



# County of Allegheny

## Office of the Controller

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

**August 30, 2011**

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

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**MARK PATRICK FLAHERTY**  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

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**GUY A. TUMOLO**  
DEPUTY CONTROLLER

August 5, 2011

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

Subject: **Pittsburgh International Airport**  
**Report on Street Pricing**  
**Compliance Procedures**

Dear Mr. Penrod:

We performed certain procedures to assess AIRMALL Pittsburgh, Inc.'s, formerly BAA Pittsburgh, Inc., compliance with the street pricing provisions contained in Amended and Restated Master Lease, Development and Concession Agreement #27275. Our procedures included documenting the measures utilized by AIRMALL Pittsburgh to enforce street pricing within the airmall, as well as testing subtenant compliance with the street pricing requirements. In addition, we also tested the Sunoco gas station's compliance with the street pricing provisions contained in its agreement with the Allegheny County Airport Authority. Our procedures were performed as a non-audit service. Therefore, this engagement is not covered by *Generally Accepted Government Auditing Standards*.

Our sample included 150 items selected from 30 subtenants including the Sunoco gas station. Of the 150 items, we could not find 26 of the items at the agreed upon comparable locations. Of the remaining 124 items that could be tested, we found that the prices of 18 items (14%) were not in compliance with the street pricing requirements. Our procedures did not identify any noncompliance with the street pricing requirements at the Sunoco gas station.

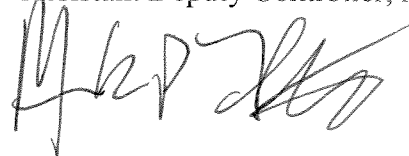
Mr. Penrod  
Executive Director

The results of our procedures and our recommendations are detailed in the attached report. We would like to thank the management and staff of the Airport Authority and AIRMALL Pittsburgh for their courtesy and cooperation during our engagement.

Very truly yours,



Lori A. Churilla  
Assistant Deputy Controller, Auditing



MARK PATRICK FLAHERTY  
Controller

cc: Honorable James Burn, Jr., 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. Glenn R. Mahone, President, Airport Authority Board of Directors  
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, AIRMALL 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*

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### **Purpose of Procedures:**

The purpose of this engagement was to test AIRMALL Pittsburgh's monitoring of prices charged to patrons of the Pittsburgh International Airport. We focused on compliance with the street pricing provisions of the concession agreements for the airmall subtenants and the Sunoco gas station.

### **Background:**

The Amended and Restated Master Lease, Development and Concession Agreement (Master Lease Agreement), between AIRMALL Pittsburgh Inc. (AIRMALL Pittsburgh), formerly BAA, Pittsburgh, Inc., and the Allegheny County Airport Authority, 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 businesses.

The street pricing provisions of the Master Lease 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.

### **Results in Brief:**

Our procedures disclosed the following:

- A total of 9 (30%) out of 30 subtenants had non-compliant items,
- 26 (17%) of 150 items selected for testing could not be found at the comparable locations,
- Of the 124 items that could be compared,
  - 106 (86%) items were in compliance,
  - 14 (11%) identical items were priced higher at the airmall,
  - 4 (3%) comparable items were priced higher at the airmall, and
- None of the five items selected from two subtenants could be found at the comparable locations.

### **Recommendations:**

We recommend that AIRMALL Pittsburgh:

- Require the subtenants found to be non-compliant with street pricing requirements to adjust the price of the 14 items to reflect the current comparable street price.
- Require the subtenants that appear to be non-compliant to provide information on the 4 items to support the higher price, such as quality or size, or

## *Executive Summary*

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adjust the price to reflect the current comparable street price.

- Evaluate the appropriateness of comparable locations for its airmall subtenants and make changes if applicable.

