

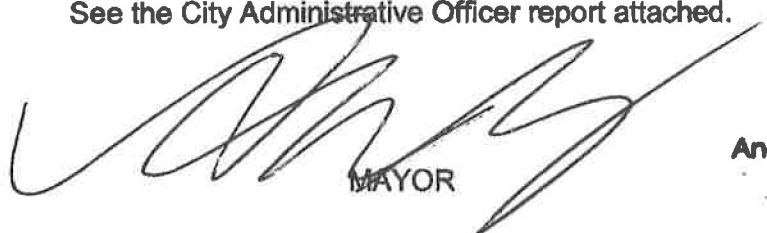
0150-11481-0000

**TRANSMITTAL**

|   |                               |                       |
|---|-------------------------------|-----------------------|
| TO<br>Eugene D. Seroka, Executive Director<br>Harbor Department | DATE<br><b>JAN 22 2020</b>    | COUNCIL FILE NO.<br>- |
| FROM<br>The Mayor   | COUNCIL DISTRICT<br><b>15</b> |                       |

**PROPOSED FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT NO. 19-3670 WITH  
MORRISON EXPRESS CORPORATION (U.S.A.),  
FTZ 202, SITE 59**

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



MAYOR

Ana Guerrero

RHL:JCY:102000711

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: January 13, 2020

CAO File No. 0150-11481-0000

Council File No. -

Council District: 15

To: The Mayor

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



Reference: Correspondence from the Harbor Department dated September 4, 2019

Subject: **PROPOSED FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT  
NO. 19-3670 WITH MORRISON EXPRESS CORPORATION (U.S.A.),  
FTZ NO. 202, SITE 59**

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### RECOMMENDATIONS

Approve the Harbor Department (Port) Resolution No. 19-9519 authorizing the proposed Foreign-Trade Zone (FTZ) Operating Agreement No. 19-3670 with Morrison Express Corporation (U.S.A.), in FTZ No. 202, Site 59 in the City of El Segundo, California, for an initial term of five years, with three subsequent five-year renewal options, for a total agreement term of up to 20 years; and, 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. 19-9519 authorizing a proposed Foreign-Trade Zone (FTZ) Operating Agreement No. 19-3670 (Agreement) with Morrison Express Corporation (U.S.A.) (Morrison Express), in FTZ No. 202, Site 59. Morrison Express is located at 2000 South Hughes Way, in the City of El Segundo, approximately 17 miles from the Port of Los Angeles (POLA). The proposed Agreement with Morrison Express is for an initial term of five years, with three subsequent five-year renewal options, contingent upon Board approval, for a total agreement term of up to 20 years. Morrison Express plans to activate, operate and manage its FTZ warehouse facilities and operations as a multi-usage site, providing services such as logistics, handling, storage, inventory and quality control of various materials, components and consumer products, which will go on to be sold in the domestic market or be re-exported. Morrison Express will be subject to FTZ Tariff No. 2 rates, including an annual administrative operating fee of \$7,750 per year, payable to the Port.

### BACKGROUND

Morrison Express is the U.S. arm of the international company Morrison Express Corporation (MEC) and is headquartered in the City of El Segundo. Morrison Express provides international transport, logistic, warehouse, and distribution services. The Morrison Express FTZ site includes warehouse and office space on 0.67 acres of land owned by MEC Investments Inc. Morrison Express employs approximately 65 full- and part-time employees at the FTZ site, and will manage

and handle products such as communication equipment and electronic components and materials.

Morrison Express will operate under Federal FTZ Operating rules and regulations, such as providing a secured area within the FTZ. The U.S. Government's Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ No. 202 for the City of Los Angeles and the surrounding region. An FTZ is a secure area located in or near the port of entry for U.S. Customs and Border Protection Agency (Customs), but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. All activities are performed in accordance with Federal FTZ procedures. The Port, as the FTZ grantee, establishes agreements with FTZ site owners to oversee their operations. The goal of the FTZ program and the Port is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, state and national economy. The FTZ is provided by the Port as a service to its customers to promote international trade and commerce in the region and throughout the U.S. The FTZ Agreement requires no direct use of Port funds. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

In addition to following Federal FTZ Operating rules and regulations, the proposed Agreement requires Morrison Express to notify and encourage truck drivers, trucking companies, and its zone users to use the Wilmington Truck Route and the PierPASS or other programs to reduce congestion and daytime truck operations.

The Port will receive, per FTZ Tariff No. 2, an annual payment from Morrison Express in the amount of \$7,750 for a total of \$38,750 for the five-year term. The Port states that it spends these funds on indirect or outside expenses for FTZ-related administrative services. During Fiscal Year 2019, the Port states that it spent \$42,281 for FTZ-related expenses and collected \$349,769 in revenue and fees from all the FTZ No. 202 operators.

The proposed Agreement 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 has determined that the proposed Agreement is an administrative action and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles CEQA guidelines.

## **FISCAL IMPACT STATEMENT**

The proposed Foreign-Trade Zone Operating Agreement No. 19-3670 between the Harbor Department and Morrison Express Corporation (U.S.A.) (Morrison Express) will have no impact on the City General Fund. Morrison Express will be required to pay an annual fee of \$7,750 or \$38,750 for the five-year term. All funds will be deposited in the Harbor Revenue Fund. The recommendations in this report comply with Port Financial Policies in that any expenditures made for FTZ-related expenses will be paid by appropriate Port revenues and fees.

*RHL:JCY:10200071*

Attachment

## **ATTACHMENT**

### **OVERVIEW OF FOREIGN-TRADE ZONES (FTZ), 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 is not intended to 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 are required to operate within U.S. law.

The FTZ Operator is normally required to pay one-time Site application and activation fees of \$7,500 and an annual administrative operating fee of \$7,750 per year for an initial term of five years, with three subsequent five-year renewal options, in the same amount, for a contract term up to a total of 20 years. 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 five-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.