



**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 SECOND AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 13-3107 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND CALIFORNIA CARTAGE COMPANY, LLC, FTZ 202, SITE 1-A

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 California Cartage Company, LLC (California Cartage). Site 1-A, located in Wilmington, California, to exercise their second and final renewal option to extend the term of their FTZ Operating Agreement No. 13-3107 (Agreement) at FTZ 202, Site 1-A. California Cartage headquartered in Long Beach, California, is a full-service logistic company. The original term of the Agreement was one year with two, one-year renewal options and first renewal was approved by City Council on June 24, 2014 to May 31, 2015.

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 the Agreement for one year to May 31, 2016. All remaining terms and conditions of Agreement shall remain in full force and effect. California Cartage is financially responsible to the Harbor Department for the payment of \$7,750.00 annual FTZ fee.

RECOMMENDATION:

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

1. Approve the proposed Second Amendment to Foreign-Trade Zone General Purpose Operating Agreement No. 13-3107 between the City of Los Angeles Harbor Department and California Cartage Company, LLC to extend the Agreement for one year;

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2. Direct the Board Secretary to transmit the proposed Second Amendment to Foreign-Trade Zone General Purpose Operating Agreement No. 13-3107 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 General Purpose Operating Agreement No. 13-3107; 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 with FTZ site operators. California Cartage, a U.S. company, located in Wilmington, California employs approximately 350 full-time employees, 175 part-time employees, and 390 seasonal employees. California Cartage has continually operated a FTZ warehouse at FTZ 202, Site 1-A since 1995. Site 1-A facilities consist of approximately 600,000 square feet of warehouse and office space on 84 acres.

This site is owned by the Harbor Department and leased to Burlington Northern and Santa Fe Railway (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 1).

California Cartage will continue to operate their warehouses under FTZ procedures. 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.

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Need for Approval – California Cartage is requesting approval from the Harbor Department to execute the proposed Second Amendment to extend the Agreement for a term of one year to continue operating this site as a FTZ warehouse (Transmittal 1). California Cartage 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 (Transmittal 2).

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

Harbor Department Fiscal Requirements – This proposed Second Amendment 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 Second Amendment.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the proposed Second Amendment to Agreement No. 13-3107 between the Harbor Department and California Cartage. The proposed Second 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 \$12,500 in operator fees from California Cartage for the last two years. If the proposed Second Amendment is approved for the second extension, the Harbor Department will receive \$7,750 from California Cartage (per FTZ Tariff No. 2).

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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 while \$320,000 in revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Second Amendment with California Cartage 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 California Cartage allows more efficient operations and allows California Cartage to remain competitive.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Second Amendment to FTZ General Purpose Operating Agreement No. 13-3107 with California Cartage Company, LLC, FTZ 202, Site 1-A
2. California Cartage Company, LLC, FTZ 202, Site 1-A map


MICHAEL DiBERNARDO
Marketing and Customer Relations

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

APPROVED:


EUGENE D. SEROKA
Executive Director

M. Morimoto