## **I. Introduction**

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The Amended and Restated Master Lease, Development and Concession Agreement (Master Lease Agreement), between AIRMALL Pittsburgh, Inc. (AIRMALL Pittsburgh), formerly BAA, Pittsburgh, Inc., and Allegheny County, 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 businesses. This contract, which expires December 31, 2017, was transferred to the Allegheny County Airport Authority (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 Master Lease 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. Similar street pricing provisions are included in the Sunoco gas station's lease agreement with the Airport Authority. Since the Sunoco gas station is not an airmall subtenant, it is not included in the agreement with AIRMALL Pittsburgh.

AIRMALL Pittsburgh utilizes a local firm, Customer Service Consultants (CSC), to conduct price surveys in order to evaluate the airmall subtenants' compliance with the street pricing provisions of their concession agreements. The Airport Authority conducts similar periodic price checks for the Sunoco gas station to ensure compliance with its street pricing requirements.

## **II. Scope & Methodology**

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Our procedures tested AIRMALL Pittsburgh's monitoring of prices charged to patrons of the Pittsburgh International Airport. We focused on compliance with the street pricing provisions of the concession agreements for the airmall subtenants and the Sunoco gas station. Specifically, we:

- Gained an understanding of the measures utilized by AIRMALL Pittsburgh to monitor and enforce compliance with the street pricing requirements and examined supporting documentation maintained by AIRMALL Pittsburgh.
- Compared the prices for a sample of items from airmall subtenants and the Sunoco gas station to the prices at agreed upon comparable locations. We used the UPC SKU or style number, if available, to ensure that identical items were compared. These comparisons were made from August 2, 2011 through August 4, 2011.

We provided a draft copy of this report for comment to the Vice President of Development of AIRMALL Pittsburgh, Inc. The response is on page 10.



### III. Findings and Recommendations

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#### Finding #1

#### **9 out of 30 Subtenants Are Non-Compliant With Street Pricing Requirements**

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The Amended and Restated Master Lease, Development and Concession Agreement between the Airport Authority and AIRMALL Pittsburgh includes a Street Pricing Requirement that states “Lessee and its Subtenants shall observe Street Pricing for goods and services as defined herein. The Street Price for a good or service shall be the regular price of the good or service charged at an off-Airport, comparable location.” Additionally, the agreement between AIRMALL Pittsburgh and its subtenants states that subtenants may not charge prices for any products or services that exceed street prices.

There is a separate agreement between the Airport Authority and the Sunoco gas station that requires the concessionaire to observe “street pricing” for goods and services. Since the Sunoco gas station is not an airmall subtenant, it is not included in the agreement with AIRMALL Pittsburgh. Therefore, monitoring of the street pricing requirement is the responsibility of the Airport Authority.

We selected a sample of 5 items each from 30 subtenants, including Sunoco, for a total of 150 items. Of these 150 items:

- 26 (17%) could not be found at the agreed upon comparable locations.
- Of the 124 items that could be tested:
  - 106 (86%) items were in compliance with the street pricing requirements,
  - 14 (11%) items were priced higher at the airmall than the identical item at a comparable location,
  - 4 (3%) items were priced higher at the airmall than a comparable item at a comparable location.

The 18 non-compliant items are detailed in the chart on the following pages.

We also noted during our testing that none of the five items selected from two subtenants, Radio Road and Sportzburgh, could be found at any of the three comparable

### III. Findings and Recommendations

locations provided by AIRMALL Pittsburgh. Radio Road appears to carry brands that are not carried at the comparable locations. Sportzburgh's comparable PaperMart has a small selection of party items but no real team-related gifts, merchandise, and apparel. The other two comparables, Dick's and Pro-Image, have much smaller merchandise selections that are influenced by the current sporting season.

#### Non-Compliant Identical Items

Subtenant	Item	Airmall Price	Street Price	Difference
Hudson News	Dramamine 12 Tablets	\$ 7.99	\$ 5.99	\$ 2.00
	Cool Ranch Doritos 2 1/8 oz	\$ 1.99	\$ 0.99	\$ 1.00
InMotion Entertainment	Blue Ray/DVD combo "Just Go With It"	\$34.99	\$29.99	\$ 5.00
	Skull Candy 50/50 Earphones	\$59.99	\$54.99	\$ 5.00
Paradies Gifts (Three Rivers Gifts & News)	Reebok Men's Polamalu Jersey (screen print)	\$79.99	\$69.99	\$10.00
	Reebok Crosby T-Shirt	\$24.99	\$21.99	\$3.00
Paradies News (CNBC News)	Advil 200 mg 24 Tablets	\$ 5.99	\$ 5.39	\$ 0.60
	7 oz Pizza Combos	\$ 3.99	\$ 2.69	\$ 1.30
	Chex Mix Traditional 3.75 oz	\$ 3.99	\$ 1.69	\$ 2.30
PGA	Adidas "Taylor Made" Hat, item# 0303111911	\$29.99	\$27.99	\$ 2.00
Sam's Brewhouse	Corona Bottle	\$ 5.49	\$ 4.79	\$ 0.70
	16 oz draft Coors Light	\$ 3.69	\$ 2.75	\$ 0.94
Upper Crust	Ocean Spray Orange Juice 15.2 oz	\$ 2.19	\$ 1.89	\$ 0.30
	Aquafina water 20 oz	\$ 2.19	\$ 1.99	\$ 0.20

### III. Findings and Recommendations

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#### Non-Compliant Comparable Items

Subtenant	Item	Airmall Price	Street Price	Difference
Hudson Gifts	Penguin's Insulated Travel Mug – stnd size	\$19.99	\$11.99	\$ 8.00
Sam's Brewhouse	Tuna Salad on Croissant with lettuce & tomato	\$ 8.95	\$ 8.00	\$ 0.95
Taxco	Tungsten Ring size 9 - band/no stones	\$59.95	\$44.00	\$15.95
Upper Crust	Cinnamon Bagel	\$ 1.49	\$ 1.19	\$ 0.30

#### RECOMMENDATIONS

We recommend that AIRMALL Pittsburgh:

- Require the subtenants found to be non-compliant with street pricing requirements to adjust the price of the 14 items to reflect the current comparable street price.
- Require the subtenants that appear to be non-compliant to provide information on the 4 items to support the higher price, such as quality or size, or adjust the price to reflect the current comparable street price.
- Evaluate the appropriateness of comparable locations for its airmall subtenants and make changes if applicable.



August 23, 2011

Ms. Lori Churilla  
Assistant Deputy Controller, Auditing  
Allegheny County Controller  
436 Grant Street  
Courthouse, Room 104  
Pittsburgh, PA 15219

Dear Ms. Churilla:

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

With all of this in mind, we would like to respond to the recommendations highlighted on page 9 in the report and offer further context:

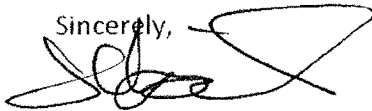
- **Require the subtenants found to be non-compliant with street pricing requirements to adjust the price of the 14 items to reflect the current comparable street pricing:** AIRMALL Pittsburgh is pleased to inform you that these items currently comply with their street pricing comparison.

- **Require the subtenants that appear to be non-compliant to provide information on the 4 items to support the higher price, such as quality or size, or adjust the price to reflect the current comparable street price:** AIRMALL Pittsburgh is pleased to inform you that three of the four items prices were changed to comply with their street price comparison, and the fourth item, from Taxco, the price will remain the same due to difference in weight of the Tungsten ring (see attached).
- **“[AIRMALL Pittsburgh] Evaluate the appropriateness of comparable locations for its Airmall subtenants and make changes if applicable:** 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. 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.

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 19 years. That partnership has secured a spot for PIT as the airport with one of the leading concessions programs in North America.

Thank you again for your roles in helping us achieve our goal of having our subtenants offer high-quality products at prices that are competitive and fair. Through your efforts, we can address the issues found in your report, making the program even more successful.

Sincerely,



Jay Kruisselbrink  
Vice President

