



County of Allegheny

Office of the Controller

**PITTSBURGH INTERNATIONAL AIRPORT
REPORT ON STREET PRICING
COMPLIANCE PROCEDURES**

October 12, 2010

**County of Allegheny
Office of the Controller
Mark Patrick Flaherty
Controller**

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MARK PATRICK FLAHERTY
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GUY A. TUMOLO
DEPUTY CONTROLLER

October 12, 2010

Mr. Bradley D. Penrod
Executive Director
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

Subject:

Pittsburgh International Airport
Report on Street Pricing
Compliance Procedures

Dear Mr. Penrod:

We applied procedures to assess BAA Pittsburgh, Inc.'s ("BAA's") compliance with the street pricing provisions contained in Amended and Restated Master Lease, Concession and Development Agreement #27275. We gained an understanding of the enforcement measures utilized by BAA to enforce street pricing within the Airmall, as well as performed our own test of vendor compliance with the street pricing requirements. We also applied street pricing compliance procedures to the Sunoco station at the Airport for which the Airport Authority has the monitoring responsibility. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.

We identified two areas where improvement can and should be made in the monitoring process utilized by BAA to enforce street pricing within the Airmall. Specifically, BAA should reassess the appropriateness of the comparable locations used for vendors at least annually, and respond more aggressively to vendor noncompliance with the street pricing requirements. We also conducted pricing compliance testing, and noted vendor noncompliance with the street pricing requirements as well as a large percentage of items that were not commonly sold by Airmall vendors and their comparable locations. The results of our compliance procedures and recommendations are detailed in the attached report.

Mr. Penrod
October 12, 2010

The street pricing compliance procedures we applied to the Sunoco station at the Airport did not identify any noncompliance with the street pricing requirements.

We would like to thank the management and staff of the Airport Authority and BAA for their courtesy and cooperation during the performance of our compliance procedures.

Very truly yours,



Lori A. Churilla
Assistant Deputy Controller, Auditing



MARK PATRICK FLAHERTY
Controller

cc: Airport Authority Board of Directors
Honorable Rich Fitzgerald, President, County Council
Honorable William Russell Robinson, County Council
Honorable Dan Onorato, Chief Executive, Allegheny County
Mr. James M. Flynn, Jr., County Manager, Allegheny County
Ms. Amy Griser, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Ms. Jennifer Liptak, Budget Director, County Council
Mr. James R. Gill, Chief Financial Officer, Allegheny County Airport Authority
Mr. Stephen W. Robinson, Controller, Allegheny County Airport Authority
Mr. Eric Ruprecht, Director of Business Administration, Airport Authority
Mr. Jay Kruisselbrink, Vice President of Development, BAA Pittsburgh
Mr. Guy Tumolo, Deputy Controller, County Controller's Office
Mr. Robert Lentz, Assistant Deputy, Accounting, County Controller's Office
Ms. Pamela Goldsmith, Communications Director, County Controller's Office

Executive Summary

Purpose of Procedures: We applied procedures to assess BAA Pittsburgh, Inc.'s ("BAA's") compliance with the street pricing provisions contained in Amended and Restated Master Lease, Concession and Development Agreement #27275 (the "Agreement").

Background: The Agreement, which expires December 31, 2017, established a street pricing policy to ensure that the sales prices charged to patrons of the Pittsburgh International Airport do not exceed those of comparable off-Airport businesses.

The street pricing provisions contained in the Agreement require that the sales price of a good or service of the Airmall subtenants be equal to or less than the regular price of a good or service of the same business, franchise or trade name at the nearest agreed upon non-airport location. If a good or service is not available from an entity of the same business, franchise, or trade name, the street price must be within a range of the regular prices of three separate comparable businesses within a reasonable geographic radius.

Results in Brief: Our compliance procedures disclosed the following:

There are two ways that BAA can and should improve the monitoring process it utilizes to enforce street pricing:

- The comparable locations utilized for vendors should be reviewed for appropriateness on a periodic basis (at least annually).
- The action taken to address vendor noncompliance with the street pricing requirements should be more aggressive.

The results of our street pricing compliance testing support that improvement can be made in the monitoring process utilized to ensure compliance with the street pricing requirements:

- 44 (29%) of the 152 items selected for testing were not sold at the vendors' listed comparable locations.
- Of the 108 items that were commonly sold, the pricing of 11 items (10%) were found to be not in compliance with street pricing requirements, and the pricing of 9 items (8%) appears to be out of

Executive Summary

compliance based on menu prices and service lists (the products are not or may not be identical).

Recommendations:

We recommend that BAA:

- Implement a process to reassess the appropriateness of the comparable locations used for all vendors on a periodic basis (at least annually). The analysis performed to determine the appropriateness of comparable locations should be thorough, and the rationale for recommending new or replacement comparable locations should be explicitly documented and communicated.
- The noncompliance letters issued by BAA should be modified to remind vendors that all of the items they sell must be priced in compliance with the street pricing requirements, not just the items that were found to be out of compliance during price testing. BAA should also establish and impose appropriate sanctions when vendor noncompliance with the street pricing requirements occurs to help ensure future vendor compliance.
- For the items we tested that appear to be out of compliance with the street pricing requirements based on menu prices and service lists, BAA should perform follow-up procedures to assess the comparability of the items and determine whether the item should be deemed as priced out of compliance. For all items that are out of compliance with the street pricing requirements, BAA should notify the Airmall vendors to adjust their prices to the determined street prices, if appropriate. (We are aware that comparable location prices may change daily and that the passage of time may invalidate this recommendation for some of the items identified).
- Any vendor that is ultimately found to be out of compliance should be reminded in writing that all of their products subject to the street pricing requirements should be priced in a manner that demonstrates compliance with the street pricing requirements (not just the products included in our testing).

I. Introduction

The Amended and Restated Master Lease, Development and Concession Agreement #27275 (the “Agreement”) between BAA Pittsburgh, Inc. (BAA) and Allegheny County, which expires December 31, 2017, established a street pricing policy to ensure that the sales prices charged to patrons of the Pittsburgh International Airport do not exceed those of comparable off-Airport businesses. This contract was transferred to the Airport Authority through the Airport Operation, Management and Transfer Agreement between Allegheny County, Pennsylvania and the Allegheny County Airport Authority in 1999.

The street pricing provisions of the Agreement require that the sales price of a good or service of the Airmall subtenants be equal to or less than the regular price of a good or service of the same business, franchise or trade name at the nearest agreed upon non-airport location. If a good or service is not available from an entity of the same business, franchise or trade name, the price charged by the Airmall subtenant must be within a range of the regular prices of three separate and comparable businesses.

BAA has engaged a local company, Customer Service Consultants (“CSC”), to conduct price surveys in order to evaluate the Airmall vendors’ compliance with the street pricing requirements. Under the arrangement, CSC conducts price testing three times per year. During the first two testing intervals in each year, compliance with the street pricing requirements is tested for a sample of the Airmall vendors that are believed to represent the most significant risk of noncompliance. Because the vendors tested during the first two testing intervals in a year are selected based on an assessed risk of noncompliance, vendors could be (and often are) included in each of the two testing intervals in which only a sample of vendors are tested. During the last testing interval each year, all Airmall vendors are included in the testing. During all three testing intervals, 20 products are selected for each vendor tested. CSC reports on only those products for which prices are available from one or more of a vendor’s comparable locations. During discussion with BAA subsequent to the performance of our procedures, BAA has agreed to instruct CSC to report on all of the items included in its price testing samples regardless of whether or not the items were actually sold at the vendors’ comparable locations. Doing so will make it easier to identify when the

I. Introduction

appropriateness of a vendor's comparable locations should be reassessed.

Airmall customers can register price complaints via a toll free telephone number or a website, both of which are administered by BAA. In addition to the pricing compliance testing performed by CSC, BAA management asserts that BAA also spot-checks prices for specific items when BAA is notified about or observes particular products that appear to be priced in a manner that is out of compliance with street pricing requirements.

