



May 21, 2018

Dear Supply Chain Partners,

2017 was another growth year for the Ports of Long Beach and Los Angeles as total Twenty Foot Equivalent units (TEUs) handled grew by 8% as compared to 2016. The West Coast MTO Agreement (WCMTOA) container terminal operator members were able to handle this growth without congestion due to the ongoing success of their OffPeak Program.

Launched in 2005, the OffPeak Program is an industry-driven solution to reduce truck traffic congestion and its resulting pollution in the communities surrounding the ports and on the freeways and roadways serving the ports. With the OffPeak Program, WCMTOA members open their terminal gates for container pick-up and delivery on fixed schedules from 6:00 p.m. until 3:00 a.m. during the week, known as the off-peak shift. As a result, more than 40 million truck trips have been diverted away from the busy peak shift during the day to these off-peak shifts. The OffPeak Program is managed by PierPass Inc.

The off-peak shifts are funded in part by a Traffic Mitigation Fee (TMF). The TMF is used to offset many of the costs of labor and equipment used at the terminals' gates and in their yards during the off-peak shifts.

Attached are financial reports for 2017. A summary of the financial audit of PierPass Inc., the managing company for the OffPeak Program, is provided by audit firm WINDES. Also attached is the cost analysis of the OffPeak Program compiled by maritime industry consultants SC Analytics. The report shows that \$196.9 million collected from the TMF was distributed to the WCMTOA members. The OffPeak Program's cost in 2017 was \$273.8 million.

Detail of the financial cost calculations and other information can be found at www.pierpass.org. Please do not hesitate to contact us with any questions you may have.

Sincerely,

John Cushing
President & CEO
PierPass Inc.

March 21, 2018

PierPASS, LLC
444 W. Ocean Blvd., Ste 700
Long Beach, CA 90802-4581

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, 2017. 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 16, 2018.

PierPASS Financial Performance

Traffic mitigation fee revenues for PierPASS' year ended December 31, 2017 totaled \$207,558,675. PierPASS operating expenditures for the year totaled \$9,614,111. Major categories of operating expenses include computer software and customer service expense, 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 \$196,907,225 for the year ended December 31, 2017.

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

A summary of the combined financial results for 2017 and 2016 follows:

Year Ended	December 31, 2017	December 30, 2016
Total Combined Operating Revenues	\$ 207,654,675	\$ 191,910,033
Total Combined Operating Expenses	\$ 9,614,111	\$ 10,556,804
Excess of Revenues over Expenses	\$ 198,040,564	\$ 181,353,229
Total Distributions to Members	\$ (196,907,225)	\$ (182,657,857)
Members' Equity	\$ 1,516,175	\$ 237,778

Sincerely,

Windes, Inc.



May 21, 2018

Mr. John Cushing, President & CEO
PierPASS, Inc.
444 West Ocean Blvd., Suite 700
Long Beach, CA 90802

Mr. Cushing:

At the request of PIERPASS, Inc., we have prepared the attached summary of our 2017, PierPASS OffPeak Program gate and yard cost calculation. This calculation is used, in turn, to help determine a traffic mitigation fee (TMF) to fund the Program.

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

The result of this calculation for 2017, is described in the following summary.

PierPASS 2017 OffPeak Program Cost Calculation

This summary describes 2017 calculation of gate and yard costs used to help determine the Traffic Mitigation Fee, for the members of the West Coast Marine Terminal Operators Agreement (WCMTOA), as it relates to the PierPASS OffPeak Program under Federal Maritime Commission Agreement No. 201143.

The OffPeak Program's costs and volumes were determined using a consistent methodology since its inception. In 2017, SC Analytics continued to improve the consistency and accuracy of the cost calculation by acting upon the recommendations outlined in KPMG's review of the OffPeak Program, dated March 10, 2017¹. A description of those enhancements and their impact on the Program's cost calculation are outlined in this report.

The incremental cost of the PierPASS OffPeak Program is divided by Twenty Foot Equivalent Units (TEUs) subject to the Traffic Mitigation Fee (TMF). The resultant calculation for 2017 is in Table 1 below:

Table 1: 2017 Calculation of OffPeak Program incremental costs

<i>Item</i>	<i>2017 Full Year</i>
Terminal OffPeak Program incremental costs	\$290,350,026
PierPASS OffPeak Program administrative costs	8,654,182
Less: Day shift savings	(25,233,160)
Net OffPeak Program incremental costs	\$273,771,048
TEUs subject to TMF	2,920,529
OffPeak Program cost per TEU subject to TMF (rounded)	\$94/TEU

The terminal's OffPeak Program incremental costs for 2017 are \$290,350,026. When the PierPASS administrative costs of \$8,654,182 for the year are combined with the terminal operating costs, the total OffPeak Program cost is \$299,004,208.

The difference between the cost of the total OffPeak Program is partially mitigated by savings from reductions in peak period shift costs. The peak period savings is \$25,233,160².

It is important to note that, while the 2017 incremental cost of the OffPeak Program was \$94/TEU, the TMF charged to cargo owners was only \$72.09/TEU during the second half of 2017. In other words, the Program was not fully compensated for its costs during 2017.

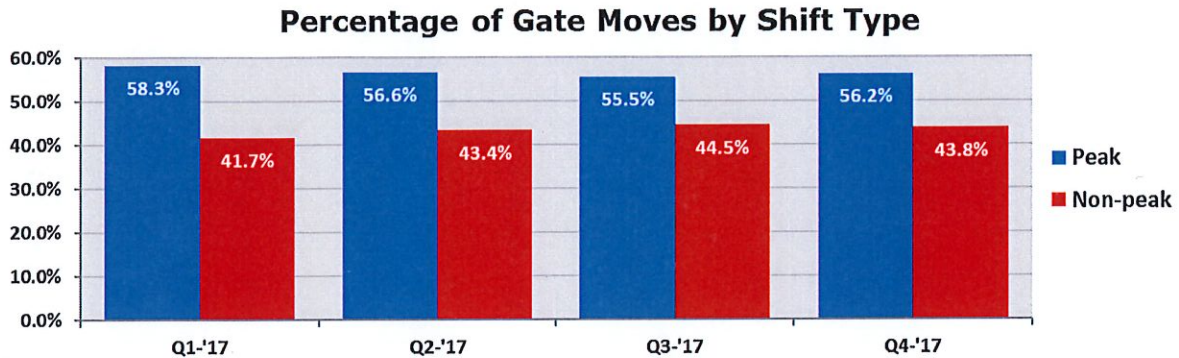
¹ A copy of the KPMG analysis can be found at pierpass.org.

² OffPeak Program cost calculations are reduced by the estimated peak shift savings from the movement of cargo from peak to non-peak shifts.

Percentage of Gate Moves by Shift Type

Terminal gate moves include all import, export and empty containers that pass through a marine terminal's gate. Chart 1 below, shows the quarterly percentage of peak and non-peak³ gate moves for 2017.

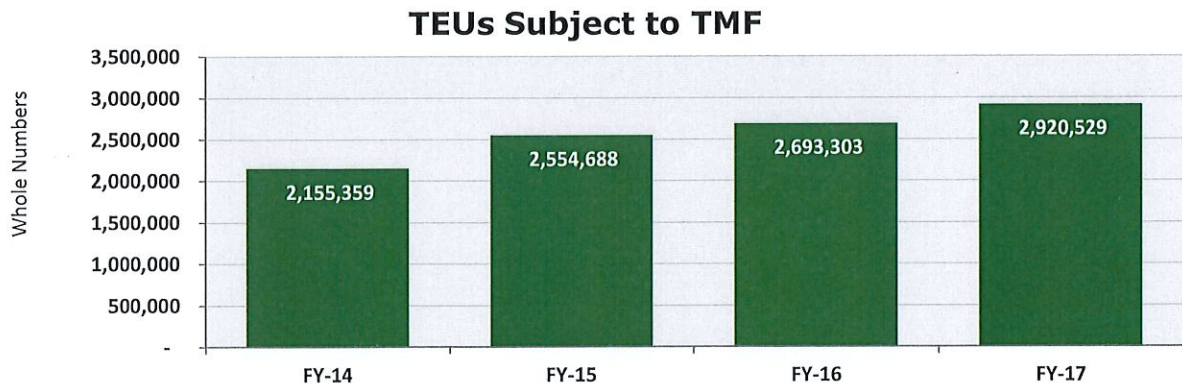
Chart 1: Percentage of Gate Moves by Shift Type (includes empty containers)



