commission Secretary

cc: Trade, Commerce, & Tourism Committee
Councilman Rosendahl, encs.
Councilman LaBonge, encs.
Councilman Buscaino, encs.
Christine Yee Hollis, CLA, encs.

Alvin Newman, CAO, encs.
Lisa Schechter, CD4, encs.
Aaron Gross, Government Affairs, encs.
Robert Henry, encs.
Mandy Morales, Mayor's Office, encs.

RECOMMENDATION APPROVED;
RESOLUTION NO. 12-7357 ADOPTED; AND
AGREEMENT NO. 12-2633-A APPROVE
BY THE BOARD OF HARBOR COMMISSIONERS



Executive Director's

Report to the
Board of Harbor Commissioners

July 19, 2012

Korla S. Tondreau
SECRETARY

DATE: JULY 10, 2012

FROM: BUSINESS & TRADE DEVELOPMENT

SUBJECT: RESOLUTION NO. 12-7357 APPROVAL OF FIRST
AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE
OPERATING AGREEMENT NO. 2633 BETWEEN THE CITY OF LOS
ANGELES HARBOR DEPARTMENT AND SCHAFFER BROTHERS
DISTRIBUTION CENTER, INC. FTZ 202, SITE 12

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department), as the Foreign-Trade Zone (FTZ) grantee, establishes General Purpose Operating Agreements with FTZ operators to oversee their FTZ operations. The Harbor Department received a request from Schaffer Brothers Distribution Center, Inc. (Schaffer), located in Carson, California, to exercise their first renewal option to extend their FTZ Operating Agreement No. 2633 (Agreement No. 2633) at FTZ 202, Site 12. The original term of the agreement is five years with three, five-year renewal options. The original agreement commenced October 1, 2007 and is set to expire on September 30, 2012.

Any change made to an original operating agreement between the Harbor Department and operator requires an amendment to the agreement. Upon approval, the First Amendment (Amendment) will extend Agreement No. 2633 for five years through to September 30, 2017. Also, as part of the changes, all updated City of Los Angeles contractual provisions will be incorporated into Agreement No. 2633. All remaining terms and conditions of Agreement No. 2633 shall remain in full force and effect. There is no cost to the Harbor Department if approved.

RECOMMENDATION:

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

1. Approve the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 2633 between the City of Los Angeles Harbor Department and Schaffer Brothers Distribution Center Inc.;

DATE: JULY 10, 2012

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SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

2. Direct the Board Secretary to transmit the proposed First Amendment 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;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the proposed First Extension to Foreign Trade Zone Operating Agreement No. 2633; and
4. Adopt Resolution No. 12-7357

DISCUSSION:

Background – The Foreign-Trade Zone 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 a FTZ is a restricted access site located in the U.S. Customs and Border Protection territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. market 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. Schafer has continually operated a FTZ warehouse at FTZ 202, Site 12 (Transmittal 1) since 2002. Site 12 facilities consist of approximately 191,000 square feet of warehouse and office space on 7.76 acres. Schafer will continue to operate their warehouses under FTZ procedures. Schafer agrees to keep its warehouses 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 of proposed Amendment (Transmittal 2) from the Harbor Department to extend Agreement No. 2633 for another term of five years, to continue to operate this site as a FTZ warehouse and distribution center for consumer products, office products, machineries, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Schafer currently employs approximately 25 full-time employees and 22 part-time employees.

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SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the First Amendment to Agreement No. 2633 between the Harbor Department and Schafer. The proposed First Amendment would extend the existing Operating Agreement with no changes to operations. As an activity involving the amendment of an agreement to use an existing facility involving negligible or no expansion of use, 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, Section 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Amendment with Schafer to extend Agreement No. 2633 will have no direct employment impact for the five-county region.

FINANCIAL IMPACT:

The Harbor Department to date has received \$25,000 in operator fees from Schafer for the original five-year term. If the proposed Amendment is approved for the first extension, the Harbor Department will receive \$5,000 annually (per FTZ Tariff No. 1) in fees for the term from October 1, 2012 to September 30, 2017. Total fees collected for the agreement through the end of this first five-year extension will be \$50,000. 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 2011, approximately \$80,000 was spent on outside FTZ related consulting services while \$149,000 in revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Amendment with Schafer creates an entity that confers among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. As the Harbor Department is a designated grantee of FTZs under the State of California enabling legislation, granting FTZ status to Schafer allows more efficient operations and allows Schafer to remain competitive.

