



**THE PORT  
OF LOS ANGELES**

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Eric Garcetti *Mayor, City of Los Angeles*

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Commissioners

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Edward R. Renwick

Eugene D. Seroka

*Executive Director*

November 4, 2014

Honorable Members of the  
City Council of the  
City of Los Angeles

CD No. 15

Attention: Mr. Michael Espinosa, City Clerk's Office

**SUBJECT: RESOLUTION NO. 14-7695 – FIRST AMENDMENTS TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NOS. 13-3148 AND 13-3149 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND PUMA NORTH AMERICA, INC. FTZ 202, SITE 9 AND SITE 28**

Pursuant to Section 373 of the City Charter, enclosed for your approval are the proposed First Amendments to Agreement Nos. 13-3148 and 13-3148 between the City of Los Angeles Harbor Department and Puma North America, Inc. The proposed Amendments were approved at the September 4, 2014 meeting of the Board of Harbor Commissioners. There is no impact to the General Fund.

RECOMMENDATION:

1. The City Council approve the proposed Amendments between the City of Los Angeles Harbor Department and Puma North America, Inc.;
2. Adopt the determination by the Los Angeles Harbor Department 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; and
3. Return to the Board of Harbor Commissioners for further processing.

Respectfully Submitted,

AMBER M. KLESGES  
Commission Secretary

cc: Trade, Commerce, & Tourism Committee  
Councilman Buscaino  
Councilman LaBonge  
Councilman Bonin  
Mandy Morales, Mayor's Office  
Erick Martell, Harbor Legislative Analyst

Alvin Newman, CAO  
Lisa Schechter, CD4  
Aaron Gross, Mayor's Office  
Christine Yee Hollis, CLA

0150-10270-0000

**TRANSMITTAL**

TO Eugene D. Seroka, Executive Director Harbor Department	DATE OCT. 31 2014	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 15	

**PROPOSED FIRST AMENDMENT TO FOREIGN TRADE ZONE OPERATING  
AGREEMENT NOS. 13-3148 AND 13-3149 WITH PUMA NORTH AMERICA INC.,  
FTZ 202, SITE NO. 9 AND SITE NO. 28**

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



(Ana Guerrero)

MAYOR

MAS:ABN:10150031t

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: October 10, 2014

CAO File No. 0150-10270-0000

Council File No.

Council District: 15

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Correspondence from the Harbor Department dated September 9, 2014; referred by the Mayor for report dated September 12, 2014

Subject: **PROPOSED FIRST AMENDMENT TO FOREIGN TRADE ZONE OPERATING AGREEMENT NOS. 13-3148 AND 13-3149 WITH PUMA NORTH AMERICA INC., FTZ 202, SITE NO. 9 AND SITE NO. 28**

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### SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 14-7694 authorizing proposed First Amendments to Foreign Trade Zone (FTZ) Operating Agreements (Agreements) No. 13-3148 and 13-3149 with Puma North America Inc. (Puma), to continue operating in FTZ No. 202, Site No. 9, located in the City of Torrance, and FTZ Site No. 28, located in the City of Carson. In August 2013, the Mayor and Council approved two individual Agreements with Puma each one having an initial term of five years, with three subsequent five-year renewal options, for total contract terms up to 20 years, subject to approval by the Board. The two Agreements with Puma were approved to perform as FTZ Operators on multi-user zone sites, which designate operators to provide FTZ services to the public. In the proposed Amendments, Puma is requesting approval to change its site classifications from multi-user zone sites to single-user FTZ sites, in which the operator does not open their FTZ services to the public and handles only their own products. In addition, the proposed Amendment will change the administration fee from \$7,750 to \$10,000 annually. All other terms and conditions of the Agreement will remain in effect, with the exception of the incorporation of updated City's contractual provisions.