II. Scope & Methodology

We applied procedures to assess BAA Pittsburgh, Inc.'s ("BAA's") compliance with the street pricing provisions contained in Amended and Restated Master Lease, Concession and Development Agreement #27275. Specifically, we:

- Gained an understanding of the measures utilized by BAA to enforce compliance with the street pricing requirements and examined documentation maintained by BAA to document the performance of its enforcement measures.
- Selected a sample of 19 of the 58 vendors doing business in the Airmall at the Pittsburgh International Airport for street pricing compliance testing. The majority but not all of the vendors we selected for testing had been reported as not in compliance with street pricing requirements in recent Customer Service Consultants ("CSC") reports. The burden of noncompliance (and therefore the risk of noncompliance) is greater for those vendors that do not operate chain stores. The majority of the vendors included in our sample (11 of 19) do not operate chain stores. We then selected a sample of products and services from those vendors and compared the prices of the items to the prices at the agreed upon comparable off-Airport locations. We attempted to select products that are commonly sold for pricing compliance testing. Many of the products we selected were also perceived to be at greater risk of noncompliance with the street pricing requirements. When possible, we utilized UPC or SKU numbers to ensure that identical items were compared. These price comparisons were made from July 13, 2010 through July 20, 2010.

We provided a draft copy of this report for comment to the Vice President of Development of BAA Pittsburgh, Inc. The response is on page 16.

III. Findings and Recommendations

Finding #1

Improvement Can be Made in the Measures Utilized to Enforce Street Pricing

Prior to conducting our own price testing to assess vendor compliance with street pricing requirements, we gained an understanding of the process utilized by BAA to monitor vendor compliance with the requirements. During the process of gaining an understanding of the monitoring process utilized, we identified two areas where improvement can and should be made.

The Comparable Locations Utilized for Vendors Should be Reviewed for Appropriateness

The selection of comparable locations for price comparisons is very important to ensuring street pricing within the Airmall. Ideally businesses selected as comparable locations for Airmall vendors should generally operate the same type of business. For example, full-service restaurants should be used as the comparable locations for full-service restaurants within the Airmall. Comparable locations should also sell as many of the same products as Airmall vendors as possible to help ensure that the majority of the vendors' products are street priced. If an Airmall vendor's products are not sold in the selected comparable locations, the products can be priced in any manner that the vendor chooses. We are aware that Airmall vendors are not required to compete with discount chains. In fact, a number of discount stores were specifically excluded from being selected as comparable locations in the Agreement.

The current process utilized to select comparable locations involves vendors identifying for BAA off-Airport businesses that they believe would be appropriate for price comparisons. The vendors are then required by BAA to identify 15 products that are sold by both the vendor and the off-Airport businesses. If this has been accomplished and BAA deems the off-Airport location to be appropriate, BAA recommends the proposed comparable location to the Airport Authority for approval.

III. Findings and Recommendations

We attempted to select products that are commonly sold for price compliance testing. However, we noted during the performance of our testing that for Hudson News, Paradies News, Paradies Gifts, Airport Wireless, and Zozo, (five of the 19 Airmall vendors we selected for testing), the majority of products we selected for testing were not sold by any of the vendors' comparable locations. When an Airmall vendor's comparable locations do not sell products sold by the vendor, the vendor can price the products as it chooses without fear of being reprimanded for noncompliance. As we stated earlier, it is important to select comparable locations that sell as many products in common as Airmall vendors as possible to help ensure that a majority of the vendors' products are street priced. We are aware that a few Airmall vendors have relatively unique concepts and product lines (Zozo is one of these), and consequently selecting appropriate comparable locations for those vendors can be more challenging. However, based on the testing we performed, we believe that better alternatives may be available for one or more of the comparable locations for the other four of the five vendors we referred to above. For those four vendors, there may be other businesses within a reasonable geographic area (that are not discount chains) that sell more of the products offered by the vendors, and such businesses would likely serve as more appropriate comparable locations.

Action Taken to Address Noncompliance Identified Should be More Aggressive

The pricing compliance testing performed by CSC typically identifies vendor noncompliance with street pricing requirements, some of which may be significant. Upon receipt of a report from CSC, BAA issues letters to vendors that are out of compliance. The letters both advise the vendors of the noncompliance and request an acknowledgement from the vendor that the prices of any products for which pricing was out of compliance will be lowered to the determined street price. Vendors that are out of compliance are also typically included in the next pricing compliance testing interval.

The noncompliance letters referred to above should advise the vendors to take steps to ensure that all of the products that they sell are in compliance with the street

III. Findings and Recommendations

pricing requirements on a continuing basis. BAA asserts the the noncompliance letters it issues accomplish this objective, but the letters contain ambiguous language that is subject to interpretation. The request for an acknowledgement that “all prices are now in compliance” appears to refer to only those items that were found to be out of compliance, because the first four sentences in the same paragraph refer specifically to the items that were found to be out of compliance during price testing. The noncompliance letters could be easily clarified, and should be clarified to accomplish the aforementioned objective.

We are aware that BAA prohibited a particular vendor from operating more than one location due to reluctance to comply with the street pricing requirements (which are contained in vendor leases). The vendor was permitted to continue to operate a single location once pricing compliance was achieved. However, there is no evidence that any sanctions are imposed on other vendors who routinely have items that are priced higher than their approved comparable locations. BAA has represented to us that noncompliance with street pricing is considered during lease renewal negotiations, and adversely impacts vendors, but the extent to which lease renewal rates are affected by compliance problems cannot be determined, and therefore, the claim made cannot be substantiated.

There are some vendors who typically have products that are out of compliance with the street pricing requirements during every testing interval (and receive three noncompliance letters each year from BAA). This condition suggests that those vendors are not monitoring their own compliance with the street pricing requirements on a regular basis as required by their lease agreements. We acknowledge that heavy monetary sanctions for noncompliance may make it quite challenging to maintain the current retail environment at the Airmall given the present economic conditions, but we believe it is important to impose some form of sanctions on vendors who are out of compliance to effectively facilitate future vendor compliance with the street pricing requirements. The monitoring and enforcement measures utilized by BAA indicate to vendors the importance of compliance with the street pricing requirements.

III. Findings and Recommendations

Recommendations

- BAA should have a process in place to reassess the appropriateness of the comparable locations used for all vendors on a periodic basis (at least annually). The analysis performed to determine the appropriateness of comparable locations should be thorough, and the rationale for recommending new or replacement comparable locations should be explicitly documented and communicated.
- The noncompliance letters issued by BAA should be modified to remind vendors that all of the items they sell must be priced in compliance with the street pricing requirements, not just the items that were found to be out of compliance during price testing. BAA should also establish and impose appropriate sanctions when vendor noncompliance with the street pricing requirements occurs to help ensure future vendor compliance.

III. Findings and Recommendations

Finding #2

Vendor Noncompliance with Street Pricing Requirements

During street pricing compliance testing, we noted that some of the items we selected for testing are identical. We also noted that some of the items we selected for testing, primarily foods, beverages, and spa services are not or may not be identical. For those items, additional information beyond menu prices and service lists is required to determine whether the items are in fact comparable. We did not purchase the items included in our sample. For these types of items, our procedures were limited to comparing menu and service list prices. Consequently, we would not have noted differences in the actual products or services provided that affect their comparability. We have identified the items that appear to be out of compliance based on the menu prices and service lists, and suggest that BAA follow up on these items to help ensure compliance with the street pricing requirements.

Our sample included a total of 152 products and services. Of that total,

- 44 (29%) of the items were not sold at the listed comparable locations (see finding 1, item 1 pertaining to comparable locations that appear to be inappropriate).
- Of the 108 items that were sold by one or more of the comparable locations:
 - 87 (81%) were found to be in compliance with the street pricing requirements,
 - 11 (10%) were found to be clearly not in compliance with the applicable street pricing requirements,
 - 9 (8%) appear to be out of compliance based on menu prices or service lists, and
 - 1 (1%) was found to be exempt from the street pricing requirements (the street pricing requirements indicate that vendors are not required to match dollar menu pricing at comparable locations).

III. Findings and Recommendations

The following is a list of items that were determined to be clearly out of compliance with the street pricing requirements:

Vendor	Item	Airmall Price	Street Price	Difference
Ben & Jerry's	Deer Park Water (0.5 Liters)	\$2.25	\$0.93	\$1.32
Airport Wireless	"Beats by Dre"	\$199.99	\$179.99	\$20.00
Hudson News	Motrin (24 Tablets)	\$5.99	\$5.49	\$0.50
Hudson News	Pringles Original (6.41 oz.)	\$2.49	\$2.39	\$0.10
InMotion Entertainment	Sony 9 in. Widescreen Monitor (DVP-FX950)	\$199.99	\$179.99	\$20.00
InMotion Entertainment	Skullcandy Pipe Portable iPod Speaker System	\$79.99	\$69.99	\$10.00
InMotion Entertainment	Couples Retreat DVD	\$29.99	\$19.99	\$10.00
InMotion Entertainment	New Moon Bluray	\$39.99	\$29.99	\$10.00
Paradies Gifts	Twizzlers (7 oz.)	\$3.99	\$2.99	\$1.00
Sam's Brewhouse	Blue Moon Draft Beer (16 oz.)	\$5.95	\$4.50	\$1.45
Subway	Egg & Cheese Omelet Sandwich	\$3.59	\$3.00	\$0.59

III. Findings and Recommendations

The following is a list of items that appear to be out of compliance with the street pricing requirements based on menu prices or service lists:

Vendor	Item	Airmall Price	Street Price	Difference
City of Bridges Cafe	Italian Hoagie	\$8.59	\$7.99	\$0.60
Sam's Brewhouse	Chips & Salsa	\$4.29	\$3.99	\$0.30
Sam's Brewhouse	Hamburger	\$8.49	\$7.95	\$0.54
Sam's Brewhouse	Rum and Coke w/ Captain Morgan (single)	\$6.79	\$5.75	\$1.04
Sam's Brewhouse	Glass of White Zinfandel	\$6.95	\$5.99	\$0.96
Upper Crust	Turkey Club Footlong	\$6.59	\$6.49	\$0.10
Upper Crust	Plain Bagel	\$1.49	\$1.19	\$0.30
Xpress Spa	Full Body Massage (60 mins.)	\$120.00	\$75.00	\$45.00
Xpress Spa	"Mani-Pure"	\$36.00	\$35.00	\$1.00

Recommendations

- For the items that appear to be out of compliance with the street pricing requirements based on menu prices and service lists, BAA should perform follow-up procedures to assess the comparability of the items and determine whether the item should be deemed as priced out of compliance. For all items that are out of compliance with the street pricing requirements, BAA should notify the Airmall vendors to adjust their prices to the determined street prices, if appropriate. (We are aware that comparable location prices may change daily

III. Findings and Recommendations

and that the passage of time may invalidate this recommendation for some of the items identified).

- Any vendor that is ultimately found to be out of compliance should be reminded in writing that all of their products subject to the street pricing requirements should be priced in a manner that demonstrates compliance with the street pricing requirements (not just the products included in our testing).



October 8, 2010

Mr. Mark Flaherty
Allegheny County Controller
436 Grant Street
Courthouse, Room 104
Pittsburgh, PA 15219

Dear Mr. Flaherty:

On behalf of AIRMALL® Pittsburgh, developer and manager of the AIRMALL at Pittsburgh International Airport (PIT), I wish to extend my thanks to the Allegheny County Controller's Office for conducting a review of the street pricing policy at the AIRMALL ("Pittsburgh International Airport Report on Street Pricing Compliance Procedures").

At AIRMALL Pittsburgh, street pricing forms the bedrock of our business model. We see it as a covenant between the Airport Authority, AIRMALL Pittsburgh and the traveling passenger. We invented the concept of street pricing for concessions on the airport concourse when we established the AIRMALL at PIT in 1992 and began requiring all concessionaires to sell their merchandise at "Regular Mall Prices...Guaranteed." Our innovation has enabled Pittsburgh International Airport to secure its position at the forefront of the airport concessions industry.

