



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: MAY 4, 2016**

**FROM: CARGO MARKETING**

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

**SUMMARY:**

The Cargo Marketing Division requests that the Board of Harbor Commissioners approve the FTZ Operating Agreement between the Harbor Department and California Cartage Company LLC (California Cartage) to continue operating its warehouse within FTZ 202, Site 1A, located at 2401 East Pacific Highway, Wilmington, California 90744. 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

Currently, the Harbor Department and California Cartage have an FTZ Operating Agreement No. 13-3107 which will expire on May 31, 2016. California Cartage wishes to continue operating its warehouse as a FTZ warehouse thus, the Harbor Department needs to execute a new operating agreement as required by the FTZ Board. Site 1A facilities consist of approximately 600,000 square feet of warehouse and office space on 84 acres located approximately five miles from the Port of Los Angeles. California Cartage will be operating its warehouse under FTZ procedures as a multi-usage site. This proposed Agreement will not require funding by the Harbor Department.

The proposed Agreement is for a term of one year upon execution of the agreement. Any change made to an original Operating Agreement required an amendment to the agreement. Upon approval, the proposed Agreement is for one year or upon the termination of the License, whichever occurs earlier.

**RECOMMENDATION:**

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

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;

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2. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and California Cartage Company LLC;
3. Direct the Board Secretary to transmit the proposed Foreign-Trade Zone Operating Agreement 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 Foreign-Trade Zone Operating Agreement, upon approval by the City Council; and
5. Adopt Resolution No. \_\_\_\_\_.

**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.

Burlington Northern Santa Fe Railroad (BNSF) and the City of Los Angeles entered into a Site Preparation and Access Agreement and Permit (SPAA) granting BNSF rights to the site. BNSF licensed the Site to California Cartage on the terms and conditions set forth in the license dated August 2, 2013 (License). California Cartage acknowledges that its only right to possess the Site arises by, through and under the License, and is governed by its terms. BNSF consents to the extension described in this resolution, as an accommodation to California Cartage in consideration of the provisions of the FTZ operating agreement (Agreement), including, without limitation, those reproduced in this Resolution. On this basis and as described in this Resolution, the staff of the Harbor Department recommends as set forth below.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators (Transmittal 1). California Cartage is a U.S. company with its head office located in Long Beach, California, employing approximately 350 full-time employees, 175 part-time employees, and 390 seasonal employees. California Cartage has continually operated a FTZ warehouse at 2401 East Pacific Coast Highway, Wilmington, California FTZ 202, Site 1A since 1995. This facility consists of approximately 600,000 square feet of warehouse and office space on 84 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

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This site is owned by the Harbor Department and leased to BNSF. BNSF and California Cartage entered into a non-exclusive license agreement (License) granting California Cartage use and occupancy of property described in the License. The License is attached to the amendment. (Transmittal 4)

If the Harbor Department and BNSF decided to revoke the SPAA granting BNSF rights to the site within the term of the FTZ operating agreement, Harbor Department will require an amendment to the agreement.

California Cartage 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. 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.

Need for Approval – California Cartage is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 1A as a multi-usage FTZ warehouse for a term of one year or upon the termination of the License, whichever occurs earlier to continue operating this site as a FTZ warehouse. California Cartage 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 Agreement will not require funding by the Harbor Department. California Cartage will pay an annual fee of \$7,750 to the Harbor Department for the term of the proposed Agreement.

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**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a proposed Agreement with California Cartage, to operate its site within the FTZ 202 service area at Site 1A, located in Wilmington, 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:**

The Harbor Department to date has received \$23,250 in operator fees from California Cartage for the last three years. If the proposed Agreement is approved, the Harbor Department will receive \$7,750 from California Cartage (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 2015, approximately \$32,500 was spent on outside FTZ related consulting services, while \$370,499 in revenue was collected from the Harbor Department FTZ operators.

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**CITY ATTORNEY:**

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


**TRANSMITTALS:**

1. Proposed FTZ Operating Agreement for California Cartage Company LLC FTZ 202, Site 1A
2. FTZ 202, Site 1A Map
3. FTZ 202, Service Area Map
4. Non-exclusive license agreement between California Cartage and Burlington Northern and Santa Fe Railway



ERIC CARIS  
Director of Cargo Marketing

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



MICHAEL DiBERNARDO  
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA  
Executive Director

ES:MD:EC:AF:jg

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