



March 21, 2019

Dear Supply Chain Partners,

The San Pedro Bay ports of Los Angeles and Long Beach grew by nearly 10% in 2018 handling Twenty Foot Equivalent Units (TEUs). Traffic mitigation on the roadways and freeways providing access and egress to the marine terminals, as well as at their gates, was managed in-step with this growth with the OffPeak program.

Since 2005, the West Coast MTO Agreement members, consisting of 12 container terminals in both ports, have managed the truck flows at the ports with its OffPeak program. Originally mitigating the traffic with incentive pricing whereby container loads moving during the off-peak (second) shift were exempt from paying a Traffic Mitigation Fee (TMF), the program was amended in mid-4<sup>th</sup> quarter 2018 to an appointment system-based program with all non-exempt container loads paying during all shifts.

The off-peak shifts continue to be funded in part with the TMF. The TMF is used to offset much of the costs of labor and equipment at the terminals' gates and yards during the off-peak shifts.

Attached are the financial reports for 2018. These include the Windes Financial Summary Letter and SC Analytics' OffPeak Program Cost Summary report. The reports read that the OffPeak program cost the members \$288 million. The report further advises that \$216.5 million from the TMF was distributed to the WCMTOA members.

Detail of these financial reports can be found at [www.pierpass.org/financials](http://www.pierpass.org/financials) . Please do not hesitate to contact us with any questions or comments you may have.

Sincerely,

John Cushing  
President & CEO  
PierPass Inc.

March 14, 2019

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, 2018. 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 14, 2019.

*PierPASS Financial Performance*

Traffic mitigation fee revenues for PierPASS' year ended December 31, 2018 totaled \$230,756,211. PierPASS operating expenditures for the year totaled \$10,267,406. 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 \$216,500,967 for the year ended December 31, 2018.

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

A summary of the combined financial results for 2018 and 2017 follows:

<b>Year Ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total Combined Operating Revenues	\$ 230,852,211	\$ 207,654,675
Total Combined Operating Expenses	\$ 10,267,406	\$ 9,614,111
Excess of Revenues over Expenses	\$ 220,584,805	\$ 198,040,564
Total Distributions to Members	\$ (216,500,967)	\$ (196,907,225)
Members' Equity	\$ 5,600,013	\$ 1,516,175

Sincerely,





March 21, 2019

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 2018, 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 2018, is described in the following summary.

## PierPASS 2018 OffPeak Program Cost Calculation

This summary describes the 2018 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.

PierPASS revised the OffPeak Program beginning November 19, 2018. The original weekday incentive-based pricing model has been replaced with container appointment systems to manage traffic flows. In addition, the reduced Traffic Mitigation Fee (TMF) is now assessed across all gate operations and continues to offset the cost of additional shifts. A more detailed description of the revised program is available at the end of this document.

These changes do not impact the cost calculation methodology used since the program's inception but do impact the criteria used to determine the Twenty Foot Equivalent Units (TEUs) subject to the TMF during the last six weeks of the calendar year. For the purposes of this report, SC Analytics will use the original criteria to determine the TEUs subject to the TMF for the full year. The resultant calculation for 2018 is in Table 1 below:

**Table 1:** 2018 Calculation of OffPeak Program incremental costs

Item	2018 Full Year
Terminal OffPeak Program incremental costs	\$305,419,514
PierPASS OffPeak Program administrative costs	9,306,619
Less: Day shift savings	(26,871,577)
Net OffPeak Program incremental costs	\$287,854,556
TEUs subject to TMF	3,326,206
OffPeak Program cost per TEU subject to TMF (rounded)	\$87/TEU

The terminal's OffPeak Program incremental costs for 2018 are \$305,419,514. When the PierPASS administrative costs of \$9,306,619 for the year are combined with the terminal operating costs, the total OffPeak Program cost is \$314,726,133.

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 \$26,871,577<sup>1</sup>.

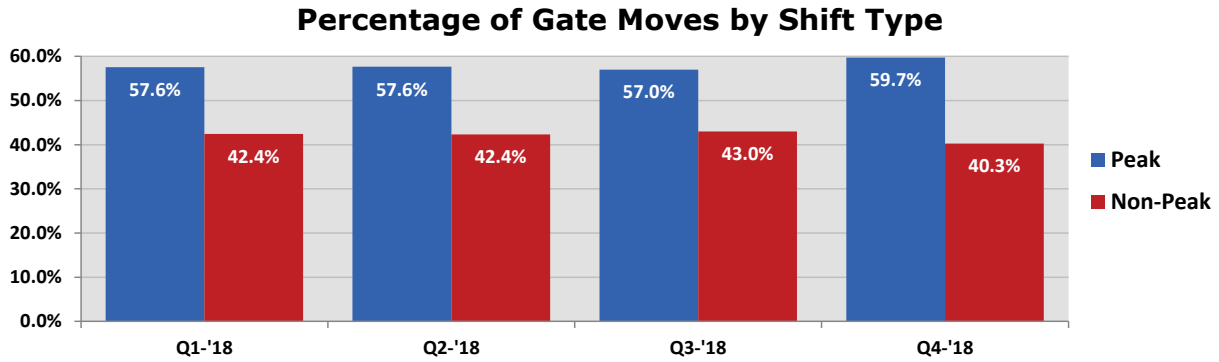
It is important to note that, while the 2018 incremental cost of the OffPeak Program was \$87/TEU, the TMF charged to cargo owners was only \$72.09/TEU, prior to November 19, 2018. In other words, the program was not fully compensated for its costs during 2018.

