



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

Board of Harbor Commissioners

DATE: AUGUST 26, 2014

FROM: BUSINESS AND TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF FOREIGN-TRADE
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND
OZBURN-HESSEY LOGISTICS, LLC, FTZ 202, SITE 40**

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 Ozburn-Hessey Logistics, LLC, and (OHL) to activate its warehouses within FTZ 202, Site 40 located at 1710 W. Baseline Road, Rialto, California 92376. Site 40 is a 718,000 square footage building on a 32-acre property. OHL will be operating its warehouses under FTZ procedures. 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. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Ozburn-Hessey Logistics, LLC;
2. 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;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone Operating Agreement; and
4. Adopt Resolution No. _____.

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SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH OZBURN-HESSEY LOGISTICS, LLC, FTZ 202, SITE 40

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 (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 (Transmittal 1) with FTZ site operators. OHL is a U.S. company and its head office is located in Brentwood, Tennessee. This site is owned by I-210 Logistics Center Fund X, LLC. Site 40 is a 718,000 square foot building on 32 acres. Site 40 employs 57 full-time employees (Transmittal 2).

OHL 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. OHL 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 – OHL is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 40 as FTZ warehouses. OHL receives, stores, manages inventory and distributes consumer products, electronics and other merchandise for sale in the national market. Occasionally, products are re-exported from the warehouse. However, the company does need approval from CBP to activate as a FTZ site.

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

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Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. OHL paid a \$2,500 Minor Boundary Modification (MBM) application fee and a \$5,000 activation application fee. An annual fee of \$7,750 (per 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 OHL to activate its site within FTZ 202, Site 40, located in Rialto, California. As an activity involving the issuance of a permit 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) in accordance with Article III Class 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

OHL paid the Harbor Department a \$2,500 MBM application fee and a \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive from OHL 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 2013, approximately \$250,000 was spent on administrative operating cost including FTZ related consulting services while \$264,000 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with OHL 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 OHL allows more efficient operations and allows OHL to remain competitive.

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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 OHL, FTZ 202, Site 40
2. OHL, FTZ 202, Site 40 Map

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



MICHAEL DiBERNARDO
Director of Business Development



DAVID L. MATHEWSON
Interim Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

M. Morimoto