



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MARCH 10, 2015

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
NATIONAL DISTRIBUTION CENTERS, LLC. FTZ 202, SITE 37**

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 National Distribution Centers, LLC. (NDC) to activate its warehouses within FTZ 202, Site 37, located at 15710 San Antonio Avenue, Chino, California 91708. Site 37 is a 12.5-acre property located approximately 50 miles northeast of the Port of Los Angeles. NDC will be operating its warehouses under FTZ procedures. The proposed FTZ General Purpose Operating Agreement (Agreement) is for a term of five years with three, five-year renewal options. NDC is financially responsible for paying the Harbor Department the annual FTZ fees due.

RECOMMENDATION:

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

1. Approve the proposed Foreign-Trade Zone General Purpose Operating Agreement between the City of Los Angeles Harbor Department and National Distribution Centers, LLC. to execute the FTZ operating agreement for a term of five years and three, five-year renewal options;
2. Direct the Board Secretary to transmit the proposed Foreign-Trade Zone General Purpose 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 Foreign-Trade Zone General Purpose Operating Agreement; and
4. Adopt Resolution No. _____.

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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. NDC is a U.S. company and its head office is located in Cherry Hill, NJ. This facility with approximately 550,000 square feet of warehouses and office space on 12.5 acres, employs 100 full-time employees. NDC leases the site from Manulife Financial Corporation (Transmittal 2).

NDC 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. NDC 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 – NDC is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 37 as FTZ warehouses. NDC receives, stores, manages inventory and distributes consumer products, wearing apparel and footwear for sale in the national market. Occasionally, products are re-exported from the warehouse. In May 2014, this site obtained FTZ designation from the FTZ Board; however, approval is required from CBP to activate as a FTZ Site.

If NDC, 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 out of state. Since FTZ facilities exist in every state, NDC 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. NDC paid a one-time Minor Boundary Modification (MBM) application fee of \$2,500 and a one-time activation application fee of \$5,000. An annual fee of \$7,750 (per FTZ Tariff No. 2) will be paid to the Harbor Department over the five-year term a total of \$38,750.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed FTZ General Purpose Operating Agreement with NDC to activate its site within FTZ 202, Site 37, located in Chino, 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:

NDC paid the Harbor Department a one-time MBM application fee of \$2,500 and a one-time activation application fee of \$5,000. If the proposed Agreement is approved, the Harbor Department will receive from NDC, an annual fee of \$7,750 (per FTZ Tariff No. 2) for each of the five years. Should the renewal options be exercised subsequent to the completion of the agreement's, initial term, 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 2014, approximately \$20,000 was spent on outside FTZ related consulting services such as FTZ workshops, review of applications, and technical assistance while \$320,000 in revenue was collected from the Harbor Department FTZ operators.

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

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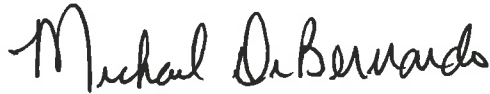
CITY ATTORNEY:

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 National Distributions Centers, LLC., FTZ 202, Site 37
2. National Distribution Centers, LLC., FTZ 202, Site 37 Map

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



MICHAEL DIBERNARDO
Marketing and Customer Relations

APPROVED:



EUGENE D. SEROKA
Executive Director

M. Morimoto