TEUs Subject To TMF

TEUs subject to TMF are the number of non-exempt laden containers that have in-gated or out-gated during peak shifts. Chart 2 below presents the 2017 TEUs subject to TMF as compared to prior years.

Chart 2: TEUs Subject to TMF

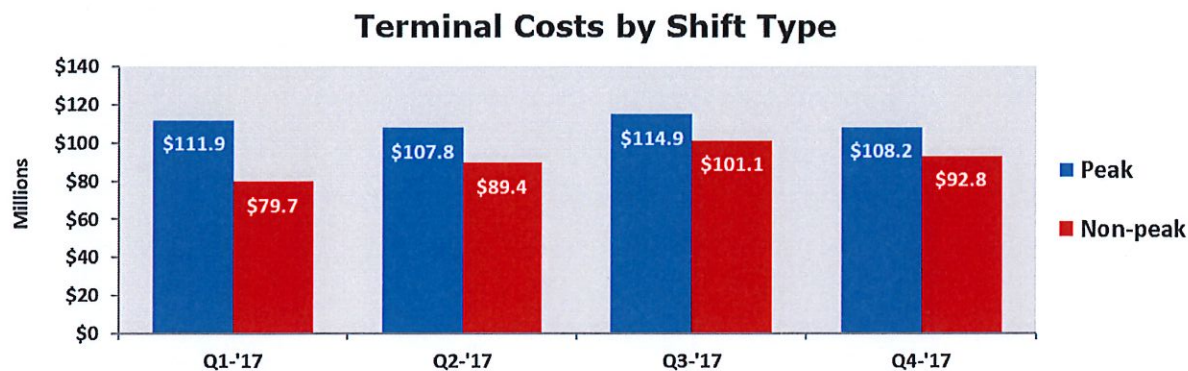


³ Peak = Monday through Friday 1st shift, Non-peak = all other shifts.

Terminal Costs by Shift Type

The quarterly peak and non-peak terminal shift costs for 2017 are presented in Chart 3 below.

Chart 3: Terminal Costs by Shift Type



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

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 Base Wage Rates, Assessments & Taxes by Period

As of:	Wage Rates & Assessments				Payroll Taxes		
	Base Hourly Wage Rates	Hourly Rate Adjustments	Hourly Assessment Rates	Hourly Assessment Adjustments	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%
06/29/13	\$35.68	\$1.00	\$35.74	\$4.99	2013	\$113,700	10.15%
06/28/14	\$36.68	\$1.00	\$35.74	\$0.00	2014	\$117,000	10.15%
07/04/15	\$38.18	\$1.50	\$35.74	\$0.00	2015	\$118,500	10.15%
07/02/16	\$39.43	\$1.25	\$35.74	\$0.00	2016	\$118,500	10.15%
07/01/17	\$40.93	\$1.50	\$35.74	\$0.00	2017	\$127,200	10.15%

* SUI was not included in the OffPeak Program cost calculations prior to Q4-2007

OffPeak Program Incremental Costs

To identify the incremental terminal costs related to the implementation of the OffPeak Program, multiple cost factors must be subtracted from the total non-peak calculation. These reductions include:

- Non-full service gates,
- Non-peak gates exceeding five per week,
- Domestic volume activity,
- Yard operations unrelated to the receiving and delivery of containers,
- Existing mechanics and guards.

