



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JUNE 25, 2013

FROM: BUSINESS AND TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF FOREIGN-TRADE
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND PUMA
NORTH AMERICA, INC. FTZ 202, SITE 28**

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 Harbor Department received a request from Puma North America, Inc. (Puma) to take over FTZ operation from California Cartage Company, currently operating Site 28 as the FTZ operator located at 20903 South Maciel Avenue, Carson, California. Puma will take over the FTZ operations as soon as U.S. Customs and Border Protection Agency (CBP) approves their activation request. Site 28 consists of a 220,000 square foot building within 8 acres of FTZ 202, Site 28. This site is approximately 10 miles north of the Port of Los Angeles (Port). Puma will be operating its warehouse under FTZ procedures. The proposed FTZ Operating Agreement (Agreement) will provide a term of five years with three, five-year renewal options.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Puma North America, Inc.;
2. Direct the Board Secretary to transmit the 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;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the Foreign-Trade Zone Operating Agreement; and
4. Adopt Resolution No. _____.

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DISCUSSION:

Background and Context – The Foreign-Trade Zone 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 a FTZ is a restricted access site located in the U.S. CBP territories. The importer may defer payment of duties and other fees until the merchandise is brought into U.S. commerce 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. Currently, this FTZ warehouse is operated by California Cartage Company on behalf of Puma. Puma would like to expedite the receipt of their cargo in their warehouse and as such, would like to take over operations from California Cartage Company. This would save Puma time in processing the necessary paperwork involved with FTZ operations. In order to expedite the receipt of their cargo and assume operations from California Cartage Company, Puma must file an application for "Direct Delivery" to CBP. The operator shall file a written application with the appropriate Port director at least 30 days before the special procedure is to become effective. Direct Delivery allows for the delivery of merchandise into a zone, but it must be filed by the importer of the goods and the importer must be the operator of the FTZ warehouse. In order to achieve this requirement, Puma will become the operator of the site under their name and California Cartage Company will be removed as operator of this site when the activation is approved by Customs and Border Protection.

Puma employs 11 full-time employees. The square footage of the building is 220,000 to include warehouse and office space on 8 acres of FTZ 202, Site 28 (Transmittal 2). All operators shall follow rules and procedures as outlined in the Department of Homeland Security's FTZ manual, such as providing a secured area within the FTZ. Puma 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 – Puma is requesting approval from the Harbor Department to execute the proposed Agreement (Transmittal 1) to operate Site 28 as a FTZ warehouse. Puma receives, stores, manages inventory and distributes shoes, accessories, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Puma Site 28 is located within a designated FTZ 202 industrial site. As such, this company is not required to submit an

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application to the FTZ Board. However, the company does need approval from CBP to be an activated FTZ operator.

If Puma 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, Puma can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. Puma will pay a \$5,000 activation application fee and will pay an annual fee of \$5,000 to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$25,000.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an FTZ Operating Agreement with Puma to take over FTZ operations FTZ 202, Site 28, located in Carson, California. As an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, 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.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

Puma will pay the Harbor Department a \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive an annual fee of \$5,000 (per FTZ Tariff No. 1) for each of five years from Puma. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$5,000 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 2012, approximately \$80,000 was spent on outside FTZ related consulting services while \$159,000 in revenue was collected from the Harbor Department FTZ operators.

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Approving the proposed Agreement with Puma creates an entity that confers among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. As the Harbor Department is a designated grantee of FTZs under the State of California enabling legislation, granting FTZ status to Puma allows more efficient operations and allows Puma to remain competitive.

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 Puma North America, Inc., FTZ 202, Site 28
2. Puma North America, Inc., FTZ 202, Site 28 Map

FIS Approval:  (initials)

CA Approval:  (initials)


MICHAEL DiBERNARDO
Director of Business Development


KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto