

RECOMMENDATION APPROVED;
RESOLUTION NO. 16-7906 ADOPTED; AND
AGREEMENT NO. 16-3376 APPROVED
BY THE BOARD OF HARBOR COMMISSIONERS



THE PORT
OF LOS ANGELES
Executive Director's

Report to the
Board of Harbor Commissioners

February 18, 2016

AMBER M. KLESGES
Board Secretary

DATE: FEBRUARY 3, 2016

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. 16-7906 - APPROVAL OF FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND MORGAN FABRICS CORPORATION FTZ 202 SITE 202F

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 Cargo Marketing Division recommends that the Board of Harbor Commissioners approve the FTZ operating agreement between the City Harbor Department and Morgan Fabrics Corporation (Morgan) to activate its warehouse within FTZ 202, Site 202F, located at 4265 Exchange Ave, Vernon, California 90058. Site 202F is approximately 1.9 acres including a warehouse located approximately 23 miles from the Port of Los Angeles. Morgan will be operating its warehouse under FTZ procedures as a Subzone site. The proposed FTZ Operating Agreement (Agreement) is for a term of five years with three, five-year renewal options. This proposed Agreement will not require funding by the Harbor Department.

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 exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 1 (14), of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Morgan Fabrics Corporation;
3. Direct the Board Secretary to transmit the proposed Foreign-Trade Zone Operating Agreement 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;

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH MORGAN FABRICS CORPORATION FTZ 202, SITE 202F

4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone Operating Agreement, upon approval by the City Council; and
5. Adopt Resolution No. 16-7906.

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 (CBP) 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 Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators (Transmittal 1). Morgan, a U.S. company with its head office located in Vernon, California, will employ 55 full-time employees at this FTZ site. This facility is approximately 49,000 square feet of warehouse with office space. The property is owned by Michael & Tina Gittelsohn Family Trust and Arnold Gittelsohn Family Trust (Transmittal 2).

Morgan shall 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. Morgan 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 – Morgan is requesting approval from the Harbor Department to execute the proposed Agreement to operate Site 202F as a Subzone FTZ warehouse. Morgan receives, stores, re-labels, repackages, scrapping, destruction, displaying, testing, inspecting and manipulation of upholstery fabrics, upholstered products, fabrics kits and fabrics samples which will be distributed for U.S. consumption. Occasionally, products are re-exported from this warehouse. In September 2014, this site obtained FTZ designation from the FTZ Board. However, approval is required from CBP to activate this site as an FTZ Site.

If Morgan 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, San Diego, Palmdale, etc., or even going out of state. Since FTZ facilities exist in every state, Morgan can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

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Harbor Department Fiscal Requirements – Morgan has already paid a one-time \$2,500 Minor Boundary Modification (MBM) application fee and a one-time \$5,000 activation application fee. An annual fee of \$10,000 (per FTZ Tariff No. 2) will be paid to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$50,000.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed Agreement with Morgan to activate its site within the FTZ service area at Site 202F in Vernon, which is an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. Therefore, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Morgan paid the Harbor Department a one-time \$2,500 MBM application fee and one-time \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive from Morgan an annual fee of \$10,000 (per FTZ Tariff No. 2) for each year of the five years. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$10,000 per year.

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 2015, approximately \$32,500 was spent on outside FTZ related consulting services, while \$370,499 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with Morgan creates an entity that confers, among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. Granting FTZ status to Morgan allows more efficient operations and allows Morgan to remain competitive.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for Morgan FTZ 202, Site 202F
2. FTZ 202, Site 202F Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: MB (initials)
CA Approval: MD (initials)



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

ES:MD:EC:AF:jg

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