



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: FEBRUARY 8, 2012

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF SECOND
EXTENSION TO FOREIGN-TRADE ZONE GENERAL PURPOSE
OPERATING AGREEMENT NO. 10-2848 BETWEEN THE CITY OF LOS
ANGELES HARBOR DEPARTMENT AND CALIFORNIA CARTAGE
COMPANY, LLC., FTZ 202, SITE 1A**

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 California Cartage Company LLC (California Cartage) to exercise its final renewal option to extend its FTZ Operating Agreement No. 10-2848 at FTZ 202, Site 1A, located in Wilmington, California through April 30, 2013. The original term consisted of a one year agreement with two, one year renewal options. The original agreement commenced May 1, 2010, and expired on April 30, 2011. The first option extended the agreement until April 30, 2012. Upon approval, the final option will extend the agreement for one more year through April 30, 2013.

FTZ 202, Site 1A includes approximately 600,000 square feet of warehouse and office space on an 84-acre parcel. California Cartage has continually operated a FTZ warehouse at this location since 1995. California Cartage will be operating their warehouses under FTZ procedures. 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 Second Extension to FTZ Operating Agreement No. 10-2848 between the City of Los Angeles and California Cartage;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Second Extension to FTZ Operating Agreement No. 10-2848; and
3. Adopt Resolution No. _____.

DATE: FEBRUARY 8, 2012

PAGE 2 OF 4

SUBJECT: SECOND EXTENSION TO FTZ GENERAL PURPOSE OPERATING AGREEMENT NO. 10-2848 WITH CALIFORNIA CARTAGE COMPANY, LLC., FTZ 202, SITE 1A

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 an FTZ is a restricted access site located in the U.S. Customs and Border Protection Agency (U.S. Customs) territories. The importer may defer payment of duties and other fees until the merchandise is brought into U.S. commerce for consumption.

Need for Agreement – California Cartage employs approximately 350 full-time employees, 175 part-time employees and 390 seasonal employees. The facility is 600,000 square feet of warehouse on 84 acres. The warehouse area consists of office space and general warehouse space. All activities shall be performed in accordance with FTZ procedures. California Cartage 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.

California Cartage acknowledges that this FTZ Operating Agreement has no bearing on any lease or other agreement it has with the City of Los Angeles. This FTZ Operating Agreement cannot be construed as granting any right under or expectation in connection with any other agreement, including any leases or permits, held by California Cartage.

Need for Approval – California Cartage is requesting approval from the Harbor Department to extend the FTZ Operating Agreement to continue to operate this site as an 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.

Harbor Department Fiscal Requirements – This proposed Extension will not require funding by the Harbor Department. California Cartage will pay an annual fee of \$5,000 to the Harbor Department for the term of the Agreement.

DATE: FEBRUARY 8, 2012

PAGE 3 OF 4

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the Second Extension to a FTZ Operating Agreement between the Harbor Department and California Cartage. The proposed Second Extension would extend the existing FTZ Operating Agreement with no changes to operations. As an activity involving the extension of an agreement to use an existing facility involving negligible or no expansion of use, 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 Extension with California Cartage to maintain FTZ status of Site 1A will have no direct employment impact for the five-county region.

FINANCIAL IMPACT:

The Harbor Department to date has received \$10,000 in operator fees from California Cartage for the last two terms. For the final renewal the Harbor Department will receive \$5,000 (per FTZ Tariff No. 1) in fees for the final term from May 1, 2012 to April 30, 2013. Total fees collected for the agreement will be \$15,000. 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.

The Harbor Department can choose not to approve the Second Extension with California Cartage. However, the establishment of an FTZ 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 California Cartage allows more efficient operations and allows California Cartage to remain competitive.

If not approved, the Harbor Department will forgo \$5,000 a year in fees. If California Cartage 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 this state. Since FTZ facilities exist in every state, California Cartage can potentially shift its employees to work elsewhere.

DATE: FEBRUARY 8, 2012

PAGE 4 OF 4

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CITY ATTORNEY:

The Office of the City Attorney has prepared and approved as to form the Second Extension to Agreement No. 10-2848.

TRANSMITTAL:

1. Proposed Second Extension to FTZ Operating Agreement No. 10-2848 with California Cartage, FTZ 202, Site 1A
2. Cal Cartage FTZ 202, Site 1A map

FIS Approval: egj (initials)

CA Approval: TM (initials)

for Michael DiBeauchamp
KRAIG JONDLE
Director of Business & Trade Development

for Molly Campbell
KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:

Geraldine Knatz
GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto