



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: June 15, 2004

Approved

Date

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND A EXECUTE FIVE YEAR AGREEMENT WITH SAN JOSE DISTRIBUTION SERVICES TO OPERATE FOREIGN TRADE ZONE NO. 18

Council District: 7

RECOMMENDATION

Adoption of a resolution authorizing the City Manager to negotiate and execute a five-year agreement with San Jose Distribution Services to operate Foreign Trade Zone No. 18 in San Jose.

The activities represented by this project further the goals of Economic Development Strategy No. 2, "Forge Connections to Innovation Regions Globally for Mutual Economic Benefit," and Strategy No. 5, "Support Start-up and Growth of Local Business, Small and Large, in Tech as well as Non-Tech Fields."

BACKGROUND

The City of San Jose, the grantee of Foreign Trade Zone No. 18, received Foreign Trade Zone designation in 1974 from the U.S. Department of Commerce. A Foreign Trade Zone is a designated territory within the U.S. that is considered outside of U.S. Customs territory. Merchandise stored, manufactured or assembled in a Foreign Trade Zone is considered to be in international commerce. Businesses utilizing a Foreign Trade Zone are able to delay, reduce or eliminate payment of duties of imported goods, and also access other benefits that enable businesses to compete in the global marketplace.

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The current Foreign Trade Zone operation agreement was approved by the City Council on February 18, 1997. The operator, San Jose Distribution Services, has contracted with the City since 1990 to operate the Foreign Trade Zone, and its predecessor company, San Jose Warehousing Inc. was the previous operator. The Foreign Trade Zone has been located at various locations in San Jose since 1974. The current location is in a 330,000 square foot warehouse/logistics building on South Seventh Street in the Monterey Corridor, with 1,500 square feet activated for Zone use.

San Jose Distribution Services is a general partnership of Coastal Terminals Inc. and San Jose Warehousing Inc. The partners have over 60 years of experience in the public warehousing industry and the management team was involved in the original application to bring a Foreign Trade Zone to San Jose.

In April 2004, the Office of Economic Development placed a Request for Qualifications for a Foreign Trade Zone operator, notifying businesses of the opportunity to contract with the City of San Jose to operate Foreign Trade Zone No. 18. San Jose Distribution Services was the only respondent to the RFQ and meets the City's criteria for operating the Foreign Trade Zone. In addition, Foreign Trade Zone operators must meet the Foreign-Trade Zones Board regulations of the U.S. Department of Commerce and the U.S. Department of Homeland Security U.S. Customs and Border Protection Division.

ANALYSIS

The Foreign Trade Zone is an important component of San Jose's economic development program and contributes to San Jose's leadership position in global trade and commerce. The Foreign Trade Zone provides San Jose area businesses and importers with a competitive advantage in conducting global business. In federal fiscal year 2003, \$21 million in the movement of goods took place in the Foreign Trade Zone. The Foreign Trade Zone operator will compensate the City \$350 annually, plus an additional \$100 for each company that has at least five transactions in the Foreign Trade Zone.

PUBLIC OUTREACH

The Request for Qualifications process for a Foreign Trade Zone operator was conducted during the period of April 20 to May 21, 2004. The Office of Economic Development placed the Request for Qualifications on the OED website, published legal notices in the San Jose Mercury News on April 28 and May 5, and mailed a copy of the RFQ to eight businesses in Santa Clara County that advertised public warehouse and logistics operations. A notice of the RFQ process also appeared in the Customs Brokers and Forwarders Association of Northern California newsletter.

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COORDINATION

The Request for Qualifications process for a Foreign Trade Zone operator was coordinated with the Office of the City Attorney and the City Clerk.

COST IMPLICATIONS

The agreement with San Jose Distribution Services to operate the Zone will have a positive impact on the General Fund as the Operator will pay the City annual fees to operate Foreign Trade Zone No. 18.

CEQA

Not a Project.

PAUL KRUTKO
Director, Office of Economic Development