If not approved, the Harbor Department will forgo \$5,000 a year in fees. If Schafer does not obtain approval 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, Schafer can potentially shift its employees to work elsewhere.

DATE: JULY 10, 2012

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SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

CITY ATTORNEY:

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

TRANSMITTALS:

1. Schaffer Brothers Distribution Center, Inc., FTZ 202, Site 12 map
2. Proposed First Amendment to FTZ Operating Agreement No. 2633 with Schaffer Brothers Distribution Center, Inc., FTZ 202, Site 12



KRAIG JONDLE
Director of Business & Trade Development

FIS Approval: WP (initials)

CA Approval: JK (initials)



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto

FIRST AMENDMENT TO AGREEMENT NO. 2633
BETWEEN THE CITY OF LOS ANGELES AND
SCHAFFER BROTHERS DISTRIBUTION CENTER, INC.

THIS FIRST AMENDMENT to Agreement No. 2633 is made between the CITY OF LOS ANGELES, a municipal corporation (hereinafter called "City"), acting by and through its Board of Harbor Commissioners (hereafter called "Board"), and SCHAFFER BROTHERS DISTRIBUTION CENTER, INC. (hereafter called "Operator").

WHEREAS, City and Operator wish to extend the Term of Agreement No. 2633 an additional five (5) years; and

WHEREAS, City and Operator also agree to add the PierPASS and Wilmington Truck Route language to this Agreement.

NOW, THEREFORE, BE IT RESOLVED, that Agreement No. 2633 between the City of Los Angeles and SCHAFFER BROTHERS DISTRIBUTION CENTER, INC., be hereby amended as follows:

1. ARTICLE II. AUTHORITY GRANTED/ACCEPTED, TERM AND AGREEMENT, Section 2.03 Term of Agreement, subsection A. Term and Renewal, the initial term of this Agreement shall be extended an additional five (5) years beginning on October 1, 2012 and ending on September 30, 2017.
2. ARTICLE VI. ADMINISTRATION AND OPERATION OF ZONE shall include the following sections and language:

"6.03 PierPASS

Operator acknowledges that truck traffic congestion is a serious problem on roads and freeways leading into and out of the Port of Los Angeles. Therefore, the Operator shall, whenever it is reasonably feasible in light of its overall operations, utilize the PierPASS Program or other programs to reduce daytime truck operations. Operator shall use its best efforts to encourage its zone users to consider using the PierPASS and/or other programs to reduce daytime operations. Further, the Operator shall make available to its zone users PierPASS informational material provided to it by the City. Operator shall provide to City, at least annually, a report concerning its nighttime operations and PierPASS utilization.

6.04 Wilmington Truck Route

It is recognized by both parties that the Operator does not directly control the trucks serving the Port. However, the Operator shall notify truck drivers, truck brokers and trucking companies that trucks serving FTZ warehouses and originating in the Port of Los Angeles must confine their route to the designated Wilmington

Truck Route of Alameda Street and "B" Street; Figueroa Street from "B" Street to "C" Street; and Anaheim Street east of Alameda Street. A copy of the Wilmington Truck Route is attached as Exhibit C, which may be modified from time to time at the sole discretion of the Executive Director with written notice to Operator.

Except as amended herein, all remaining terms and conditions of Agreement No. 2633 shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Agreement No. 2633 on the date to the left of their respective signatures.

THE CITY OF LOS ANGELES, by its
Board of Harbor Commissioners

Dated: _____, 2012

By _____
Executive Director

Attest _____
Board Secretary

SCHAFER BROTHERS DISTRIBUTION
CENTER, INC.

