

June 15, 2012

Dear Customers,

For the second year in a row, PierPass is responding to the requests of our customers and providing additional transparency with respect to its Traffic Mitigation Fee (TMF). Over the years some of our customers and stakeholders have had questions regarding the cost of running the PierPass OffPeak program of extra gates throughout the San Pedro Bay port complex. As we approach an increase in the TMF effective August 1, 2012, some have again asked for transparency of program costs and TMF collections. As with last year, PierPass has asked our third party auditors to present a summary report of their findings which hopefully can address questions about the Traffic Mitigation Fees collected and used to pay for the off-peak gates. What the reader will see in the enclosed reports is that the TMF revenue collected has consistently fallen short of the costs of the program by substantial margins, and will continue to do so after the August 1 increase.

The first document is provided by Windes & McClaughery Accountancy Corporation who is tasked with auditing PierPass, Inc. Please note that the figures in this attachment relate to the administrative operation of PierPass for 2011, 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 for 2011, and the amount of the fee that would be necessary to recover those costs from applicable shipments.

We hope this information provides the visibility being sought and answers some of the questions you may have regarding extra gate costs and the Traffic Mitigation Fee collections of the PierPass OffPeak Program. Please feel free to contact us if you have further questions.

Regards,

Bruce Wargo  
President & CEO  
PierPass, Inc.



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

*Established 1926*

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June 1, 2012

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, 2011. 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 May 1, 2012.

*PierPass Financial Performance*

Combined traffic mitigation fee revenues for PierPASS' year ended December 31, 2011 totaled \$97,070,540. Combined operating expenditures for the year totaled \$8,619,791. Major categories of expenses include computer software 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 \$88,506,467 for the year ended December 31, 2011.

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

A summary of the combined financial results for 2011 and 2010 follows:

<b>Year Ended December 31,</b>	<b>2011</b>	<b>2010</b>
Total Combined Operating Revenues	\$ 97,070,540	\$ 100,470,410
Total Combined Operating Expenses	\$ 8,619,791	\$ 8,369,391
Excess of Revenues over Expenses	\$ 88,450,749	\$ 92,101,019
Total Distributions to Members	\$ (88,506,467)	\$ (93,237,021)
Net Assets, End of Year	\$ 1,875,575	\$ 1,931,293

Sincerely,

WINDES & McCLAUGHRY ACCOUNTANCY CORPORATION



June 20, 2012

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 2011 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 2011, conducted by our firm on a basis consistent with prior periods, is described in the following executive summary.

A handwritten signature in black ink that reads 'Palazzolo &amp; Associates'.

Long Beach, California

Attachment: Executive Summary

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## PierPASS 4<sup>th</sup> Quarter 2011 TMF Calculation Executive Summary

This executive summary describes the fourth quarter, 2011 (Q4-2011) calculation of gate and yard costs used to determine the Traffic Mitigation Fee, for the members of the West Coast Marine Terminal Operators 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 24, 2012.

The Program's Q4-2011 costs and volumes were determined, on a consistent basis since the program inception, by calculating a four week average cost<sup>1</sup> between September 24, 2011, and December 23, 2011<sup>2</sup>. 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 Q4-2011 is in Table 1 below:

**Table 1: Calculation of Gate and Yard Cost for Q4-2011**

Item	Four Week Average	Equivalent Annual Amount
Total PierPASS off-peak costs	\$15,912,356	\$206,860,628
Less: savings from day shift	(\$4,747,000)	(\$61,711,000)
Net PierPASS off-peak shift costs	\$11,165,356	\$145,149,628
TEU subject to TMF	142,116	1,847,508
Gate/Yard cost per TEU	\$79/TEU	\$79/TEU

The four week average cost of off-peak operations among the terminals during Q4-2011 was \$15,357,071. When the four week average PierPASS administrative costs of \$555,285 for the period are combined with terminal operating costs, the total four week average PierPASS cost is \$15,912,356.

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 4<sup>th</sup> quarter of 2007 and the 1<sup>st</sup> quarter of 2008<sup>3</sup>.

<sup>1</sup> 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.

<sup>2</sup> These dates are the Q4-2011 beginning and ending dates for WCMTOA member payrolls.

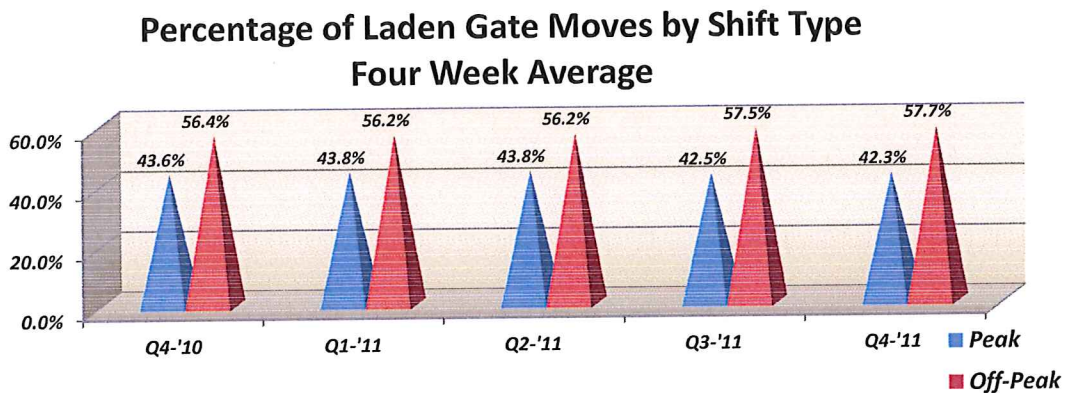
<sup>3</sup> Off-Peak cost calculations are reduced by the estimated peak period savings from the shift of cargo from peak to off-peak periods. This amount was determined to be \$4,747,000, on a four week average basis and \$61,711,000 on an annual basis.

It is important to note that, while the cost of off-peak gates was \$79/TEU, the TMF charged to cargo owners was only \$60/TEU during the period. In other words, the Program was not fully compensated for its costs during Q4-2011.

**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.

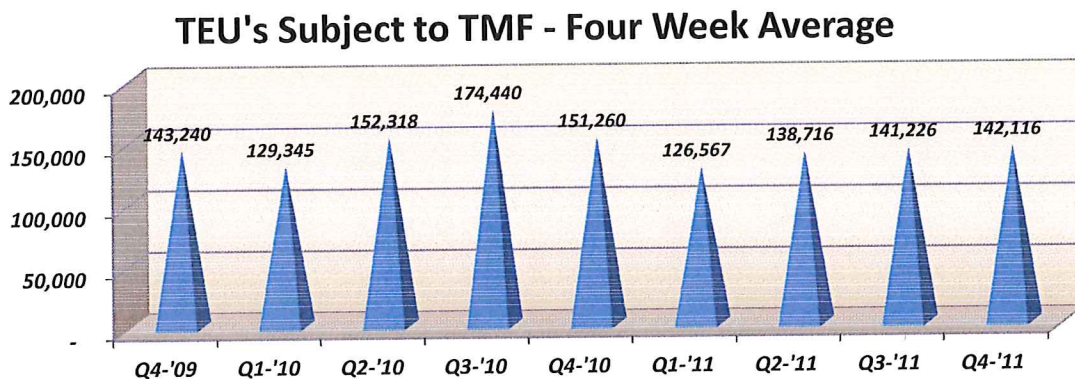
**Chart 1 – Percentage of Cargo-Bearing Gate Moves by Shift Type**



**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 Q4-2011 TEU’s subject to TMF as compared to prior periods.

**Chart 2 – TEU’s Subject to TMF**

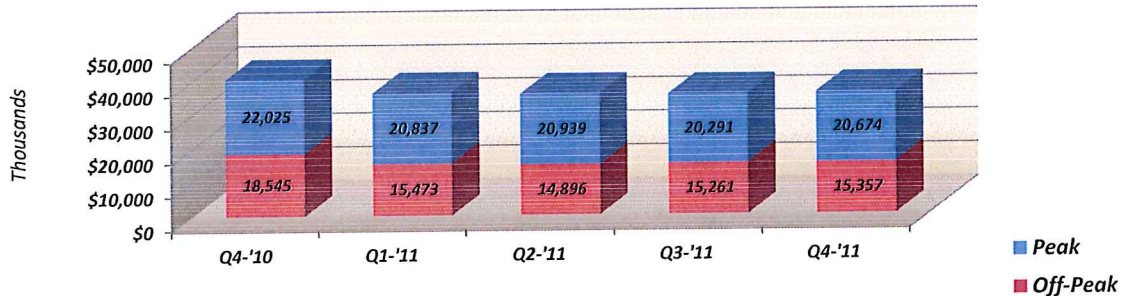


**Terminal Costs**

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 Wages 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%
07/02/11	33.68	1.00	30.04	0.69	2011	\$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 weekend 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 Ports of Los Angeles and Long Beach that constitute the West Coast Marine Terminal Operators 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 air 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.).