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## **Q&A on PierPASS Inc. and the OffPeak Program**

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### *Why and How OffPeak was Created*

#### **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 but used for the general state budget rather than to directly ease congestion.
- 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 have established five additional shifts per week to deliver and receive containers (Monday through Thursday from 6:00 p.m. to 3:00 a.m. and Saturday from 8:00 a.m. to 6:00 p.m.).
- 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, 3:00 a.m. to 6:00 p.m.).

*Impact and Future of OffPeak*

**Q: How does OffPeak help move cargo more efficiently?**

- Spreads existing traffic across more hours
- Makes better use of valuable port assets
- All terminals operate new shifts during the same days and hours
- Reduces turn times (pickup and drop-off) for the truck fleet and drivers
- 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?**

- OffPeak shifts handle an average of 65,000 truck trips in a typical week, or about 37 percent of all container moves at the two ports.
- As of April 2008, more than 8 million truck trips have been diverted out of peak daytime hours since the start of the program in July 2005.

**Q: Have there been any independent evaluations of the effectiveness of the OffPeak program?**

Yes. Genevieve Giuliano of the School of Policy, Planning and Development at the University of Southern California, and Thomas O'Brien of the Center for International Trade and Transportation at California State University, Long Beach, have been studying the OffPeak

program, and presented their initial findings in January 2008. Excerpts from the paper's conclusion state:

- “The PierPASS program has resulted in a significant shift of truck traffic from day to night hours.”
- “We conclude that the PierPASS program achieved its objective of shifting truck traffic out of peak periods. In doing so, it offset about two years of port growth.”
- “Like the handful of experiments with congestion pricing, it demonstrates that price incentives are powerful tools for managing the transportation system.”

*Source: Giuliano, G. and T. O'Brien. Impacts of Port Gate Operations on the Highway System: A Case Study. Presented at the Transportation Research Board 87th Annual Meeting, January 2008.*

**Q: Will the OffPeak program sunset after three years?**

- The West Coast Marine Terminal Operators Agreement (WCMTOA) on file with the FMC, which established the program, states that the program will continue unless and until the members terminate it. As the program reaches its third anniversary, the terminals are reviewing it to determine if it continues to provide value.
- An independent consultant, BST Associates, has been hired to review and assess the results of the OffPeak program. The information gathered will be consolidated, analyzed, documented and delivered by late April 2008.
- Subject to the findings of BST, it is expected that the OffPeak program will continue beyond its third year because of the continuing need to address the community's traffic mitigation and clean air concerns.
- There are two ways to drive traffic to night time – a financial cost for daytime usage, or a mandatory appointment system. There has been opposition in the goods movement industry to an appointment system.
- There is concern that if the fee for daytime use were eliminated, a large proportion of the traffic would shift back to daytime and the terminals would be forced to discontinue the full service night shifts, as there would be no funding for the cost of OffPeak labor.
- Congestion pricing is a well established model, not only with PierPASS but also in places such as Singapore and London, where it costs more to drive into the city during the daytime. The added cost during peak daytime hours is what drives the more efficient use of public infrastructure.

***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: Why do the terminals need TMF payments to offset the cost of night shifts? If running a terminal in the daytime is a profitable business, doesn't running a terminal at night time generate even more profits?**

- Adding the night shifts more than doubled the cost for terminal operators without increasing revenues. The immediate effect of opening the night shifts was to spread the same amount of volume over twice the number of hours.
- Nighttime labor rates are significantly higher than daytime rates. Under the current ILWU contract, workers are entitled to 1.3333 times the hourly rate for working night shifts.
- The first hours of the day shift and the last hours of the night shift see relatively low volumes, leaving substantial unused capacity.

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

- Periodic cost studies of the OffPeak program are conducted by DMJM Harris (formerly JWD Group), an independent industrial engineering firm.
- These DMJM Harris studies determined that the net cost to the terminal operators of operating the late shifts for the 2005 OffPeak program was an annualized \$202 million, or \$84 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, the DMJM Harris studies determined a net cost of \$204 million for the OffPeak program. In comparison, gross TMF revenues for that period were \$117.5 million.
- For the 2007 operating year, DMJM Harris determined a net cost of \$132 million for the OffPeak program. In comparison, gross TMF revenues for that period were \$125.5 million.

**Q: What are PierPASS's administrative expenses?**

- Expenses of administering the program totaled \$9.5 million, \$9.8 million and \$5.2 million for the 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: 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.
- There are currently no plans to increase the TMF. The currently ongoing ILWU negotiations may increase terminal costs, however, and their impact will be reviewed once the new contract is completed.

**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?**

- No. Since the TMF isn't a full reimbursement for costs of running the night shifts, inefficiency costs would simply negatively affect the terminal operators' bottom lines. The more efficient the terminals are, the more profitable they will be, and the reverse is true as well.

**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. Under the free market, 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.

*PierPASS Position on Clean Air Action Plan (CAAP), Truck Replacement Program, Employee Drivers and Additional Container Fees*

**Q: The Clean Air Action Plans recently approved by the Ports of Los Angeles and Long Beach call for additional fees to be imposed on containers, and the POLA plan requires employee drivers. Is PierPASS supporting these measures?**

- PierPASS is not an advocacy organization and will not take a position on these measures.
- The marine terminal operators who are PierPASS members may individually take positions on various elements of the CAAPs, and may express their positions individually or through other groups of which they are members.
- PierPASS and its terminal members generally support the goal of cleaner air in and around the ports.
- Terminal operators believe they have gone to greater lengths than any other industry group in improving air in and around the ports, through establishing the OffPeak program, through shifting to cleaner equipment inside the terminals, and through other measures.

**Q: Will the terminal operators assist in the implementation of the Clean Air Action Plans?**

- The Clean Air Action Plans adopted by the two ports purport to require the terminal operators to enforce rules barring non-complying trucks from entry after certain dates. The plans also purport to require the terminals to collect new fees and distribute the proceeds back to the ports to fund the Truck Replacement Program.
- Based on the provisions of the ports' tariff plans, it is possible that the terminal operators may be required to assist in the implementation of parts of the CAAP.
- There is, however, currently no agreement or understanding between the ports and the terminal operators on implementing any portion of the CAAPs.
- On February 14, 2008, the West Coast Marine Terminal Operators Agreement (WCMTOA) and the two ports filed an agreement with the U.S. Federal Maritime Commission providing authority for the parties discuss possible implementation of the CAAPs. As of mid-April, this filing is still pending before the FMC.

*TruckTag Program*

**Q: What is the TruckTag program?**

- The TruckTag program is a proactive effort by marine terminal operators in Los Angeles and Long Beach to meet U.S. Department of Homeland Security and U.S. Coast Guard guidelines requiring marine terminals to enhance their security measures.

- TruckTag uses RFID (Radio Frequency Identification) technology to meet these heightened security requirements without hindering the efficient flow of cargo through the Los Angeles and Long Beach ports.

**Q: What exactly are TruckTags?**

- Similar to E-ZPass and FasTrak automated systems, RFID tags installed on the truck's driver-side rearview mirror are automatically read at marine terminal gate entrances using specialized scanning antennas that validate the security clearance of the truck.
- As part of the system, the truck driver's commercial driver's license is checked to verify they are authorized by their truck company to enter the port facility on their behalf.

**Q: Is the Traffic Mitigation Fee used to fund the TruckTag program?**

- No. The costs of the TruckTag program are currently paid by the terminals and is not part of the offPeak program although it is administrated on behalf of the marine terminal operators by PierPASS.