



THE PORT
OF LOS ANGELES
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: FEBRUARY 25, 2014

FROM: BUSINESS AND TRADE DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ APPROVAL OF SECOND AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 08-2729 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND HOWARD HARTRY INC., FTZ 202, SITE 27

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 Howard Hartry Inc., (HHI) Site 27, located in Wilmington, California, to exercise its first renewal option to extend the term of its FTZ Operating Agreement No. 08-2729 (Agreement No. 08-2729) at FTZ 202, Site 27. HHI, headquartered in San Pedro, California, is an international freight forwarder, founded in 1961 and provides customs broker and international logistic services. The original term of the agreement is five years with three, five-year renewal options. The original agreement commenced May 1, 2009, and is set to expire on April 30, 2014.

Any change made to an original operating agreement, including existing renewal options, requires an amendment to the agreement. Upon approval, the proposed Second Amendment (Amendment) will extend Agreement No. 08-2729 for five years through April 30, 2019. All remaining terms and conditions of Agreement No. 08-2729 shall remain in full force and effect.

RECOMMENDATION:

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

1. Approve the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 08-2729 between the City of Los Angeles Harbor Department and Howard Hartry Inc.;

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2. Direct the Board Secretary to transmit the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 08-2729 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 Second Amendment to Foreign-Trade Zone Operating Agreement No. 08-2729; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – 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 Agency 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 – The Harbor Department, as the grantee, is required by the FTZ Board to have an operating agreement (Transmittal 1) with FTZ site operators. HHI, a U.S. company, located in Wilmington, California, employs approximately 6 full-time employees. HHI has continually operated a FTZ warehouse at FTZ 202, Site 27 since 2009. Site 27 facilities consist of approximately 11,800 square feet of warehouse and office space on 0.25 acres (Transmittal 2). HHI will continue to operate its warehouses under FTZ procedures. HHI 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 – HHI is requesting approval from the Harbor Department to execute the proposed Amendment to extend Agreement No. 08-2729 for a term of five years in order to continue operating this site as a FTZ warehouse. The First Amendment was a site number change from 1C to 27. HHI receives, stores, manages inventory, and distributes consumer products, apparel, accessories, and other merchandise for sale nationally. Occasionally, the products are re-exported from the warehouse.

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If HHI 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, HHI can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements – This proposed Amendment will not require funding by the Harbor Department. HHI will pay an annual fee of \$7,750 to the Harbor Department for each year of the five-year term of the proposed Amendment for a total of \$38,750.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the proposed Amendment to Agreement No. 08-2729 between the Harbor Department and HHI. The proposed 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:

This Board action will have no employment impact.

FINANCIAL IMPACT:

The Harbor Department to date has received \$25,000 in operator fees from HHI for the original five-year term. If the proposed Amendment is approved for the first extension, the Harbor Department will receive from HHI \$7,750 annually (per FTZ Tariff No. 2) for five years.

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 2013, approximately \$60,000 was spent on outside FTZ related consulting services while \$264,000 in revenues was collected from all of the Harbor Department's FTZ operators.

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Approving the proposed Amendment with HHI 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 HHI allows more efficient operations and allows HHI to remain competitive.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Second Amendment to FTZ Operating Agreement No. 08-2729 with HHI, FTZ 202, Site 27
2. HHI, FTZ 202, Site 27 map

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


MICHAEL DiBERNARDO
Director of Business Development


DAVID L. MATHEWSON
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APPROVED:


GARY LEE MOORE, P.E.
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