

PierPass Financial Overview

- OffPeak Program Cost Analysis
- PierPass Financial Auditing Process

October 21, 2015

Overview



PierPass administers the OffPeak program, which relieves daytime traffic congestion in and around the Ports of Los Angeles and Long Beach by providing night and Saturday shifts, known as the OffPeak shifts, to deliver and receive containers. PierPass collects a Traffic Mitigation Fee (TMF) on weekday daytime cargo moves to incentivize cargo owners to use the OffPeak shifts and to help marine terminal operators (MTOs) pay for the cost of operating the OffPeak shifts.

PierPass is a not-for-profit company. All fees collected, minus the administrative and overhead costs incurred by PierPass to operate the program, are allocated to the MTOs to finance the additional costs to operate the OffPeak shifts.

This financial overview contains two parts. The first part reviews the methodology used to estimate the costs the MTOs incur by operating gates during the OffPeak shifts. This annual cost review is conducted by maritime industry consulting firm Palazzolo & Associates.

The second part reviews the process used by Windes, the certified public accounting firm that annually audits PierPass.

OffPeak Program Cost Analysis

Each year, PierPass analyzes the costs to operate the OffPeak program. The results, along with a summary of the program's audit, are posted to the PierPass Web site at www.pierpass.org.

Palazzolo & Associates (www.palazzoloassociates.com) has been analyzing the program's costs since 2008. Palazzolo & Associates was selected based on their expertise as financial consultants to the maritime industry.

A look at their methodology is provided on the following pages.



PIERPASS

**Traffic Mitigation Fee (TMF)
Cost Methodology**

Advisory Committee Meeting



**PALAZZOLO
&
ASSOCIATES**

Simplify. Automate. Profit.

PIERPASS Program

TMF Calculation Methodology

- 1. Measure Off-Peak Costs For These Categories:**
 - A. ILWU Manning
 - B. Non-ILWU Manning
 - C. Equipment Costs
 - D. PIERPASS Administration
- 2. Estimate Day Shift Savings**
- 3. Determine TEUs Subject to TMF**
- 4. Calculate Off-Peak Gate/Yard Cost per TEU Subject to TMF**

PIERPASS Program

TMF Calculation Methodology

Elements of ILWU Manning Costs

<i>Cost Element</i>	<i>Source</i>	<i>Assumptions</i>	<i>Comments</i>
Wages	PMA	Current contract rates	Basic longshore rate 2 nd shift ST \$50.91/hr. – OT \$57.27/hr.
Payroll Taxes	PMA	6.20% - FICA	Cost calculated by Palazzolo & Associates (P&A) (wages x percentage) *SUI estimate provided by P&A
		1.45% - Medicare	
		*2.50% - SUI	
PMA Assessments (Benefits, including 401K Contributions, Cargo Dues & Payroll Services)	PMA	\$35.87 – Longshore/Clerk	Cost calculated by P&A (man hours x rate)
		\$38.02 – Foreman	
		\$44.21 – Steady Foreman	
		\$27.94 – Guards	
		\$ 0.93 - Casuals	
Workers' compensation	MTOs	Pctg. of wages (confidential)	Cost calculated by P&A (wages x percentage)

PIERPASS Program

TMF Calculation Methodology

Elements of ILWU Manning Costs (continued)

Included	Excluded
<ul style="list-style-type: none">• PMA Occupation Codes:<ul style="list-style-type: none">– Longshore– Clerk– Forman– Mechanics (roadability, power and reefer only)– Gearmen / Sweeper– Watchmen (incremental)• PMA Operation Codes:<ul style="list-style-type: none">– Gate– Yard– Other (mechanics, gearmen)	<ul style="list-style-type: none">• Terminal C60• Steady guarantee• Dock Work (non-PIERPASS)• Mechanics (gantry crane, container and chassis repair)• Watchmen (existing)• PMA Operation Codes:<ul style="list-style-type: none">– Vessel– Rail

PIERPASS Program TMF Calculation Methodology

Non-ILWU Manning Costs

<i>Cost Element</i>	<i>Source</i>	<i>Comments</i>
Average manning per day	MTOs	N/A
Average total payroll per person per day	MTOs	Calculated by P&A (total payroll x manning x number of days)

