



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

Board of Harbor Commissioners

DATE: JULY 10, 2012

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF FIRST
AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE
OPERATING AGREEMENT NO. 2633 BETWEEN THE CITY OF LOS
ANGELES HARBOR DEPARTMENT AND SCHAFFER BROTHERS
DISTRIBUTION CENTER, INC. FTZ 202, SITE 12**

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 Schaffer Brothers Distribution Center, Inc. (Schaffer), located in Carson, California, to exercise their first renewal option to extend their FTZ Operating Agreement No. 2633 (Agreement No. 2633) at FTZ 202, Site 12. The original term of the agreement is five years with three, five-year renewal options. The original agreement commenced October 1, 2007 and is set to expire on September 30, 2012.

Any change made to an original operating agreement between the Harbor Department and operator requires an amendment to the agreement. Upon approval, the First Amendment (Amendment) will extend Agreement No. 2633 for five years through to September 30, 2017. Also, as part of the changes, all updated City of Los Angeles contractual provisions will be incorporated into Agreement No. 2633. All remaining terms and conditions of Agreement No. 2633 shall remain in full force and effect. There is no cost to the Harbor Department if approved.

RECOMMENDATION:

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

1. Approve the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 2633 between the City of Los Angeles Harbor Department and Schaffer Brothers Distribution Center Inc.;

DATE: JULY 10, 2012

PAGE 2 OF 4

SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

2. Direct the Board Secretary to transmit the proposed First Amendment 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 First Extension to Foreign Trade Zone Operating Agreement No. 2633; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background – 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 territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. market 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. Schaffer has continually operated a FTZ warehouse at FTZ 202, Site 12 (Transmittal 1) since 2002. Site 12 facilities consist of approximately 191,000 square feet of warehouse and office space on 7.76 acres. Schaffer will continue to operate their warehouses under FTZ procedures. Schaffer 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 – Schaffer is requesting approval of proposed Amendment (Transmittal 2) from the Harbor Department to extend Agreement No. 2633 for another term of five years, to continue to operate this site as a FTZ warehouse and distribution center for consumer products, office products, machineries, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Schaffer currently employs approximately 25 full-time employees and 22 part-time employees.

DATE: JULY 10, 2012

PAGE 3 OF 4

SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the First Amendment to Agreement No. 2633 between the Harbor Department and Schafer. The proposed First 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:

Approval of the proposed Amendment with Schafer to extend Agreement No. 2633 will have no direct employment impact for the five-county region.

FINANCIAL IMPACT:

The Harbor Department to date has received \$25,000 in operator fees from Schafer for the original five-year term. If the proposed Amendment is approved for the first extension, the Harbor Department will receive \$5,000 annually (per FTZ Tariff No. 1) in fees for the term from October 1, 2012 to September 30, 2017. Total fees collected for the agreement through the end of this first five-year extension will be \$50,000. 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 2011, approximately \$80,000 was spent on outside FTZ related consulting services while \$149,000 in revenues was collected from all of the Harbor Department's FTZ operators.

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

If not approved, the Harbor Department will forgo \$5,000 a year in fees. If Schafer does not obtain approval 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, Schafer can potentially shift its employees to work elsewhere.

DATE: JULY 10, 2012

PAGE 4 OF 4

SUBJECT: FIRST AMENDMENT TO GENERAL PURPOSE OPERATING AGREEMENT WITH SCHAFFER BROTHERS DISTRIBUTION CENTER INC. FTZ 202, SITE 12

CITY ATTORNEY:

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

TRANSMITTALS:

1. Schaffer Brothers Distribution Center, Inc., FTZ 202, Site 12 map
2. Proposed First Amendment to FTZ Operating Agreement No. 2633 with Schaffer Brothers Distribution Center, Inc., FTZ 202, Site 12



KRAIG JONDLE
Director of Business & Trade Development

FIS Approval: KAP (initials)

CA Approval: JM (initials)



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto

GK:KM:MM:ma
File G:\Board Report\Foreign-Trade Zone\FTZ Schaffer Site 12 BR 07.10.12.doc