



100 Ocean Gate, Suite 600
Long Beach, CA 90802
(562) 437-9112
www.pierpass.org

July 20, 2011

Dear Customers,

Over the years many of our customers and stakeholders have had questions regarding the cost of running the PierPass OffPeak program, which provides extra gates throughout the San Pedro Bay port complex. Up to now, we have addressed those questions with data taken from our Audited Financial Statements and our PierPass Traffic Mitigation Fee Calculation reports, both done by third party companies. As we approach an increase in the TMF for the first time in five years, some stakeholders have asked for more detailed information. In a sincere desire to address those requests, PierPass has asked our third party auditors to present more detailed summary reports of their findings, which we hope can answer any lingering questions.

The TMF, which is charged on containers during peak (daytime) shifts, creates an incentive to use the OffPeak shifts and provides funding to offset the cost of operating the OffPeak shifts. What the reader will see in the attached two documents is that the revenue collected has consistently fallen short of the costs of the program by substantial margins. This is the reason for the \$10 per TEU/\$20 per FEU fee increase.

This is the first increase in the TMF since 2006. Since then, hourly labor costs have increased 31 percent.

The first document is provided by Windes & McClaughery Accountancy Corp., which audits PierPass. Please note that the figures in this attachment relate to the administrative operation of PierPass, not the costs of the off-peak gates. The off-peak gate costs are paid for by the terminal operators themselves, not by PierPass, and those costs are addressed by the second document referred to below.

The second document is provided by Palazzolo & Associates, a professional accountancy, operational and technology consultancy firm with a strong maritime background. This document addresses the terminal operators' costs of operating off-peak shifts, and shows the shortfall of the TMF revenues against those costs.

We hope this information adds the visibility being sought and answers some of the questions you may still have. Please feel free to contact us if you have further questions.

Sincerely,

Bruce Wargo
President and CEO, PierPass Inc.



**WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Established 1926

Landmark Square
111 West Ocean Blvd, 22nd Fl.
Long Beach, CA 90801
(562) 435-1191

Von Karman Towers
18201 Von Karman Ave, Ste 1060
Irvine, CA 92612
(949) 271-2600

Figueroa at Wilshire
601 South Figueroa Street, Ste 4950
Los Angeles, CA 90017

www.windes.com

July 13, 2011

PierPASS, LLC
100 Oceangate, Ste. 600
Long Beach, CA 90802

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 31, 2010. The following information has been taken from the combined financial statements of PierPASS, LLC and PierPASS, Inc. for which we have rendered an unqualified audit opinion dated April 14, 2011.

PierPass Financial Performance

Combined traffic mitigation fee revenues for PierPASS' year ended December 31, 2010 totaled \$100,470,410. Combined operating expenditures for the year totaled \$8,369,391. Major categories of expenses include computer software, amortization expense, and transaction processing fees. The excess of revenues over expenses are distributed by management to marine terminal operator members as cash flow permits. Distributions to members totaled \$93,237,021 for the year ended December 31, 2010.

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

A summary of the combined financial results for 2010 and 2009 follows:

Year Ended December 31,	2010	2009
Total Combined Operating Revenues	\$ 100,470,410	\$ 86,150,660
Total Combined Operating Expenses	\$ 8,369,391	\$ 7,136,843
Excess of Revenues over Expenses	\$ 92,101,019	\$ 79,013,817
Total Distributions to Members	\$ (93,237,021)	\$ (76,157,869)
Net Assets, End of Year	\$ 1,931,293	\$ 3,067,295

Sincerely,
WINDES & McCLAUGHRY ACCOUNTANCY CORPORATION

July 20, 2011

Mr. B. Wargo, President
PierPASS, Inc.
100 Oceangate, Suite 600
Long Beach, CA 90802

Mr Wargo:

At the request of PierPASS, Inc. we have prepared the attached executive summary of our fourth quarter 2010 TMF cost calculation. This cost-based calculation is used, in turn, to determine a traffic mitigation fee (TMF) to fund the PierPASS off-peak program.

Since the inception of the Program in July 2005, PierPASS has engaged outside, independent consultants to determine these costs.

The results of this calculation for the fourth quarter of 2010, conducted by our firm on a basis consistent with prior periods, is described in the following executive summary.

Palazzo & Associates

Long Beach, California
July 11, 2011

Attachment: Executive Summary

**PierPASS 4th Quarter 2010 TMF Calculation
Executive Summary**

This executive summary describes the fourth quarter 2010 (Q4-2010) calculation of gate and yard costs used to determine the Traffic Mitigation Fee, for the members of the West Coast Marine Terminal Operators Discussion Agreement (WCMTOA), as it relates to the PierPASS program under Federal Maritime Commission Agreement No. 201143. This report was prepared to summarize the findings of our report dated February 7, 2011.

