



**PierPASS OffPeak Q&A
May 22, 2009**

OffPeak Creation

Q: Why was the OffPeak program created?

- Container traffic at the Los Angeles and Long Beach ports grew sharply between 2000 and 2004. By 2004, roads around the ports and marine terminals in the ports became severely congested.
- Community and elected leaders demanded that the terminals in the ports begin operating night shifts for container pick-ups and drop-offs.
- Elected officials were prepared to impose a solution that included a container fee on daytime port use collected by the state and the use of which would be decided in Sacramento.
- The goods movement industry came together and proposed an industry-driven solution that provided a financial incentive to move cargo outside of peak hours and a funding mechanism for five new night shifts.
- This solution became the OffPeak program, launched on July 23, 2005, and run by PierPASS Inc.

Q: What is PierPASS and what is OffPeak?

- PierPASS Inc. is a not-for-profit company created by marine terminal operators at the Los Angeles and Long Beach ports to operate the OffPeak program.
- The OffPeak program was launched in July 2005 with the support of state and local elected officials, local communities and cargo owners to reduce congestion in and around the Ports of Los Angeles and Long Beach.
- Under the OffPeak program, all international container terminals in the two ports established additional shifts to deliver and receive containers (see www.PierPASS-tmf.org for the most up-to-date schedule).
- As an incentive to use the OffPeak shifts and to cover the added cost of the shifts, a Traffic Mitigation Fee is required for most cargo movement during peak hours (Monday through Friday, 3 a.m. to 6 p.m.). See www.PierPASS-tmf.org for the most up-to-date schedule.

Schedule Changes

Q. What change was made to the schedule?

- Marine terminal operators at the Ports of Los Angeles and Long Beach have eliminated one OffPeak shift per week due to declining cargo volume. The revised schedule became effective the week of April 6, 2009.

Q. What is the revised schedule?

- Four terminals will close during the Thursday night OffPeak shift; eight terminals will close during the Saturday OffPeak shift; and one terminal will close during the Wednesday night OffPeak shift.
- See www.PierPASS-tmf.org for the most up-to-date schedule.

Q. Why was a change made?

- With the dramatic drop in cargo volume amid the economic crisis, terminal operators must take measures to reduce their operational costs. Volume fell 27 percent at the ports of Los Angeles and Long Beach in the first quarter of 2009 compared to same time period in 2008.
- Since its inception in 2005, revenue from TMF collection has not fully covered the added costs of operating the five OffPeak program shifts. In the fourth quarter of 2008, the actual cost of OffPeak gates was \$79 per TEU compared to the fee of \$50 per TEU.
- The cost to operate OffPeak gates is relatively fixed, so a decrease in cargo volume translates into an increase in the OffPeak cost per TEU.

Q. How much will terminal operators save by eliminating one OffPeak shift?

- Eliminating one OffPeak shift per week should produce a savings between \$17 per TEU and \$25 per TEU.

Q. How did PierPASS determine this was the best course of action?

- Because losses from the OffPeak program are not sustainable, PierPASS consulted with key industry stakeholders, including its 15+ member Advisory Committee, to determine the best course of action.
- PierPASS engaged an independent consultant firm to assess OffPeak gate volume and the effect of adjusting the OffPeak shifts.
- Beyond cost-cutting measures that marine terminal operators have already taken individually, the terminal operators have also analyzed potential methods of controlling the costs of the OffPeak program.

Q. Why not just eliminate the OffPeak program until cargo volume picks up?

- Maintaining the viability of the OffPeak program through this economic downturn is critical to ensure cargo moves efficiently and to improve air quality around the ports. Because the OffPeak program remains in operation, PierPASS will be able to easily add back additional shifts when cargo volume recovers and congestion pressures begin to return.
- The OffPeak program is an effective industry-driven solution that provides a financial incentive to move cargo outside of peak hours, in order to reduce truck traffic and pollution during peak daytime traffic hours and to alleviate port congestion. It was only when a general program was established by all the terminal operators – with a fee component as an incentive – that many shippers were motivated to move their cargo deliveries to off-peak hours.
- Between OffPeak's inception on July 23, 2005, and December 2009, PierPASS has diverted 11,463,002 truck trips out of peak daytime hours

- By diverting traffic from peak daytime hours, the OffPeak program helps cargo move more efficiently and helps improve air quality around the ports.

Impact of OffPeak

Q: How does OffPeak help move cargo more efficiently?

- It spreads existing traffic across more hours.
- It makes better use of valuable port assets.
- It reduces turn times (pickup and drop-off) for the truck fleet and drivers.
- It reduces truck traffic on I-710 and other California highways during commute hours.

Q: How much traffic does the OffPeak program shift out of peak daytime hours?

