

PierPass Financial Overview

OffPeak Program Cost Analysis

PierPass Financial Auditing Process

September 2019

PierPass is the managing company for the West Coast MTO Agreement, commonly referred to as WCMTOA. WCMTOA, comprised of the 12 container terminals at both the ports of Los Angeles and Long Beach, offers fixed offpeak shift gates with its OffPeak program. The OffPeak program mitigates traffic between the shifts to relieve potential congestion on the roadways in and around both ports, on the freeways serving the ports, and at the terminal gates. The terminals mitigate traffic between the shifts with appointment systems.

The OffPeak program's costs to operate the terminals' gates and yards during the OffPeak shifts is in part offset with a fee, referred to as the Traffic Mitigation Fee, or TMF.

This financial overview contains two parts. The first part outlines the methodology used in calculating the incremental costs associated with the OffPeak program and its annual results. This annual cost reviews is conducted by the maritime industry consulting firm SC Analytics. The second part reviews the process used by WINDES in its annual financial statement audit.

Further detail is available at www.pierpass.org/financials/.



PIERPASS
OffPeak Program
Cost Methodology

September 2019

PIERPASS OffPeak Program Summary

- The PIERPASS OffPeak Program provides:
 - Additional terminal gates to reduce congestion
 - Increased trucker efficiency
 - Improved air quality
- The PIERPASS OffPeak Program also provides
 - A funding mechanism for these additional terminal gates through the Traffic Mitigation Fee (TMF)

OffPeak Program Cost Calculation Methodology

1. Measure Off-peak Costs for these Categories:
 - A. ILWU Manning
 - B. Non-ILWU Manning
 - C. Equipment Costs
 - D. PIERPASS Administration
2. Estimate Day Shift Savings
3. Determine TEUs Subject to TMF
4. Calculate the OffPeak Program Cost per TEU
subject to TMF

PIERPASS OffPeak Program: Cost Calculation Methodology

Elements of ILWU Manning Costs

Cost Element	Source	Assumptions	Comments
Wages	PMA	Contract rates as of June 30, 2018	Basic longshore rate 2 nd shift ST \$56.24 – OT \$63.27
Payroll Taxes	PMA	6.20% - FICA	Cost calculated by SC Analytics (SCA) (wages x percentage) *SUI estimate provided by SCA
		1.45% - Medicare	
		*2.50% - SUI	
PMA Assessments (Benefits, including 401K Contributions, Cargo Dues & Payroll Services)	PMA	\$35.87 – Longshore/Clerk	Cost calculated by SCA (man hours x rate)
		\$38.26 – Foreman \$44.57 – Steady Foreman	
		\$37.40 – Guards	
		\$ 0.92 - Casuals	
Workers' compensation	MTOs	Pctg. of wages (confidential)	Cost calculated by SCA (wages x percentage)

Elements of ILWU Manning Costs (continued)

Included

- PMA Occupation Codes:
 - Longshore
 - Clerk
 - Forman
 - Mechanics (roadability, power and reefer only)
 - Gearmen / Sweeper
 - Watchmen (incremental)
- PMA Operation Codes:
 - Gate
 - Yard
 - Other (mechanics, gearmen)

Excluded

- Steady guarantee
- Dock Work (non-PIERPASS)
- Mechanics (gantry crane, container and chassis repair)
- Watchmen (existing)
- PMA Operation Codes:
 - Vessel
 - Rail

PIERPASS OffPeak Program: Cost Calculation Methodology

Elements of Non-ILWU Manning Costs

Cost Element	Source	Comments
Average manning per day	MTOs	N/A
Average total payroll per person per day	MTOs	Cost calculated by SC Analytics (total payroll x manning x number of days)

Included

- Management
 - Managers
 - Superintendents
 - IT Support
 - Customer Service
- Non-ILWU Gate Staffing (Office Clerks)
- Non-ILWU Mechanics (roadability, power & reefer)
- Non-ILWU Watchmen (incremental)

Excluded

- Non-ILWU Mechanics (gantry crane, container and chassis repair)
- Non-ILWU Watchmen (existing)

PIERPASS OffPeak Program: Cost Calculation Methodology

Equipment Costs

Cost Element	Source	Assumptions	Comments
Equipment costs	PMA / SCA	See below	P&A used Army Corp of Engineers formulas to calculate hourly rates. (excluding labor costs)

ILWU OCC Code	ILWU OCC Description	Cost / Hr.	Operators per Machine
036	Yard Tractor	\$9.59	1
055	Heavy Lift	15.22	1
061	Top Pick	37.46	2
062	Side Pick	20.84	1
067, 068, 083	Rubber Tire Gantry (RTG)	69.44	2

$$\text{Equipment Cost} = (\text{man shifts} \times 8\text{hrs.}) / (\text{operators per machine}) \times \text{cost/hr.}$$

PIERPASS OffPeak Program: Cost Calculation Methodology

Administrative Costs

Cost Element	Source
PIERPASS Administrative Costs	PIERPASS Inc.

