

DATE: MARCH 3, 2021

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF FIRST AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 16-3376 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND MORGAN FABRICS CORPORATION FTZ 202, SITE F

SUMMARY:

Staff requests approval of a First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 16-3376 between the City of Los Angeles Harbor Department (Harbor Department) and Morgan Fabrics Corporation (Morgan) to continue operating its facility within FTZ 202, Site F, located at 4265 Exchange Ave., Vernon, California 90058. The Harbor Department, as the FTZ Grantee, establishes Operating Agreements with FTZ site operators to oversee their FTZ operations.

Morgan's current FTZ Operating Agreement No. 16-3376 will expire on May 31, 2021. The First Amendment will extend the Operating Agreement by five years. Morgan requests to continue operating its warehouse as an FTZ warehouse. The Harbor Department needs to execute the First Amendment to extend the Agreement, as required by the FTZ Board.

Site F consists of 1.9 acre site with a total square footage of approximately 49,000 square feet of warehousing and office space located approximately 23 miles from the Port of Los Angeles. Morgan will operate its facility under FTZ procedures as a Subzone site. The proposed First Amendment will not require funding by the Harbor Department. If the proposed amendment is approved, the Harbor Department will receive \$10,000 annually from Morgan (per FTZ Tariff No. 2).

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;

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2. Approve the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 16-3376 between the City of Los Angeles Harbor Department and Morgan Fabrics Corporation;
3. Direct the Board Secretary to transmit the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 16-3376 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 First Amendment to Foreign-Trade Zone Operating Agreement No. 16-3376; and
5. Adopt Resolution No. _____.

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 First Amendment (Transmittal 1) will extend the term of the Operating Agreement to May 31, 2026. Morgan will continue to operate its FTZ site, owned by Michael & Tina Gittelsohn Family Trust and Arnold Gittelsohn Family Trust. The facility consists of three warehouse and office space on 1.9 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3). Morgan is a U.S. company with its head office located in Vernon, California employing 42 full-time employee working within the FTZ activated area.

Morgan 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 – Morgan is requesting approval from the Harbor Department to execute the proposed First Amendment to continue to operate Site F as a Subzone FTZ facility. Morgan handles the logistics, handling, storage, inventory and quality control of mainly garment and accessories and materials. Occasionally, products may be re-exported.

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. 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.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a First Amendment to FTZ Operating Agreement No. 16-3376 between the City of Los Angeles Harbor Department and Morgan, 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 First Amendment is approved, the Harbor Department will receive \$10,000 annually from Morgan (per FTZ Tariff No. 2).

Approval of the First Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2020, revenues of \$361,536 were collected from Harbor Department FTZ operators relative to FY 2020 expenses of \$30,181 incurred by the Harbor Department for consulting services.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed First Amendment to FTZ Operating Agreement with Morgan Fabrics Corporation, FTZ 202, Site F
2. FTZ 202, Site F Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: *MB*
CA Approval: *JS*

Michael DiBernardo

MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:

Marla Bleavins For

EUGENE D. SEROKA
Executive Director