

A Palazzolo & Associates White Paper



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**PierPASS, a cooperative venture
among marine terminal operators**

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Introduction

During the summer of 2004, the twelve marine terminal operators¹ in the Ports of Los Angeles and Long Beach were hit with a veritable tsunami of containerized freight that overwhelmed their terminal capacity and the capacity of the neighboring highways.

This White Paper discusses the elements of this problem and their solution.

Problem Statement

1. The marine terminal operators (MTO's) in Los Angeles and Long Beach, California occupy lease concessions that are land-locked, with limited freeway access into and out of the Ports.
2. In 2004 and prior years, these MTO's generally conducted operations over a single, eight-hour work shift, Monday through Friday, due to the lack of customer interest in night or weekend (freight receiving) operations and the high labor cost of a unionized terminal workforce, especially during overtime hours.
3. Forcing large and growing freight volumes through limited facilities substantially slowed operations (the *commercial* problem)², increased street traffic and pollution levels thus introducing community pressures for a solution (the *political* problem).

Previous Solution Attempts

Episodic and uncoordinated night operations among several of the twelve terminal operators proved expensive and ineffective since they failed to provide incentive for customers (beneficial cargo owners, BCO's) to operate their distribution centers at night, to receive freight, while MTO's remained largely uncompensated for night gates.

The PierPASS OffPeak Solution

Meeting under the auspices of the Federal Maritime Commission (FMC), in the fall of 2004 a committee of the twelve terminal operators formulated a solution that would:

1. open their terminals across the Ports, on nights and weekends ("OffPeak"),
2. charge a fee for *daytime* gate receipt or delivery of freight, and
3. exempt all freight moved by rail from this fee.

The fee (the Traffic Mitigation Fee, TMF) level would be determined by the total cost of night operations, would be levied against the BCO on a per TEU basis, and paid prior to receipt or delivery of freight to the terminal³.

¹ Includes only marine container terminals. Terminals that operate break bulk, dry, and liquid bulk terminals were unaffected. A list of the member terminals is attached.

² The MTO's also experienced a significant labor shortage during this period. This issue is not discussed here and was substantially eliminated through the addition of approximately 3,000 "casuals" to the longshore worker rolls, in 2005.

³ Fee levels and other aspects of the program are subject to review by the FMC.

With this fee, the MTO's hoped to provide incentive for cargo owners to open their facilities at night and on weekends, and to fund night terminal operations.

All of the marine terminals operating at the Ports would be required to participate in the program ("OffPeak") and would shoulder the development costs.

The MTO's formed a not-for-profit corporation (PierPASS) to administer the program.

Under the program:

1. The TMF was determined through an independent measurement of night operating costs⁴ among the terminals and included the cost of program administration,
2. MTO costs for additional operating hours would be measured periodically and the TMF adjusted, if necessary,
3. The FMC would monitor PierPASS, including the TMF rates, and
4. All funds collected by PierPASS, after deducting administrative costs, would be remitted to the MTO's to fund night and weekend operations.

The intent of the program was to provide sufficient economic incentive for the BCO's to receive freight during off-peak hours⁵, while compensating the MTO's for night operations.

The initial PierPASS goal was diversion of up to 25% of freight into off-peak periods during the first year of operation.

If successful, the PierPASS "OffPeak" program would solve (1) the MTO's commercial problem by eliminating long truck queues at terminal gates and traffic jams on arterial highways by shifting traffic to off-peak periods and (2) the political problem by reducing traffic congestion and the attendant levels of pollution.⁶

Program Impediments

While straightforward in concept, execution of the PierPASS OffPeak program presented formidable obstacles such as:

1. Creation of software⁷ to track real-time freight status (movement status and payment status, as examples) for:
 - a. millions of marine containers
 - b. moving through twelve different marine terminals
 - c. under disparate terminal operating systems
2. An unknown (in name or number) "customer" community⁸

⁴ The initial TMF, based upon pre-program estimates of off-peak terminal costs was \$40 per TEU and \$80 per FEU and larger containers. These amounts were changed to \$50/TEU and \$100 per FEU at April 24, 2006 (subsequent to the inauguration of PierPASS OffPeak operations), based upon a study of actual member terminal costs.

⁵ Off-peak hours are from 6:00 p.m. to 3:00 a.m., Monday through Thursday and from 8:00 a.m. to 6:00 p.m., Saturdays.

⁶ According to the California Air Resources Board (CARB), diesel trucks traveling at rates of speed below 55 mph, emit between 90% and 318% more particulate matter than trucks operating at or above 55 mph.

⁷ No commercial off-the-shelf software exists for an application such as PierPASS OffPeak.

3. Inherent paperwork volume and administrative overhead to administer a program which, in early estimates would have, at inception, over 100,000⁹ customers and 10,000 daily transactions
4. Establishment of efficient and effective policies and procedures where no precedent exists for such an entity
5. Creation of transparent business policies and reporting to satisfy government agencies, community groups and the MTO membership (each with different ownership and governance)
6. Pressure for fast implementation no later than the beginning of the 2005 peak cargo season.

PierPASS OffPeak Timeline

September, 2004 – After obtaining FMC approval for establishment, the PierPASS governing board hires a general manager, forms an implementation committee of MTO members, funds the entity and hires Palazzolo & Associates to draft business requirements and a request for proposals from potential systems vendors. During this time, business processes were drafted which assumed the outsourcing of certain PierPASS business operations.

January and February, 2005 – Utilizing Palazzolo & Associates as business advisors, the PierPASS governing board winnows proposals from eight potential systems and outsourcing vendors and selects a primary contractor for such services. System development, maintenance and outsourcing contracts are negotiated.

March through July, 2005 – PierPASS hires staff, opens office and directs systems programming efforts. Palazzolo & Associates retained to perform system testing. An innovative “paperless” system is created whereby BCO’s “claim” containers via the internet and EDI and, if moved via truck during peak period hours, pay their TMF obligation. Payments are only by credit card, e-check or through prior credit arrangements. Invoices to credit customers are electronic and payments received via ACH only.

July 29, 2005 – PierPASS “goes live” without interrupting the normal flow of container operations through the twelve member terminals and *immediately* achieves a 25% diversion of freight to off-peak hours and a measurable reduction in traffic congestion on I-710 (the Long Beach Freeway).

July 29, 2006 – PierPASS celebrates the end of its first year of operations with:

- 35% of all freight diverted to off-peak periods
 - Over 11,000 truck moves per day
 - 2.9 million truck moves in the first year of operations
- Positive reaction from the trucking community
 - 71% of truckers reporting reduced traffic.

⁸ As customers of the ocean carrier and not the marine terminal operator, cargo owners are not generally known to the MTO’s.

⁹ Early data provided to PierPASS was flawed; actual customer count is approximately 15,000.

- 43% of truckers stating that they make more trips per work shift since PierPASS OffPeak began operations (most truckers are paid per trip)
- Positive reaction from the Port Authorities:
 - Executive Director of the Port of Los Angeles stating that PierPASS program benefits include the ability to handle more cargo at the Port
 - Executive Director of the Port of Long Beach indicating that "PierPASS has been a tremendous success"
- Trade journals reporting that no peak season congestion problems similar to those of 2004 have occurred in either 2005 or 2006
- Withdrawal of bill, previously submitted to California state legislature, that would have imposed state-mandated fees for daytime traffic in the Ports

Conclusion

PierPASS has unequivocally met its goal of eradicating congestion-driven impediments to the timely delivery of freight to customers while improving community conditions through daytime traffic reductions and lower truck emissions.

PierPASS success has encouraged other ports to consider similar programs as freight growth has outstripped their capacity to operate efficiently and satisfy community concerns.

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Professional Services Provided by Palazzolo & Associates

As a start-up enterprise, PierPASS had no office or full-time staff at inception. Palazzolo & Associates acted as principal business advisors and provided the following assistance to PierPASS, to bring it into existence:

- Drafting of systems requirements and RFP and search for vendors
- Assistance in identifying, qualifying and selection of IT vendors
- Advice on business start-up including strategy, organization structure, business processes, banking, cash flow and budgeting
- Interim financial staffing
- System testing and audit
- General business consultations

In spite of the obstacles listed above, PierPASS inaugurated operations within 10 months of their engagement of Palazzolo & Associates.

**PierPASS White Paper
Attachment**

PierPASS Marine Terminal Operators (and their principal clients)

APM Terminals Pacific Ltd. (Maersk)
California United Terminals, Inc. (Hyundai)
Eagle Marine Services, Ltd. (APL)
International Transportation Service, Inc. (K Line)
Long Beach Container Terminal, Inc. (OOCL)
Pacific Maritime Services, L.L.C. (COSCO)
Seaside Transportation Services, L.L.C. (Evergreen)
SSA Terminals (Long Beach), L.L.C. (MSC, Zim and CMA/CGM)
Total Terminals, International, L.L.C. (Hanjin)
Trans Pacific Container Service Corporation (TRAPAC) (Mitsui OSK Line)
West Basin Container Terminal (Yang Ming and China Shipping)
Yusen Terminals, Inc. (NYK Line)