- IT hardware and software services
- Customer service staff
- Bank service and fees
- Merchant service fees
- Insurance
- Taxes & Licenses
- Legal
- Auditing
- Communications

Day Shift Savings

- Reductions in day shift labor costs are included in the PIERPASS OffPeak Program cost calculation
- Day shift savings calculation:
 - Day shift savings = (man hour reductions due to volume shift to nights) x (average cost per man hour)

PIERPASS OffPeak Program: Cost Calculation Methodology

TEUs Subject to the Traffic Mitigation Fee (TMF)

Volume	Source
TEUs subject to the TMF	PIERPASS System

Included

- Import or Export cargo entering or leaving the container terminals.

Excluded

- Empty containers or empty chassis
- Laden Domestic, Intermodal and Transshipped containers

Information Confidentiality

- No confidential terminal-specific information is made available to the public, member MTOs, or PIERPASS Inc.
- Only summarized cost and volume data is made available to the public by SC Analytics. ■

PIERPASS OffPeak Program

2018 Analysis

PIERPASS OffPeak Program Costs for 2018

Item	Full Year
Total OffPeak Program Costs	\$287,854,556
TEUs subject to TMF	3,326,206
OffPeak Program cost per TEU subject to TMF (rounded)	\$87/TEU

OffPeak Program Cost Detail

<u>Cost</u>	<u>Full Year</u>
ILWU	\$261,302,037
Non-ILWU	22,519,913
Equipment	21,597,564
PIERPASS Administrative	<u>9,306,619</u>
Total Off-Peak Gate/Yard Costs	\$314,726,133
Less: Savings from day shift	(\$26,871,577)
Gate/Yard cost per TEU subject to TMF	\$287,854,556



OVERVIEW OF FINANCIAL STATEMENT AUDIT OF PIERPASS



FIRM PROFILE



Irvine



Long Beach



Los Angeles

Our Firm

- Practicing public accounting since 1926
- One of the largest regional CPA firms in California
- 22 partners and 170 professionals
- Serving over 2,800 businesses
- Four operating offices

Audit and Assurance Practice

- Experts in a broad range of industries, including government and nonprofit
- Provide audit and assurance services to over 400 companies, including over 120 nonprofit organizations
- Substantial experience with Employee Benefit Plans
- International reach

Tax and Accounting Practice

- Provide tax and accounting services to over 2,000 businesses and individuals
- Extensive experience with multi-state and international matters

Baker Tilly International

- One of the world's top accountancy and business services networks
- Our membership gives us access to a depth of resources and experience throughout the United States
- 125 independent member firms
- Serving clients in 147 territories

INDEPENDENT AUDIT SERVICE PROVIDER

- Independent audit performed in accordance with U.S. audit standards (GAAS)
- Independence and audit performance monitored by the AICPA
- Audit involves:
 - Performing procedures to obtain evidence supporting amounts and disclosures
 - Consideration of internal control over financial reporting
 - Evaluating accounting policies and estimates/judgments made by management
- Financial statement prepared in accordance with U.S. generally accepted accounting principles (US GAAP)
- Management is responsible for the presentation of the financial statements and the design of the internal control environment

WINDES' AUDIT SERVICE APPROACH

Planning/Interim Fieldwork

- *November/December*
- Preliminary financial review
- Key business processes
- Risk assessment
- Control effectiveness
- Substantive procedures where possible

Year-End Fieldwork

- *January/February*
- Risk based approach
- Substantive audit procedures
- Third party confirmations for cash balances
- Analytical procedures utilizing:
 - industry trends
 - comparative customer activities
 - comparative transaction types

Reporting

- *March*
- Independent Auditors' Report
- Compilation of financial statements and management reports
- Recommendations for control improvement
- Other deliverables:
 - Federal and State tax returns
 - Escheat services – state compliance for dormant accounts

RISK ASSESSMENT

Our evaluation of internal controls considers:

- Enterprise risk
- Regulatory risk
- Technology risk
- Fraud risk
- Operational risk
- Financial risk

Gather Information

- Personal interaction
- Flow charting
- Process narratives
- Account level focus

Assess Risks

- Assertion level focus
- Corroborate existence of key controls for financial reporting, cash reconciliations, payroll and disbursements
- Examine control tests performed over service providers (SSAE 16)

Develop Audit Plan

- Risk based focus to maximize effectiveness
- Determine materiality by audit area
- Timing and scope of testing
- Personnel assigned to testing

FINANCIAL REPORTING PROFILE

PierPASS

- 12 MTOs are members
- Pass-through entity
- TMF revenue collection
- High transaction volume
- Operating expense approximated 5% of TMF revenue in 2018
 - Administrative
 - Credit card/bank fees
 - Third party software hosting services
 - Customer Service Center
- Operating to break-even

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:

Year Ended	December 31, 2018	December 31, 2017
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,

Windes, Inc.

WINDES

AUDIT | TAX | ADVISORY

Landmark Square

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802

Von Karman Towers

18201 Von Karman Avenue
Suite 1060
Irvine, CA 92612

Century Centre

2603 Main Street
Suite 600
Irvine, CA 92614

Figueroa at Wilshire

601 South Figueroa Street
Suite 4950
Los Angeles, CA 90017

www.windes.com

Questions or comments regarding the PierPass cost analysis or financial audit can be sent to info@pierpass.org. Please include “PierPass Financials” in the subject line.

Thank you