

May 9, 2013

Dear Customers,

In keeping with PierPass practice, we are again providing a financial review of PierPass and the OffPeak program.

Under the OffPeak program, all 13 international container terminals at the Ports of Los Angeles and Long Beach operate additional shifts on nights and Saturdays, to reduce traffic congestion and improve air quality in and around the ports. As an incentive to use these OffPeak shifts and to help cover the added cost of the shifts, a Traffic Mitigation Fee (TMF) is required for most cargo movement during peak hours (Monday through Friday, 3 a.m. to 6 p.m.).

Operationally, the program continues to be highly successful in achieving its primary goals. Over the past eight years, PierPass OffPeak gates have grown to handle approximately 55 percent of all container traffic at the two adjacent ports and accommodated more than 23 million truck transactions. OffPeak has greatly eased congestion on city streets and nearby freeways during daytime business hours and has reduced emissions from trucks idling outside of terminals and in traffic. By spreading traffic across more hours, the OffPeak program also makes better use of valuable port assets, reduces the uncertainty of delivery times and improves turn time for trucks and drivers.

The TMF has never covered the costs for the OffPeak gates. For the eighth year in a row, the marine terminal operators at the ports have made up the shortfall in TMF revenue to ensure that the traffic mitigation and air quality benefits of the OffPeak program continue to be realized. The terminals have operated the OffPeak gates at a loss since the program's start in 2005, when they doubled the number of shifts per week, spreading the same number of containers over twice the working hours. Cargo volume since 2005 has been flat (14.1 million TEUs in 2012 vs. 14.2 million TEUs in 2005).

As in previous years, PierPass has asked our independent auditors to present a summary report of their findings. The enclosed reports show that TMF revenue collected in 2012 fell short of the costs of the program by a substantial margin. The shortfall between TMF revenues and OffPeak gate costs was \$66.4 million in 2012, \$55 million in 2011 and \$52.3 million in 2010.

The first document is provided by Windes & McClaughery Accountancy Corp., which is tasked with auditing PierPass. Please note that the figures in this attachment relate to the administrative operation of PierPass for 2012, not the costs of the OffPeak gates. The OffPeak 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 OffPeak gates for 2012 and the amount of the fee that would be necessary to recover those costs from shipments subject to the TMF.

We hope this information answers some of the questions you may have regarding PierPass and the OffPeak program. Please feel free to contact us if you have further questions.

Regards,

A handwritten signature in blue ink, appearing to read "Bruce Wargo". The signature is fluid and cursive, with the first name "Bruce" being larger and more prominent than the last name "Wargo".

Bruce Wargo  
President & CEO  
PierPass, Inc.



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Landmark Square  
 111 West Ocean Blvd, 22<sup>nd</sup> Fl.  
 Long Beach, CA 90801  
 T: (562) 435-1191  
 F: (562) 437-6187

[www.windes.com](http://www.windes.com)

*Other Offices:*  
 Irvine  
 Los Angeles

April 19, 2013

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 28, 2012. The following information has been taken from the combined financial statements of PierPASS, LLC and PierPASS, Inc. for which we have rendered an unmodified audit opinion dated April 19, 2013.

*PierPass Financial Performance*

Combined traffic mitigation fee revenues for PierPASS' year ended December 28, 2012 totaled \$111,853,549. Combined operating expenditures for the year totaled \$8,453,941. 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 \$102,589,595 for the year ended December 31, 2012.

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

A summary of the combined financial results for 2012 and 2011 follows:

<u>Year Ended</u>	<u>December 28, 2012</u>	<u>December 30, 2011</u>
Total Combined Operating Revenues	\$ 111,853,549	\$ 97,070,540
Total Combined Operating Expenses	\$ 8,453,941	\$ 8,619,791
Excess of Revenues over Expenses	\$ 103,399,608	\$ 88,450,749
Total Distributions to Members	\$ (102,589,595)	\$ (88,506,467)
Net Assets, End of Year	\$ 2,685,588	\$ 1,875,575

Sincerely,



April 5, 2013

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 2012 off-peak gate and yard cost calculation. This 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 2012, conducted by our firm on a basis consistent with prior periods, is described in the following executive summary.

A handwritten signature in cursive script that reads 'Palazzolo &amp; Associates'.

Attachment: Executive Summary



## **PierPASS 4<sup>th</sup> Quarter 2012 TMF Calculation Executive Summary**

This executive summary describes the fourth quarter, 2012 (Q4-2012) 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 full report dated March 8, 2013.

The Program's Q4-2012 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 22, 2012, and December 21, 2012<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 Q4-2012 is in Table 1 below:

*Table 1: Calculation of Gate and Yard Cost for Q4-2012*

<b>Item</b>	<b>Four Week Average</b>	<b>Equivalent Annual Amount</b>
Total PierPASS off-peak costs	\$18,463,550	\$240,026,150
Less: savings from day shift	(\$4,747,000)	(\$61,711,000)
Net PierPASS off-peak shift costs	\$13,716,550	\$178,315,150
TEU subject to TMF	150,137	1,951,781
Gate/Yard cost per TEU subject to TMF	\$91/TEU	\$91/TEU

The four-week average cost of off-peak operations among the terminals during Q4-2012 was \$17,891,131. When the four-week average PierPASS administrative costs of \$572,419 for the period are combined with terminal operating costs, the total four-week average PierPASS cost is \$18,463,550

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 Q4-2012 beginning and ending dates for WCMTOA member payrolls.

