

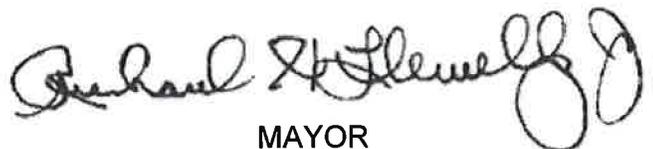
0150-10641-0001

**TRANSMITTAL**

TO Eugene D. Seroka, Executive Director Harbor Department	DATE 07/26/21	COUNCIL FILE NO. 16-0400
FROM The Mayor		COUNCIL DISTRICT --

**PROPOSED FIRST AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT NO. 16-3376 WITH MORGAN FABRICS CORPORATION FOR FTZ 202, SITE F**

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



MAYOR

RHL:JCY:10210155t

(Rich Llewellyn for)

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: July 2, 2021

CAO File No. 0150-10641-0001

Council File No. 16-0400

Council District: --

To: The Mayor

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

Reference: Correspondence from the Harbor Department dated March 18, 2021; referred by the Mayor for report March 23, 2021

Subject: **PROPOSED FIRST AMENDMENT TO FOREIGN-TRADE ZONE (FTZ) AGREEMENT NO. 16-3376 WITH MORGAN FABRICS CORPORATION FOR FTZ 202, SITE F**

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### RECOMMENDATIONS

Approve the Harbor Department (Port) Resolution No. 21-9778 authorizing the proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 16-3376 (Agreement) with Morgan Fabrics Corporation for FTZ 202, Site F, to extend the Agreement by an additional four years, through May 31, 2025; and, return the Resolution 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. 21-9778 authorizing the proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 16-3376 (Agreement) with Morgan Fabrics Corporation (Morgan Fabrics), to continue operating its facility located at 4265 Exchange Avenue in Vernon, California, approximately 23 miles from the Port of Los Angeles, as FTZ 202, Site F. The proposed First Amendment exercises the first of three renewal options to extend the Agreement term for four years, from June 1, 2021 to May 31, 2025. Additionally, the proposed Amendment updates Agreement terms related to indemnification and evidence and submission of insurance to meet the City's insurance compliance standards. All other terms and conditions of the Agreement remain in effect. The Board intended to approve a five-year extension, through May 31, 2026, per the renewal options of the original Agreement, but an inadvertent error in the First Amendment dated the term as ending on May 31, 2025. Board approval is required to exercise any renewal options and changes to the Agreement.

The original Agreement for FTZ 202, Site F with Morgan Fabrics was for an initial term of five years beginning June 1, 2016, with three subsequent five-year renewal options, for a term of up to 20 years. Morgan Fabrics, headquartered in Vernon, California, provides and sources fabrics for home furnishing and bedding manufacturers and fabricators, and for the hospitality industry. FTZ 202,

Site F consists of approximately 49,000 square feet of warehouse and office space on 1.9 acres of land. Morgan Fabrics employs 42 full-time employees at the FTZ site and will continue to operate Site F as a Subzone FTZ facility, receiving, storing, repackaging and relabeling, managing logistics, inventory, quality control and distribution of mainly garment materials and accessories. Port Tariff No. 2, which governs FTZ 202 operations, regulations and fees, defines a Subzone site as a "special purpose Zone established as an adjunct to a Zone project for a limited purpose". Subzone sites are company-specific, single user sites. FTZ 202 currently authorizes four Subzone sites.

Morgan Fabrics will continue to operate under Federal FTZ Operating rules and regulations. The United States (U.S.) Government's Federal FTZ Board designated the Port as the Grantee/Administrator of the FTZ 202 region for the City of Los Angeles and the surrounding region. An FTZ is a secure, U.S. Customs and Border Protection Agency (Customs)-regulated area located in or near a U.S. port of entry where merchandise may be stored, manipulated, or manufactured prior to import or export without being subject to Customs tariffs or fees. Tariff and import fees are only charged if the merchandise is officially imported into the US for consumption. The Port's and the FTZ program's goal is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, state and national economy. The Port administers FTZ 202 as a service to its customers and the surrounding business community to promote international trade and commerce in the region and throughout the U.S. All activities are performed in accordance with Federal FTZ procedures. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The Port receives, per FTZ Tariff No. 2, an annual payment from Morgan Fabrics of \$10,000 totaling \$40,000 for the second four-year term. The Port states that it spends these funds on indirect or outside expenses for FTZ-related administrative services. During Fiscal Year, 2019-20, the Port states that it spent \$30,181 for FTZ-related consulting expenses and collected \$361,536 in revenue and fees from all FTZ 202 operations.

The proposed Amendment complies with City requirements and has been approved as to form and legality by the City Attorney. The Port states, and the City Attorney concurs, that upon deliberation of the second renewal option, the Port may consider a six-year extension to compensate for the inadvertently shortened first renewal term. The Port reports that the proposed action is an administrative activity and is therefore administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

## **FISCAL IMPACT STATEMENT**

The proposed First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 16-3376 between the Harbor Department (Port) and Morgan Fabrics Corporation (Morgan Fabrics) has no impact on the City General Fund. Morgan Fabrics will be required to pay an annual fee of \$10,000 per year or \$40,000 for the four-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.

## **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 Operator policies and guidelines.

The Port enters into FTZ Operating Agreements 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. The Federal FTZ Board grants authority under the amended FTZ Act of 1934, which is administered through Federal FTZ and Customs regulations. The federal government established the FTZ Act 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 FTZ program's goal 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 an area comprised of individual, secure access sites located in or near the port of entry for Customs, but legally considered to be outside the U.S. for the purpose of tariff laws and Customs entry procedures. It is the U.S. version of what is known internationally as free-trade zones. Qualified public or private companies sponsor FTZ sites and may operate the facilities themselves or contract for the operation with public or private firms. The operations are either multi-use—such as distribution and logistics companies opening their services to the public, or single-use—run by a company importing and managing its own goods for sale. All operations must adhere to published tariff rates—in this case, the published rates applicable are the Port Tariff No. 2 rates, terms and conditions. These spaces and operations are under the supervision of the Federal FTZ Board and Customs and are required to operate within U.S. law.

The Port FTZ No. 202 is a multi-zone FTZ currently operating more than 30 sites with 35 contracted FTZ general purpose operators and four Subzone operators. The sites include approximately 5,400 acres of facilities on Port property and at 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 and the surrounding business community to promote international trade in the U.S. These operations are monitored by the Port 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 a one-time application fee of \$7,500 and an annual administrative operating fee of \$7,750 or \$10,000 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 are subject to approval by the Board and Customs concurrence. The proposed Agreement with the FTZ Operator becomes effective the first of the month following Council approval and remains 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.