The Program's Q4-2010 costs and volumes were determined on a consistent basis since program inception, by calculating a four week average cost¹ between September 18, 2010, and December 24, 2010². PierPASS administrative costs and a credit for day shift cost savings are included.

The four week average cost of the PierPASS program is divided by a four week average of Twenty-Foot Equivalent Units (TEU's) subject to the Traffic Mitigation Fee (TMF). The resultant calculation for Q4-2010 is in Table 1 below:

Table 1: Calculation of Gate and Yard Cost for Q4-2010

Item	Four Week Average	Equivalent Annual Amount
Total PierPASS off peak costs	\$ 19,114,759	\$ 248,491,871
Less: savings from day shift	(4,747,000)	(61,711,000)
Net PierPASS off peak shift costs	\$ 14,367,759	\$ 186,780,871
TEU subject to TMF	151,260	1,966,380
Gate and Yard cost per TEU	\$95/TEU	\$95/TEU

The four week average cost of off-peak operations among the terminals during Q4-2010 was \$18,544,670. When the four week average PierPASS administrative costs of \$570,089 for the period are combined with terminal operating costs, the total four week average PierPASS cost is \$19,114,759.

The difference between the cost of off-peak operations and the TMF rate is partially mitigated by savings from reductions in peak period shift costs. The four week average peak period savings is \$4,747,000 as determined during the 4th quarter of 2007 and the 1st quarter of 2008³.

¹ A four week average is used to eliminate inconsistencies among the lengths of calendar months and because terminal payrolls are determined on a weekly basis, not on the basis of a calendar month.

² These dates are the Q4-2010 beginning and ending dates for WCMTOA member payrolls.

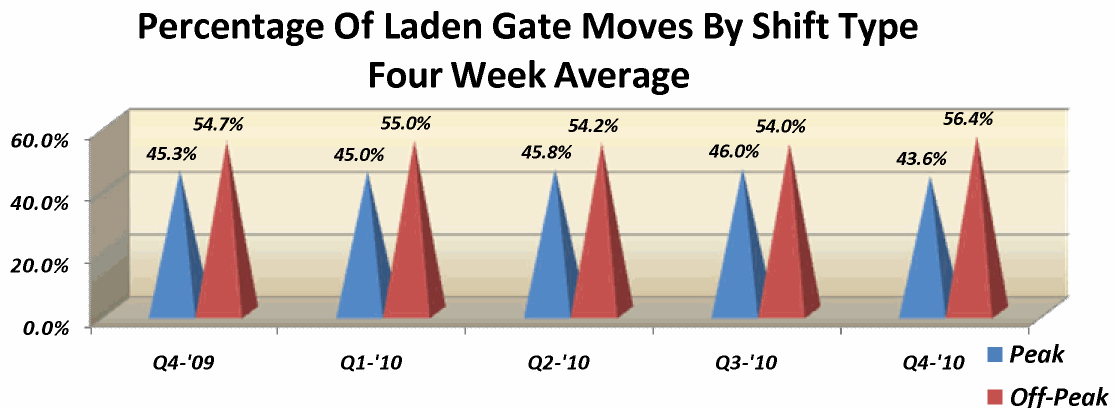
³ Off-peak cost calculations are reduced by the estimated peak period savings from the shift of cargo from peak to off-peak periods. This amount was determined to be \$4,747,000, on a four week average basis and \$61,711,000 on an annual basis.

It is important to note that, while the cost of off-peak gates was \$95/TEU, the TMF charged to cargo owners was only \$50/TEU during the period. In other words, the Program was not fully compensated for its costs during Q4-2010.

Percentage of Laden Cargo by Shift

Laden import and export gate moves include both PierPASS exempt and non-exempt containers that pass through a terminal’s gate. Chart 1 below shows the percentage of peak and off-peak laden gate moves as compared to selected prior periods.

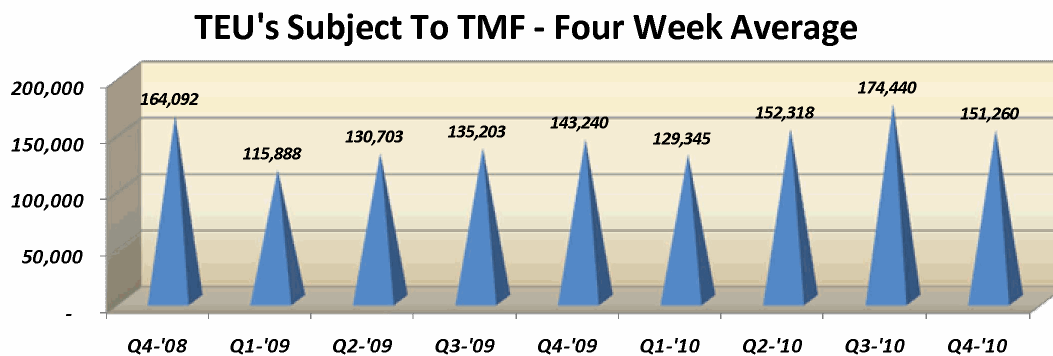
Chart 1 - Percentage of Cargo-Bearing Gate Moves by Shift Type



TEU’s Subject To TMF

TEU’s subject to TMF are the number of non-exempt laden containers, expressed in twenty foot equivalent units (TEU’s), that have in-gated or out-gated during peak shifts. Chart 2 below presents the Q4-2010 TEU’s subject to TMF as compared to prior periods.

