

**TRANSMITTAL**

0150-11265-0000

TO  
Eugene D. Seroka, Executive Director  
Harbor Department

DATE  
DEC 14 2018

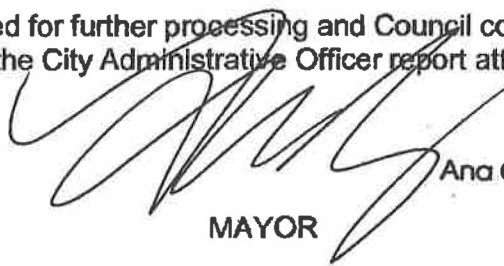
COUNCIL FILE NO.

FROM  
The Mayor

COUNCIL DISTRICT  
15

**PROPOSED FOREIGN-TRADE ZONE SUBZONE OPERATING AGREEMENT  
WITH CHEVRON U.S.A. INC., FOR FTZ 202, SITE B**

Transmitted for further processing and Council consideration.  
See the City Administrative Officer report attached.



Ana Guerrero  
MAYOR

RHL:ABN:10190050t

**REPORT FROM**

**OFFICE OF THE CITY ADMINISTRATIVE OFFICER**

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Date: November 28, 2018

CAO File No. 0150-11265-0000

Council File No.

Council District: 15

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Correspondence from the Harbor Department dated November 16, 2018; referred by the Mayor for report on November 20, 2018

Subject: **PROPOSED FOREIGN-TRADE ZONE SUBZONE OPERATING AGREEMENT WITH CHEVRON U.S.A. INC., FOR FTZ 202, SITE B**

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**RECOMMENDATIONS**

1. Approve the Harbor Department (Port) Resolution No.18-8385 authorizing a proposed Foreign Trade Zone (FTZ) Subzone Operating Agreement No. 18-3614 with Chevron U.S.A. Inc., in FTZ No. 202, Site B, in the City of El Segundo for an initial term of five years, with three subsequent five-year renewal options, for a contract term up to a total of 20 years; and,
2. Return the document to the Port for further processing, including Council consideration.

**SUMMARY**

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 18-8385 authorizing a proposed FTZ Subzone Operating Agreement (Agreement) No. 18-3614 with Chevron U.S.A. Inc. (Chevron), in FTZ No. 202, Site B. Chevron is requesting to continue to operate its offices, refinery and storage facilities in the city of El Segundo, approximately 20 miles from the Port of Los Angeles (POLA). The current Agreement between the Port and Chevron expires on December 31, 2018. Chevron has requested to continue its operations in FTZ Subzone Site B and needs to request a new FTZ operating agreement, as required by the Board. The Port, as the FTZ grantee, establishes General Operating Agreements with various FTZ site owners to activate, operate and manage their FTZ facilities and operations. The proposed Agreement with Chevron is for an initial term of five years, with three subsequent five-year renewal options, contingent upon approval by the Board, for a total contract term up to 20 years.

The Port states that Chevron is a United States (U.S.) company with headquarters located in San Ramon, California. Chevron has operated as a Subzone in FTZ Site B since 1998. Chevron operations consist of refinery and storage facilities and office spaces within the FTZ activated areas. The FTZ site includes a total of 951 acres of land. Chevron employs approximately 1,251 full-time and part-time workers on the FTZ site. Chevron receives, stores, manages inventory, and distributes various refined products for U.S. consumption and, sometimes, international uses.

In addition, the Port states that Chevron has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Chevron will notify truck drivers, brokers and companies that trucks serving the FTZ site and Port container terminals must confine their routes to the designated Wilmington truck routes.

The Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles and the surrounding region. All activities are performed in accordance with the Federal FTZ rules and procedures as outlined in the Department of Homeland Security's FTZ manual. Chevron will operate FTZ Site B under Federal FTZ Operating regulations. The Port states that if the proposed Agreement is not approved, Chevron has the option to move its facilities to another FTZ in California, such as Long Beach or San Diego, or to another state. The FTZ Agreement does not require any direct use of Port funds. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The proposed Amendment is in compliance with City requirements and has been approved as to form by the City Attorney. Pursuant to Charter Section 373 and the Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds three years. The Port Director of Environmental Management has determined that the Amendment is an administrative action and therefore exempt from the requirements of California Environmental Quality Act (CEQA) in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

### **FISCAL IMPACT STATEMENT**

Chevron U.S.A. Inc. (Chevron) will pay the Harbor Department (Port) an administrative fee of \$10,000 per year or \$50,000 for one five-year contract term, and each subsequent five-year contract term. Chevron will have three additional renewal options, subject to approval by the Board, up to a total 20-year contract term. The initial five-year term will be from January 2019 through December 2023. Total revenue anticipated from administrative fees for this contract may generate up to \$200,000. The Port estimated that the department will incur expenses of approximately \$36,575 for outside consultants for all FTZ related consulting services and collect \$344,746 in revenue from Port FTZ operators in 2018. The Port provides FTZ sites as a service to its customers to promote international trade and commerce in the region.

*RHL:ABN:10190050*

Attachment

## **ATTACHMENT**

### **OVERVIEW OF FOREIGN TRADE ZONES, OPERATING AGREEMENT**

The Federal FTZ Board designated the Harbor Department (Port) as the Grantee/Administrator of FTZ No. 202 for the City of Los Angeles and the surrounding region. The following is an overview of FTZ policies and guidelines.

The FTZ Operating Agreements are entered into with various companies who have applied for FTZ status with the Federal FTZ Board and have been approved by the United States (U.S.) Department of Homeland Security Customs and Border Protection (Customs) to activate a site. Authority is granted by the Federal FTZ Board under the amended FTZ Act of 1934, which is administered through Federal FTZ and Customs Regulations. The FTZ Act was established to support U.S. commerce and create jobs by reducing import duties or excise taxes by deferring payment of duty thereby making it appealing for companies to perform work on their products in the U.S. instead of offshore. The goal of the Port and FTZ program is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, State and national economy.

An FTZ is a secure area located in or near the port of entry for Customs, but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. It is the U.S. version of what are known internationally as free-trade zones. An FTZ is sponsored by qualified public or private companies, which may operate the facilities themselves or contract for the operation with public or private firms. The operations are conducted on a public use basis, which opens its services to the public, with published tariff rates. In this case, the published rates applicable are the Port Tariff (No. 2) rates, terms and conditions. These spaces and operations will be under the supervision of the Federal FTZ Board and Customs and will be required to operate within U.S. law.

The Port FTZ No. 202 is a multi-zone FTZ currently operating 23 sites with 15 contracted FTZ general purpose operators and five Subzone operators. The sites include facilities in the Port area, Los Angeles International Airport, nearby industrial parks and other outlying locations. The FTZ does not generate a profit for the Port, but is provided as a service to its customers to promote international trade in the U.S. These operations will be monitored by the Port, but under the supervision of the Federal FTZ Board and Customs and required to operate within U.S. law.

For the FTZ Subzone site, compensation is set at \$10,000 annually or a total of \$50,000 over five years and \$200,000 up to 20 years. In other agreements, the FTZ Operator is normally required to pay a one-time application fee of \$5,000 and an administrative operating fee of \$7,750 per year or \$38,750 for the initial contract term of five years. The Agreement is subject to three subsequent five-year renewal options, for the same amount, for a contract term up to a total of 20 years or \$155,000, minus the application fee. The proposed Agreement renewal options will be subject to approval by the Board and based upon terms and conditions negotiated prior to the end of each one-year term. The proposed Agreement with the FTZ Operator will become effective the first of the month following Council approval and will remain in effect for an initial term of five years. Either the Port or FTZ Operator can terminate the proposed Agreement at the end of the each term or by submitting a 180-day prior written notice.