



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MARCH 22, 2017

FROM: CARGO MARKETING

**SUBJECT: RESOLUTION NO. _____ - APPROVAL OF FOREIGN-TRADE
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND
PORT LOGISTICS GROUP, INC., FTZ 202, SITE 42 AND 48**

SUMMARY:

Staff requests the approval of the Foreign-Trade Zone (FTZ) Operating Agreement between the City of Los Angeles Harbor Department (Harbor Department) and Port Logistics Group, Inc., (PLG) to activate its warehouse within FTZ 202, Site 42 located at 501 S. Cheryl Lane, City of Industry, California 91789 and Site 48 at 108-288 Mayo Avenue, City of Industry, California 91789. Site 42 is approximately 20.57 acres and Site 48 is approximately 35.50 acres properties including warehouses located approximately 50 miles from the Port of Los Angeles. PLG will be operating its warehouses under FTZ procedures as a multi-usage site. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ operators to oversee their FTZ operations. The proposed FTZ Operating Agreement (Agreement) is for a term of five years with three, five-year renewal options.

RECOMMENDATION:

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

1. Find that the Director of Environment 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;
2. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Port Logistics, Inc.;
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;

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH PORT LOGISTICS GROUP, INC. FTZ 202, SITE 42 AND 48

4. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone General Purpose Operating Agreement; and
5. 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 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.

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). PLG is a U.S. company with its head office located in City of Industry, California. PLG is a leading logistics services provider, including warehousing, transloading and ecommerce fulfillment. PLG employs approximately 700 full-time and temporary employees at these FTZ sites. Site 42 is approximately 20.57 acres owned by Catellus Operating Limited Partnership and Site 48 is approximately 35.50 acres property owned by Industry East land, LLC. The total square footage of two warehouses is approximately 1.2 million square feet. (Transmittal 2).

PLG 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. PLG 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 – PLG is requesting approval from the Harbor Department to execute the proposed Agreement to operate Sites 42 and 48 as FTZ warehouses. PLG receives, stores, re-labels, repackages, manages inventory, and distributes imported various types of merchandise such as shoes, clothing and accessories which are distributed to throughout the US. Occasionally, products are re-exported from this warehouse. In February 2017, these sites obtained FTZ designation from the FTZ Board however approval is required from CBP to activate these sites.

DATE: MARCH 22, 2017

PAGE 3 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH PORT LOGISTICS GROUP, INC. FTZ 202, SITE 42 AND 48

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. PLG has already paid a one-time \$2,500 Minor Boundary Modification (MBM) Application fee and a one-time \$5,000 activation application fee. An annual fee of \$7,750 (per FTZ Tariff No. 2) will be paid to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$38,750.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed FTZ Operating Agreement with PLG, to activate its site within the FTZ 202 service area (Transmittal 3) at Sites 42 and 48, located in City of Industry, California. As an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, 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) in accordance with Article III Class 1 (14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

PLG paid the Harbor Department a one-time \$2,500 Minor Boundary Modification fee and one-time \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive from PLG an annual fee of \$7,750 (per FTZ Tariff No. 2) for each year of the five years. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$7,750 per year.

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 2016, approximately \$48,606.25 was spent on outside FTZ related consulting services, while \$336,688 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with PLG creates an entity that confers, among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. Granting FTZ status to PLG allows more efficient operations and to remain competitive.

DATE: MARCH 22, 2017

PAGE 4 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH PORT LOGISTICS GROUP, INC. FTZ 202, SITE 42 AND 48

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 Port Logistics Group LLC. FTZ 202, Site 42 and 48
2. FTZ 202, Site 42 and 48 Map
3. FTZ 202, Service Area Map



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