Chart 2 - TEU’s Subject To TMF

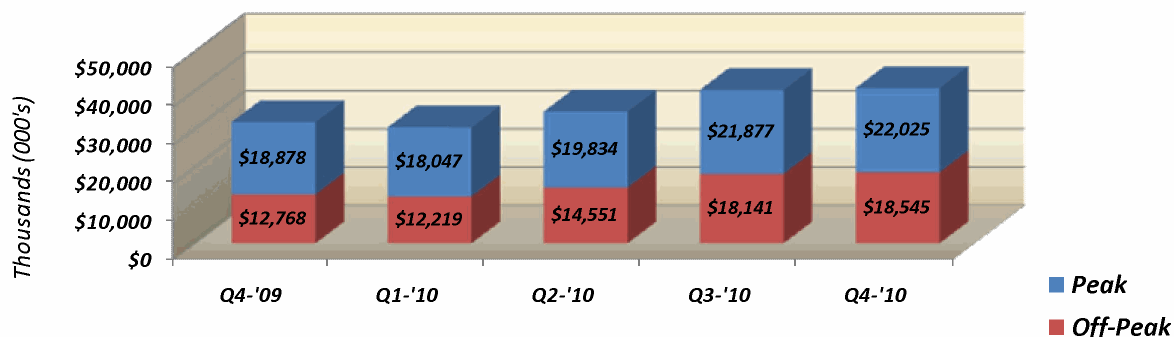


Terminal Costs

The four week average cost of peak and off-peak shifts for the last five quarters is presented in Chart 3 below.

Chart 3 - Cost By Shift Type

Cost By Shift Type - Four Week Average



The costs of peak and off-peak shifts include gate and yard activity only. Vessel and rail costs are excluded from the analysis because these are not the costs of off-peak cargo receipt and delivery. Gate and yard costs include three cost types: ILWU payroll, non-ILWU payroll and equipment costs.

Increases in ILWU labor costs are due in part to contractual increases in wage rates, benefit assessment rates and payroll taxes. Table 2 presents the rate increases that have affected ILWU payroll, benefit assessments and taxes since June 2004.

Table 2 - ILWU Wage Rates, Assessments and Taxes by Period

Wage Rates & Assessments					Payroll Taxes		
As of:	Base Hourly Wage Rates	Hourly Rate Increases	Hourly Assessment Rates	Hourly Assessment Increases	Year	FICA Annual Limits	% of Base Wage
06/28/04	\$28.68	N/A	\$17.02	N/A	2004	\$87,900	*7.65%
07/05/05	29.68	\$1.00	17.11	\$0.09	2005	\$90,000	*7.65%
07/01/06	30.18	0.50	17.60	0.49	2006	\$94,200	*7.65%
06/30/07	30.68	0.50	19.25	1.65	2007	\$97,500	9.95%
06/28/08	31.18	0.50	21.52	2.27	2008	\$102,000	9.95%
07/04/09	31.68	0.50	28.78	7.26	2009	\$106,800	10.15%
07/03/10	32.68	1.00	29.35	0.57	2010	\$106,800	10.15%

* SUI was not included in PierPASS calculations prior to Qtr 4-2007

Information Sources

PierPASS costs used in the determination of TMF are calculated from these sources:

- Pacific Maritime Association (PMA) payroll data files for ILWU wages, benefit assessments and taxes,

- Member-prepared schedules of non-ILWU labor and other overhead costs to operate night and Saturday shifts,
- Equipment cost standards supplied by a port industry engineering firm,
- PierPASS administrative cost data

Background

PierPASS is a not-for-profit company created by the terminal operators of the Port of Los Angeles and Long Beach that constitute the West Coast Marine Terminal Operators Discussion Agreement (WCMTOA). Their purpose is to address multi-terminal issues such as congestion, security and air quality. PierPASS created its Off-Peak program as an incentive for cargo owners to receive and deliver cargo at night and on weekends, in order to reduce truck traffic and pollution during peak daytime traffic hours and to alleviate port congestion.

To provide an incentive for cargo interests and truckers to use off-peak gates, beginning in July, 2005, a Traffic Mitigation Fee (TMF) was imposed on Beneficial Cargo Owners (BCO's) receiving and delivering cargo to and from the Ports of Los Angeles and Long Beach during peak hours, (Monday thru Friday, 3:00 a.m. to 5:00 p.m.).