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12.1.22

RECOMMENDATION APPROVED;
RESOLUTION 22-10105 ADOPTED; AND
AGREEMENT 22-2633-C APPROVED;
BY THE BOARD OF HARBOR COMMISSIONERS

December 1, 2022

AM Klesges

Amber M. Klesges
Board Secretary



DATE: NOVEMBER 21, 2022

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 22-10105 - APPROVAL OF THIRD AMENDMENT TO FOREIGN-TRADE ZONE OPERATING AGREEMENT NO. 2633 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND SCHAFER BROTHERS DISTRIBUTION CENTER, INC, FTZ 202, SITE 12

SUMMARY:

Staff requests approval of a Third Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 2633 between the City of Los Angeles Harbor Department (Harbor Department) and Schafer Brothers Distribution Center, Inc (Schafer) to continue operating its facility within FTZ 202, Site 12, located at 1981 E. 213th Street, Carson, CA 90746. The Harbor Department, as the FTZ Grantee, establishes Operating Agreements with FTZ site operators to oversee their FTZ operations.

Schafer's current FTZ Operating Agreement No. 2633 expired on September 30, 2022. The Third Amendment will extend the Operating Agreement by five years. Schafer requests to continue operating its warehouse as an FTZ warehouse. The Harbor Department must execute the Third Amendment to extend the Agreement, as required by the FTZ Board.

Site 12 consists of an 8 acre site with approximately 191,000 square feet of warehousing and office space located nine miles from the Port of Los Angeles. Schafer will operate its facility under FTZ procedures as a single-usage site. The proposed Third Amendment will not require funding by the Harbor Department. If the proposed amendment is approved, the Harbor Department will receive \$7,750 annually from Schafer (per FTZ Tariff No. 2).

SUBJECT: THIRD AMENDMENT TO FTZ OPERATING AGREEMENT WITH SCHAFER BROTHERS DISTRIBUTION CENTER, INC, FTZ 202, SITE 12

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Third Amendment to Foreign-Trade Zone Operating Agreement No. 2633 between the City of Los Angeles Harbor Department and Schafer Brothers Distribution Center, Inc;
3. Direct the Board Secretary to transmit the proposed Third Amendment to Foreign-Trade Zone Operating Agreement No. 2633 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;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Third Amendment to Foreign-Trade Zone Operating Agreement No. 2633; and
5. Adopt Resolution No. 22-10105.

DISCUSSION:

Background and Context – The FTZ 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 an 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. for consumption.

Need for Agreement – The proposed Third Amendment (Transmittal 1) will extend the term of the Operating Agreement to September 30, 2027. Schafer is a U.S. company with its head office located in Carson, and it will employ 29 full-time employees at this FTZ site. This 8 acre property includes a warehouse and office (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Schafer shall continue to 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.

Need for Approval – Schafer is requesting approval from the Harbor Department to execute the proposed Third Amendment to continue to operate Site 12 as a multi-usage

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SCHAFFER BROTHERS DISTRIBUTION CENTER, INC, FTZ 202, SITE 12

FTZ facility. Schafer handles the logistics, handling, storage, inventory and quality control of mainly retail consumer goods. Occasionally, products may be re-exported.

If Schafer 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. Since FTZ facilities exist in every state, a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a Third Amendment to FTZ Operating Agreement No. 2633 between the Harbor Department and Schafer, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed Third Amendment is approved, the Harbor Department will receive \$7,750 annually from Schafer (per FTZ Tariff No. 2).

Approval of the Third Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2022, unaudited revenues of \$289,336 were collected from Harbor Department FTZ operators relative to FY 2022 unaudited expenses of \$30,594 incurred by the Harbor Department for consulting services.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Third Amendment to FTZ Operating Agreement with Schafer Brothers Distribution Center, Inc, FTZ 202, Site 12 -22-2633-C
2. FTZ 202, Site 12 Map
3. FTZ 202, Service Area Map

FIS Approval: MB
CA Approval: SO

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SCHAFFER BROTHERS DISTRIBUTION CENTER, INC, FTZ 202, SITE 12



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