Included

- Management
 - Managers
 - Superintendents
 - IT Support
 - Customer Service
- Non-ILWU Gate Staffing (Office Clerks)
- Non-ILWU Mechanics (roadability, power & reefer)
- Non-ILWU Watchmen (incremental)

Excluded

- Non-ILWU Mechanics (gantry crane, container and chassis repair)
- Non-ILWU Watchmen (existing)

PIERPASS Program

TMF Calculation Methodology

Equipment Costs

<i>Cost Element</i>	<i>Source</i>	<i>Assumptions</i>	<i>Comments</i>
Equipment costs	PMA / P&A	See below	P&A used Army Corp of Engineers formulas to calculate hourly rates. (excluding labor costs)

<i>ILWU OCC Code</i>	<i>ILWU OCC Description</i>	<i>Cost / Hr.</i>	<i>Operators per Machine</i>
036	Yard Tractor	\$21.03	1
055	Heavy Lift	31.23	1
061	Top Pick	79.33	2
062	Side Pick	41.21	2
067, 068, 083	Rubber Tire Gantry (RTG)	108.12	2

Equipment Cost = (man shifts x 8hrs.) / (operators per machine) x cost/hr.)

PIERPASS Program

TMF Calculation Methodology

PIERPASS Administrative Costs

<i>Cost Element</i>	<i>Source</i>
PIERPASS Administration Costs	PIERPASS Inc.

- IT hardware and software services
- Customer service staff
- Bank service and fees
- Merchant service fees
- Insurance
- Taxes & Licenses
- Legal
- Auditing
- Communications

PIERPASS Program TMF Calculation Methodology

Day Shift Savings

- Reductions in day shift labor costs are included in the PIERPASS OffPeak Program cost calculation

- Day shift savings calculation:

Day shift savings = (man hour reductions) x (*average rate per man hour)

* Adjusted annually to reflect changes in labor contract rates

PIERPASS Program

TMF Calculation Methodology

TEUs Subject to TMF

<i>Volume</i>	<i>Source</i>
TEUs subject to TMF	PIERPASS System

Included

- Import or Export cargo entering or leaving any terminal facility during Peak Hours (Monday through Friday between 7 a.m. and 6 p.m.)

Excluded

- Empty containers or empty chassis
- Laden Domestic, Intermodal and Transshipped containers
- Import or Export cargo entering or leaving any terminal facility during Off-Peak or Non-Peak Hours

PIERPASS Program

TMF Calculation Methodology

Off-Peak Gate/Yard Cost per TEU Subject to Fee

<i>Rate</i>	<i>Source</i>	<i>Comments</i>
Cost per TEU Subject to TMF	P&A Calculation	Rate calculated by P&A (Off-Peak cost / TEUs subject to TMF)

- P&A publishes quarterly volume and cost reports
- The quarterly reports are submitted to the Federal Maritime Commission (FMC) and WCMTOA members for review

PIERPASS Program Information Confidentiality

- No confidential terminal-specific information is made available to the public, member MTOs, or PIERPASS Inc.
- Only summarized cost and volume data is published by Palazzolo & Associates

PIERPASS Program 2014 Analysis

*Calculation of Off-Peak Gate and Yard Costs for 2014

Item	52 Weeks
Total Off-Peak Gate/Yard Costs	\$223,447,800
TEUs subject to TMF	2,155,359
Gate/Yard cost per TEU subject to TMF	\$104/TEU

Off-Peak Gate/Yard Cost Detail

<u>Cost</u>	<u>52 Weeks</u>
ILWU	\$228,688,116
Non-ILWU	32,646,591
Equipment	29,388,503
PIERPASS Administrative	8,518,405
Total Off-Peak Gate/Yard Costs	\$299,241,615
Less: savings from day shift	(\$75,793,815)
Gate/Yard cost per TEU subject to TMF	\$223,447,800

* Cost calculated using the original 12 member terminals

Overview of PierPass Financial Statement Audit

PierPass is audited each year by an independent auditor, Windes. Windes prepares the annual financial summary that is posted to the PierPass Web site at www.pierpass.org.