- During 2007 and most of 2008 – prior to the economic downturn – OffPeak shifts handled an average of 68,000 truck trips in a typical week, or about 40 percent of all container moves at the two ports on days with both peak and OffPeak shifts. If the OffPeak shifts were to be eliminated, most of these trips would take place in peak daytime traffic, causing heavy congestion and thus increasing air pollution. In the first quarter of 2009, OffPeak shifts handled an average of 54,000 trucks in a typical week.
- As of December 2008, more than 11.46 million truck trips have been diverted out of peak daytime hours since the start of the program in July 2005.

Q: How does the OffPeak program help improve air quality around the ports?

- Taking a truck out of gridlocked traffic and allowing it to travel at higher speeds by driving at night reduces air pollution.
- According to the air quality model used by the California Air Resources Board to project the state's emission inventory:
 - A truck that travels 10 miles at 5 mph produces 90% more pollution than the same truck traveling those same 10 miles at 55 mph.
 - A truck traveling 5 mph produces 318% more particulate matter than when it travels at 55 mph.
 - A truck produces a quarter pound of pollution every hour it idles. Thus, every hour that a truck does not sit in a line idling reduces pollution by that amount.

Source: California Air Resources Board, EMFAC2002. The pollutants include total organic gases, carbon monoxide, oxides of nitrogen, sulfur dioxide and PM10.

The Traffic Mitigation Fee (TMF)

Q: Why is the Traffic Mitigation Fee (TMF) Charged?

1. The TMF provides an incentive to use the night shifts; and
2. The TMF provides necessary funding for night shifts.

Q: Is PierPASS Inc. making money from the TMF?

- No. PierPASS Inc. is a not-for-profit organization and makes no profit or loss from operating the OffPeak program.

- All fees collected, minus the administrative and overhead costs incurred by PierPASS to implement and manage the program, are allocated to the terminal operators to finance the labor and operational costs of the five additional OffPeak program shifts.

Q: Are the terminal operators making money from the TMF?

- No. As shown in more detail below, the revenue from the TMF is not covering the added costs of operating a second shift. This has been determined through a semi-annual review of terminal costs by an independent third party analyst.

Q: What is the cost of running the OffPeak program, and what are the TMF revenues?

- Periodic cost studies of the OffPeak program have been conducted by Palazzolo & Associates, Inc., maritime industry experts in financial consulting and reporting.
- Palazzolo & Associates determined that the net cost to the terminal operators of operating the late shifts for the 2005 OffPeak program was an annualized \$196.9 million, or \$79.5 million for the five months of OffPeak operation in that year. In comparison, gross TMF revenues for 2005 were \$42.6 million.
- For the 2006 operating year, Palazzolo & Associates determined a net cost of \$203.6 million for the OffPeak program. In comparison, gross TMF revenues for that period were \$117.5 million.
- For the 2007 operating year, Palazzolo & Associates determined a net cost of \$202.8 million for the OffPeak program. In comparison, gross TMF revenues for that period were \$125.5 million.
- For the 2008 operating year, Palazzolo & Associates determined a net cost of \$173.5 million for the OffPeak program. In comparison, gross TMF revenues for that period were \$114.2 million.

Q: What are PierPASS's administrative expenses?

- Expenses of administering the program totaled \$11.3 million, \$9.5 million, \$9.8 million and \$5.2 million for the 2008, 2007, 2006 and 2005 fiscal years, respectively.
- For all periods, expenses consisted of administration costs, bank and professional fees, and the OffPeak program's computer systems and software. The OffPeak program's computer systems and software are used to collect TMF payments and manage the notification of TMF payment status to the terminal operators.

Q. What is the per TEU cost to run the OffPeak program?

- In the fourth quarter of 2008, the actual cost of OffPeak gates was \$79 per TEU compared to the fee of \$50 per TEU.

Q: How frequently has the amount of the TMF been increased, and by how much?

- Since the OffPeak program began in July 2005, the amount of the TMF has been increased only once, in April 2006.
- From July 2005 through April 2006, the TMF rate was \$40 per TEU (20-foot equivalent unit). On April 24, 2006, the TMF rate was adjusted to \$50 per TEU.

Q. Will there be a change in the TMF?

- At this time, there is no plan to change the TMF.

Q: How are net proceeds from the TMF distributed among terminal operators?

- Net proceeds of the TMF are allocated according to container volume at each terminal.

Q: Is the TMF a subsidy for inefficient operations at the terminals? If the terminals are being reimbursed for their costs of running the night shifts, isn't that an incentive for the terminals to let their costs keep rising?

- Not at all. Net proceeds of the TMF are allocated according to container volume at each terminal, not according to their individual costs. The more efficient the terminals are, the more likely they are to avoid operating their night gates in the red.

Q: Why not just let market demand drive the supply of night shift operations?

- That was the situation before the OffPeak program began, and it wasn't working. The large majority of shippers wanted to pick up their cargo during peak hours and built their business models around that. It was only when a general program was established by all the terminal operators – with a fee component as an incentive – that many shippers were motivated to move their cargo deliveries to off-peak hours.
- Community and political leaders demanded that the terminals operate a full-service second shift, and that all terminals be open for the full second shift.