While "Regular Mall Prices...Guaranteed" is included in many of our collateral materials, it is more than a marketing slogan. It represents a value proposition to the traveling passenger, because they realize that they will pay no more for goods and services at the airport than they would at a comparable location. Simply stated, we believe wholeheartedly in street pricing for airport concessions, and we have created a comprehensive system of checks and balances to ensure that the passenger is being charged a fair price when they shop or dine at the airport. Moving forward, AIRMALL Pittsburgh will document those procedures so that they are even more clearly discernible to a third party such as the controller's office.

With all of this in mind, we would like to respond to the recommendations highlighted on page 4 in the report and offer further context:

- **"[AIRMALL Pittsburgh] should implement a process to reassess the appropriateness of the comparable locations used for all vendors on a periodic basis":** In the street pricing model for airport concessions, the selection of comparable locations for airport vendors is an arduous process. Given the unique nature of the airport concessions environment, it is often challenging to find the perfect match for a comparable vendor, merchant or product in the community.

Having said this, AIRMALL Pittsburgh undertakes a comprehensive process to identify suitable locations for price comparison. In the case of news and gift stores on the airport concourse, there is no exact match in the community. Given this, AIRMALL Pittsburgh selects as many as three convenience stores in the local area to compare prices being charged at units such as Hudson News or Paradies. Most importantly, the selection of comparable locations for price comparison is not a unilateral decision on the part of the AIRMALL. We work closely with the Allegheny County Airport Authority to identify those locations, and in concert with them, we select the ones that are appropriate. AIRMALL Pittsburgh will continue its efforts to identify appropriate comparable locations for all merchants at PIT.

- **“The noncompliance letters issued by [AIRMALL Pittsburgh] should be modified to remind vendors that all of the items they sell must be priced in compliance with the street pricing requirements”:** These findings assert that the current letter used to inform AIRMALL tenants of noncompliance with street pricing needs further clarification to indicate that all of the merchants’ prices need to be in compliance. In our view, AIRMALL Pittsburgh’s letter clearly states that all of the store’s prices must be in compliance. The letter further requires a signature and date from the operator of the store. However, AIRMALL Pittsburgh has changed the language in this letter so it is absolutely clear that AIRMALL subtenants understand their responsibilities in this area.
- **“For items...that appear to be out of compliance with the street pricing requirements based on menu prices and service lists, [AIRMALL Pittsburgh] should perform follow-up procedures to assess the comparability of the item and determine whether the item should be deemed as priced out of compliance. Any vendor that is ultimately found to be out of compliance should be reminded in writing that all of their products subject to the street pricing requirements should be priced in a manner that demonstrates compliance with the street pricing requirements”:** AIRMALL Pittsburgh submits that we have a verifiable system in place to correct any pricing discrepancies found during a pricing review:
 - When AIRMALL is made aware of a price discrepancy at a subtenant’s unit, that subtenant first receives a telephone call from AIRMALL staff members informing the subtenant owner of the discrepancy. *This acts as an early warning system and often occurs even before one of the three pricing reviews (conducted throughout the year) is completed.*
 - We then issue a letter to the subtenant that informs them of the price discrepancy that has been discovered. *The letter states that all of the store’s prices must be in compliance. The letter further requires a signature and date from the operator of the store.*

In summary, AIRMALL Pittsburgh is firmly committed to "Regular Mall Prices...Guaranteed" at the AIRMALL at PIT. We have perfected our approach in our two decades of managing and developing concessions for airports. Our subtenants understand our commitment to the model, and they know they will be held accountable. Moreover, we have formed a productive partnership with the Allegheny County Airport Authority as their concessions developer over the past 18 years. That partnership has secured a spot for PIT as the airport with one of the leading concessions programs in North America.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Kruisselbrink", with a large, stylized loop at the end.

Jay Kruisselbrink
Vice President

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