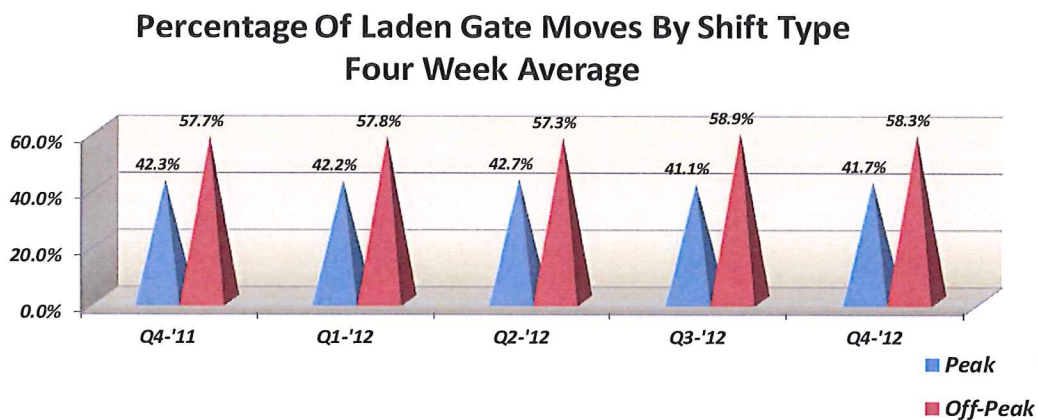
<sup>3</sup> Off-Peak cost calculations are reduced by the estimated peak period savings from the shift of cargo from peak to off-peak periods. This amount was determined to be \$4,747,000, on a four-week average basis and \$61,711,000 on an annual basis.

It is important to note that, while the cost of off-peak gates was \$91/TEU, the TMF charged to cargo owners was only \$61.50/TEU during the period. In other words, the Program was not fully compensated for its costs during Q4-2012.

**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.

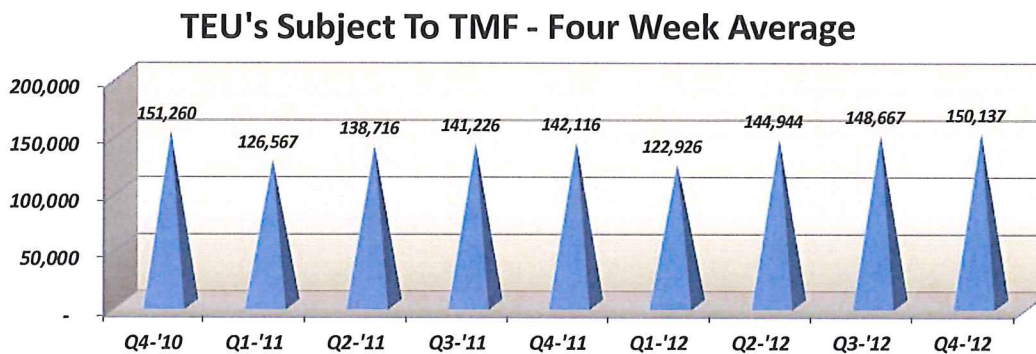
Chart 1 – Percentage of Cargo-Bearing Gate Moves by Shift Type



**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 Q4-2012 TEU’s subject to TMF as compared to prior periods.

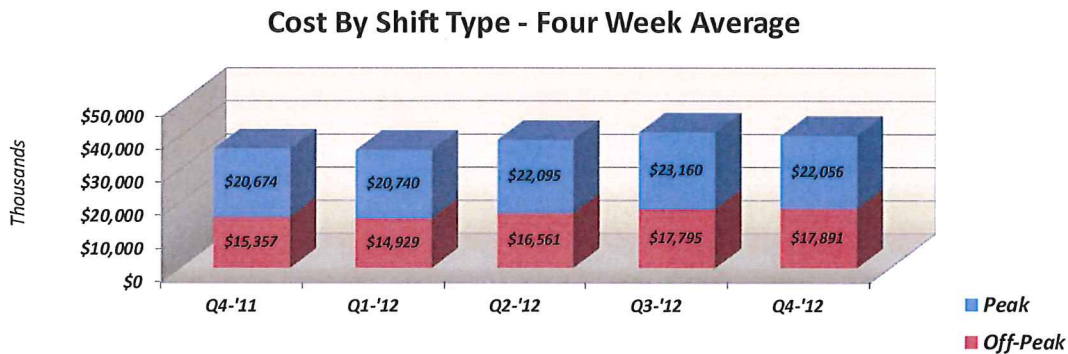
Chart 2 – TEU's Subject to TMF



**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



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	Percentage 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%
06/30/12	34.68	1.00	30.75	0.71	2012	\$110,100	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.).