Dated: 6-22-, 2012

By *Gary A. Schaffer*
GARY A. SCHAFER - President
(Print/Type Name and Title)

Attest *Patricia A. McMahon*
Patricia A. McMahon - Controller
(Print/Type Name and Title)

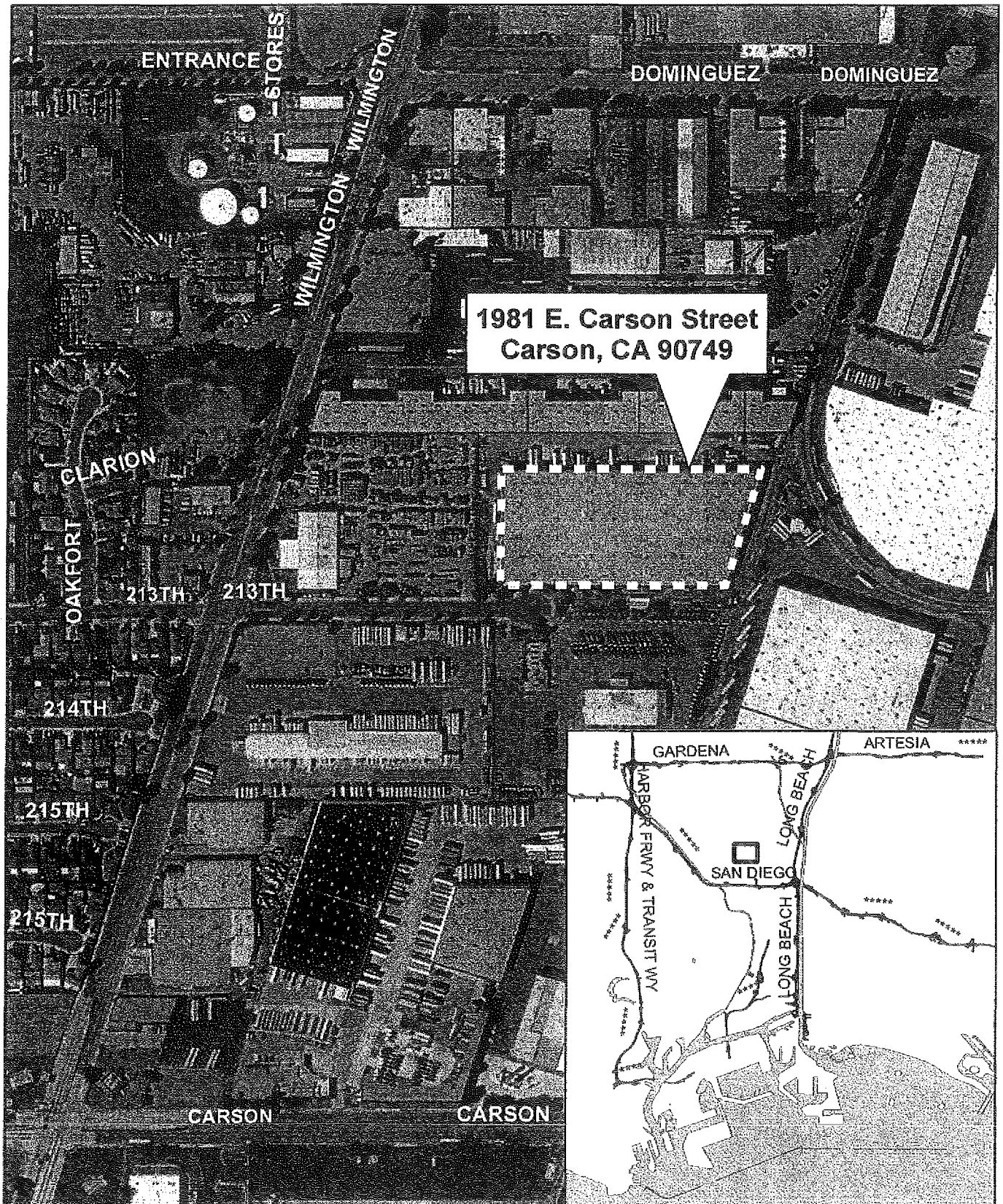
APPROVED AS TO FORM AND LEGALITY

June 26, 2012
CARMEN A. TRUTANICH, City Attorney
THOMAS A. RUSSELL, General Counsel