Puma will continue to operate the FTZ Site under federal FTZ Operating rules and regulations. The U.S. Government's Federal FTZ Board designated the Port as the Grantee/Administrator of FTZ 202 region for the City of Los Angeles and the surrounding region. A definition of 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 goal of the FTZ program and Port is to stimulate economic growth and development in the United States, facilitate efficient cargo transit and support the local, State and national economy. The FTZ does not generate a direct profit for the Port, but is provided by the Port as a service to its customers to promote international trade and commerce in the region and U.S. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

## **PROPOSED AGREEMENT**

The proposed First Amendments will designate Puma as a single-user zone site operator for FTZ Site No. 9 and Site No. 28. The FTZ Agreement authorizes Puma to operate and manage warehouse facilities at the site to receive, store, and manage inventory and distribute shoes, consumer products, and other merchandise for sale in national and, occasionally, international markets. Puma is a U.S. Company with headquarters in Westford, Massachusetts. In FTZ Site No. 9, Puma employs approximately 200 full-time employees on 425,000 square feet of warehouse and office space and 30.27 acres of land. In FTZ Site 28, Puma employs approximately 150 full-time employees on 220,000 square feet of warehouse and office space and eight acres of land. According to the Port, Department received \$7,750 in annual fees for each of the two Agreements in the first year of the five-year contract term. Pursuant to the proposed Amendment that amount will increase to \$10,000 per year for a total of \$47,750 for the initial five-year contract term.

The agreements for the FTZ Operators will require no direct use of Port funds. However, the Port states that it spends funds on indirect or outside expenses for FTZ-related administrative services. During the 2013 calendar year, the Port states that it spent approximately \$250,000 for administrative operating cost, including FTZ related consulting services, and collected approximately \$264,000 in revenue and fees from all the FTZ operators.

The Port states that Puma has committed to use the Pier Pass program, which reduces daytime truck traffic operations and allows open operations in the evenings. Puma agreed to notify truck drivers, brokers and companies that trucks serving the FTZ site and Port's container terminals must confine their routes to the designated Wilmington truck route. If the proposed Agreement is not approved, Puma has the option to move its facilities to another FTZ region in California, such as Long Beach or San Diego, Palmdale or another state. The Port stated that approval of the Agreement is in the best interest of the City and Port economically.

The proposed Agreements are in compliance with City requirements and have 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 Director of Environmental Management has determined that this is an administrative action and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III, Section 1 (14) of the Los Angeles City CEQA guidelines.

## **RECOMMENDATION**

That the Mayor approve Harbor Department (Port) Resolution No. 14-7694 authorizing proposed First Amendments to Foreign Trade Zone (FTZ) Operating Agreements (Agreements) No. 13-3148 and 13-3149 with Puma North America Inc. (Puma), to continue operating in FTZ No. 202, Site No. 9, located in the City of Torrance, and FTZ Site No. 28, located in the City of Carson, changing the Puma site classifications for both Agreements from multi-user FTZ sites to single-user FTZ sites, and return the document to the Port for further processing, including Council consideration.

## **FISCAL IMPACT STATEMENT**

The proposed First Amendments to two FTZ Operator Agreements with Puma will have no impact on the City General Fund. The proposed Amendments will change the annual administration fee from \$7,750 per year to an administrative fee increase to \$10,000 per year for a total of \$47,750 for the initial five-year contract term and a total of \$157,750 in administrative fees for each of the Agreements over the 20-year contract term, subject to approval by the Board. All Funds will be deposited in the Harbor Revenue Fund.

## **TIME LIMIT FOR COUNCIL ACTION**

Pursuant to Charter Section 373, "Long Term Contract Approved by Council," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than three years within 60 days after submission to Council, the contract will be deemed approved.

*MAS:ABN:10150031*

Attachment

## ATTACHMENT

### OVERVIEW OF FOREIGN TRADE ZONES, 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. 1) 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 does not 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 required to operate within U.S. law.

The FTZ Operator is normally required to pay a one-time application fee of \$5,000 and annual administrative operating fees 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. In this request for a single-user FTZ site, the annual administration fees will change from \$7,750 to \$10,000 annually. 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 one-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.