<sup>1</sup> 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-peak<sup>2</sup> gate moves for 2018.

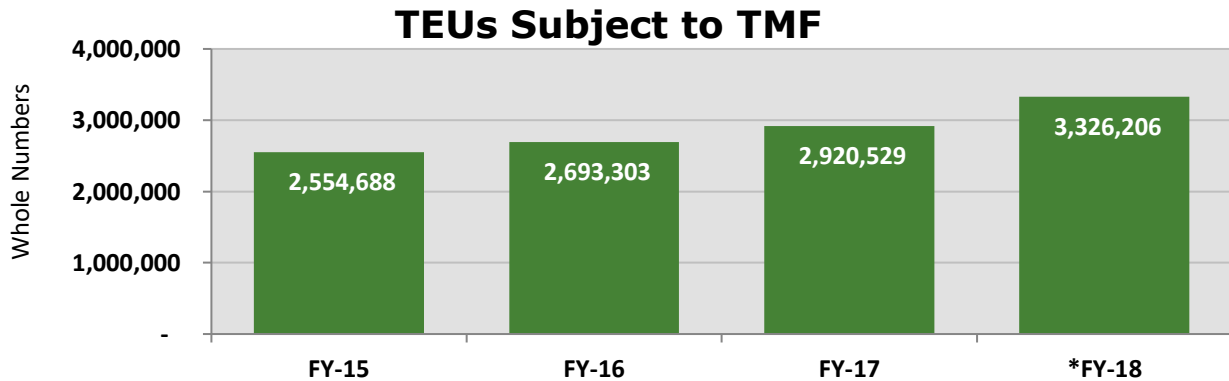
**Chart 1:** Percentage of Gate Moves by Shift Type (includes empty containers)



### 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 2018 TEUs subject to TMF as compared to prior years.

**Chart 2:** TEUs Subject to TMF

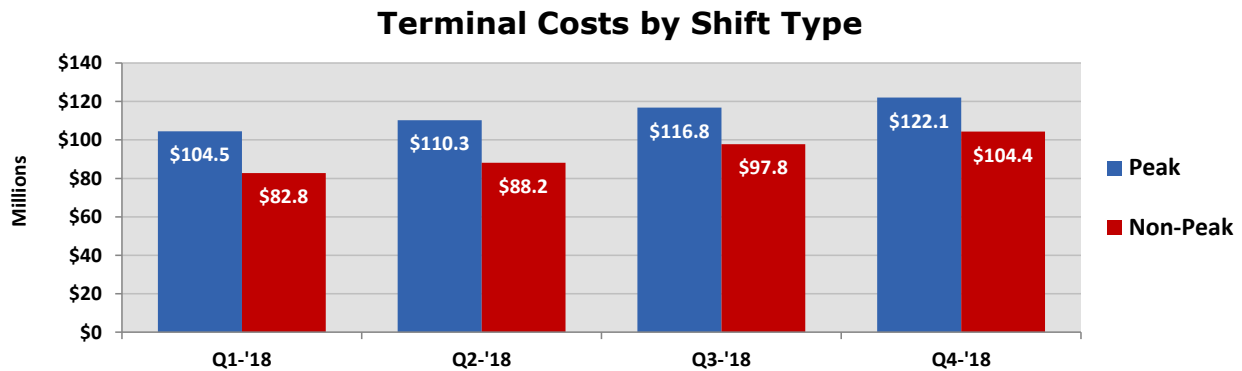


<sup>2</sup> Peak = Monday through Friday 1<sup>st</sup> shift, Non-peak = all other shifts.

### Terminal Costs by Shift Type

The quarterly peak and non-peak terminal shift costs for 2018 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%
06/30/18	\$42.18	\$1.25	\$35.74	\$0.00	2018	\$128,400	10.15%

## 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 2018 is \$67,706,034.

## 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.

On November 19, 2018 PierPASS revised the OffPeak Program to utilize terminal appointment systems to mitigate container traffic. The details of the new program are listed below:

- Appointments are required for all full import containers.
- The Traffic Mitigation Fee (TMF) is \$31.52 per TEU, and \$63.04 for all other sizes.
- The TMF is applicable on all shifts, all days.
- Gate moves exempt from the TMF are:
  - Empty
  - Rail intermodal
  - Transshipment (cargo that arrives at the port on one vessel and leaves on a second vessel without entering U.S. commerce)
  - Domestic
  - Bare chassis