Windes (www.windes.com), a certified public accounting firm, is a recognized leader in the field of accounting, assurance, tax, and business consulting services.

A look at their audit procedures is provided on the following pages.

OVERVIEW OF FINANCIAL STATEMENT AUDIT OF PIERPASS, LLC AND PIERPASS, INC.



Profile of Our Firm



Our Firm

- Over 86 years experience in the public accounting practice
- One of the largest regional CPA firms in California
- 16 partners and 110 professionals
- Serving over 2,500 businesses and more than 1,500 individuals

Audit and Assurance Practice

- Experts in a broad range of industries
- Significant focus in transportation and trade sector
- Provide audit & assurance services to over 400 companies
- Middle-market focus
- International reach

Tax and Accounting Practice

- Provide tax and accounting services to over 2,000 businesses and individuals
- Extensive experience with multi state and international matters

Windes' Service Approach

Planning/Interim Fieldwork

- *November/December*
- Preliminary financial review
- Key business processes
- Risk assessment
- Control effectiveness
- Substantive procedures where possible

Year-End Fieldwork

- *January/February*
- Risk based approach
- Substantive audit procedures
- Third party confirmations for cash balances
- Analytical procedures utilizing:
 - industry trends
 - comparative customer activities
 - comparative transaction types

Reporting

- *March*
- Independent Auditors' Report
- Compilation of financial statements and management reports
- Recommendations for control improvement
- Other deliverables:
 - Federal and State tax returns
 - Agreed-upon procedures
 - Escheat services

Risk Assessment

Our evaluation of internal controls considers:

- Enterprise risk
- Regulatory risk
- Technology risk
- Fraud risk
- Operational risk
- Financial risk

Gather Information

- Personal interaction
- Flow charting
- Process narratives
- Account level focus

Assess Risks

- Assertion level focus
- Corroborate existence of key controls for financial reporting, cash reconciliations, payroll and disbursements
- Examine control tests performed over service providers (SSAE 16)

Develop Audit Plan

- Risk based focus to maximize effectiveness
- Determine materiality by audit area
- Timing and scope of testing
- Personnel assigned to testing

Financial Reporting Profile

PierPASS

- 13 MTOs comprise LLC membership
- Pass-through entity
- TMF revenue collection
- High transaction volume
- Operating expense approximates 6.5% of TMF revenue
 - Administrative
 - Credit card/bank fees
 - Third party software services
 - Customer Service Center
- Break even

March 27, 2015

PierPASS, LLC
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To the Members of PierPASS, LLC:

We are submitting this letter in response to your request for a summary of financial highlights for the year ended December 26, 2014. The following information has been taken from the combined financial statements of PierPASS, LLC and PierPASS, Inc. (collectively, PierPASS) for which we have rendered an unmodified audit opinion dated March 27, 2015.

PierPASS Financial Performance

Traffic mitigation fee revenues for PierPASS' year ended December 26, 2014 totaled \$144,124,640. PierPASS operating expenditures for the year totaled \$9,482,755. Major categories of operating expenses include computer software, bank transaction processing fees, and administrative support. The excess of revenues over expenses are distributed by management to marine terminal operator members as cash flow permits. Distributions to members totaled \$132,731,829 for the year ended December 26, 2014.

Combined Financial Results of PierPASS, LLC and PierPASS, Inc.

A summary of the combined financial results for 2014 and 2013 follows:

<u>Year Ended</u>	<u>December 26, 2014</u>	<u>December 27, 2013</u>
Total Combined Operating Revenues	\$ 144,124,640	\$ 119,073,204
Total Combined Operating Expenses	\$ 9,482,755	\$ 8,700,455
Excess of Revenues over Expenses	\$ 134,641,885	\$ 110,372,749
Total Distributions to Members	\$ (132,731,829)	\$ (111,226,508)
Members' Equity	\$ 3,741,885	\$ 1,831,829

Sincerely,

Windes, Inc.

WINDES

AUDIT | TAX | ADVISORY

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WINDES, Inc.

If you have any questions or comments regarding the PierPass cost analysis or financial audit, please send them to info@pierpass.org and include “PierPass Financials” in the subject line.

Thank you