The total amount of terminal non-peak cost reductions calculated for 2017 is \$72,670,380.

KPMG Analysis and Recommendations

In 2016 PierPASS Inc. retained the services of KPMG to conduct a peer review of the 2015 PierPASS OffPeak Program incremental cost, as prepared by SC Analytics. The review, dated March 10, 2017, concluded that the revenue collected by PierPASS Inc. during the period did not exceed the costs of implementing the OffPeak Program, but recommended that several items be addressed to improve the accuracy of future cost reporting. Their concerns included the following:

- Consistency of incremental non-ILWU labor manning reported by member terminals,
- Rates used to calculate the incremental cost of increased equipment hours, and
- Overstatement of calculated dayside savings

The cost impacts of the changes implemented by SC Analytics to address KPMG's recommendations are in Table 3 below, followed by a description of each change.

Table 3: Cost Impact of KPMG Recommendations

PierPASS OffPeak Program Incremental Costs	Net: (Increase) Decrease		
	Full Year 2017		
	Pre KPMG Review*	Post KPMG Review	Variance
ILWU Labor	\$247,908,630	\$247,908,630	\$0
Equipment	31,888,175	20,220,708	11,667,467
Non-ILWU Labor	29,958,653	22,220,687	7,737,966
PierPASS Administrative	8,654,182	8,654,182	0
Dayshift Savings	(78,355,265)	(25,233,160)	(53,122,105)
Total:	\$240,054,376	\$273,771,047	(\$33,716,672)

*Costs estimated using 2016 run rates

Non-ILWU manning reported among terminals

The process to capture incremental non-ILWU labor during off-peak shifts was revised to provide greater structure and consistency for the submission of these labor levels by the member terminals. Marine terminals now provide average off-peak shift manning levels for both open and closed gate scenarios. (example: the number of reefer mechanics needed will increase when gates are open compared to when gates are closed. The additional labor needed to plug and un-plug reefer containers during off-peak gate operations is considered incremental). This method has improved both the reliability and consistency of reporting among the terminals.

Idle vs. run rates for equipment

The methodology used to calculate incremental equipment costs was modified by switching from the US Army Corps of Engineer's calculated equipment run rate to an estimated equipment idle rate. This change continues to recognize the need to capture the incremental machine hours needed to run extended gates, but reduces the cost per machine hour.

Overstatement of dayside savings

Our analyses reduce incremental off-peak cost by the amount of dayside savings resulting from the movement of cargo volumes from peak to off-peak shifts. This is done to ensure that the incremental costs are not overstated. To date, we have used a dayside savings methodology, and supporting base line data, inherited from the original consultants retained to calculate the OffPeak Program's costs. However, KPMG's analysis of this methodology and the underlying data identified inconsistencies between the base period and later reporting periods (primarily the inclusion of non-related labor occupation codes in the peak base line cost). KPMG also suggested a revised approach to the calculation of dayside savings.

Accordingly, in this report, SC Analytics has adopted a refined methodology like that used in the KPMG review. This approach looks at the ILWU labor efficiency pre- and post-Program implementation. The difference between these ratios are then used to calculate the number of man hours saved due to the volume shift. To isolate only the reduction of man hours during peak shifts due to volume, the efficiency variance between pre- and post-Program implementation will remain fixed. This will ensure that man hour reductions due to technology, automation or operational changes made on peak shifts will not offset the calculated costs of off-peak shifts.

Information Sources

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

- Pacific Maritime Association (PMA) ILWU payroll data files
- Member-prepared schedules of non-ILWU labor and ILWU labor cost allocations
- Equipment cost standards derived from the Army Corp of Engineers methodology calculated by SC Analytics
- Administrative cost data supplied by PierPASS, Inc.

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 OffPeak Program as an incentive for cargo owners to receive and deliver cargo at night and on weekends, 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 from Monday thru Friday, 3:00 a.m. to 5:59 p.m.