By *Christopher B. Bobo*
CHRISTOPHER B. BOBO, Assistant

CBB:aob/jpr
06/21/12
Attachment

FTZ 202 - Site 12 Schafer Brothers



0 250 500 1,000
Feet

Harbor Department
Planning & Economic Development
Map Produced 05/2012



0220-04409-0001

TRANSMITTAL

TO Geraldine Knatz, Ph.D., Executive Director Harbor Department	DATE AUG 16 2012	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT 15

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

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


MAYOR

MAS:ABN:10130011t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 10, 2012

CAO File No. 0220-04409-0001

Council File No.

Council District: 15

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Harbor Department dated July 20, 2012; referred by the Mayor for report dated June 24, 2012

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

SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 12-7357 authorizing the proposed First Amendment to Foreign Trade Zone (FTZ) Operating Agreement (Agreement) No. 2633 with Schafer Brothers Distribution Center, Inc. (Schafer), in FTZ Site No. 12, in the city of Carson. In October 2007, the Board approved the original FTZ Agreement with Schafer for a term of five years, with three subsequent, five-year renewal options, for a contract term up to a total of 20 years, subject to approval by the Board, Mayor and Council. The initial five-year contract term will expire on September 30, 2012. The Port states that any changes made to the original Agreement require a contract amendment. The proposed First Amendment will extend the Agreement by an additional five years, to September 30, 2017, with two five-year renewal options remaining on the existing contract. Board approval is required to exercise any renewal options and changes to the Agreement.

The United States (USA) Government's Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles and the surrounding region. A definition of an FTZ is a secure area located in or near the port of entry for US Customs and Border Protection Agency (Customs), but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. All activities are performed in accordance with Federal FTZ procedures. The goal of the FTZ program and Port is to stimulate economic growth and development in the United States, facilitate efficient cargo transit and support the local, State and national economy. The FTZ does not generate a direct profit for the Port, but is provided by the Port as a service to its customers to promote international trade and commerce in the region and USA. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The FTZ Agreement authorizes Schafer to continue to provide general warehousing, distribution and office facilities for domestic and imported consumer and office products, machineries and other

merchandise for sale to national and international markets. According to the Port, Schafer has been the FTZ operator at this site since the 2002 calendar year. The Schafer facility consists of approximately 191,000 square feet of office and warehousing facilities on approximately 8 acres of land. Schafer employs approximately 25 full-time and 22 part-time employees.

The proposed Amendment will maintain the existing terms and conditions, with the exception of updated contractual provisions and language. The proposed Amendment is in compliance with City requirements and has been approved as to form by the City Attorney. In accordance with 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 this is an administrative action and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III, Section 1 (14) of the Los Angeles City CEQA guidelines.

RECOMMENDATION

That the Mayor approve Harbor Department (Port) Resolution No. 12-7357 authorizing the proposed First Amendment to Foreign Trade Zone (FTZ) Operating Agreement No. 2633 with Schafer Brothers Distribution Center, Inc., in FTZ Site No. 12 in the city of Carson, and return the document to the Port for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

There will be no additional cost, fees or reduction of compensation to the Harbor Department (Port) authorizing the proposed First Amendment to Foreign Trade Zone (FTZ) Operating Agreement with Schafer Brothers Distribution Center, Inc., in FTZ Site No. 12. The Port has received \$25,000 from the initial five-year contract term. Compensation from the FTZ fees will remain in the amount of \$5,000 each year during each of the three remaining five-year contract terms, for a total compensation of \$100,000, over the contract period of 20 years. There will have no impact on the City General Fund. Funds will be deposited in the Harbor Revenue Fund.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 373, "Long Term Contract Approved by Council," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than three years within 60 days after submission to Council, the contract will be deemed approved.

MAS:ABN:10130011

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. Below 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 an annual administrative operating fee of \$5,000 per year for a total of \$25,000 for the first five-year term. Upon approval by the Board of Harbor Commissioners (Board), the Port will be paid up to \$25,000 for each of three five-year renewal options, for an additional \$75,000, and a total contractual fee amount of \$100,000 over 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 five-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.