



County of Allegheny

Office of the Controller

PITTSBURGH INTERNATIONAL AIRPORT
REPORT ON STREET PRICING
COMPLIANCE PROCEDURES

(Non-Audit Service)

November 13, 2017

Chelsa Wagner
Controller

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October 16, 2017

Ms. Christina A. Cassotis
Chief Executive Officer
Allegheny County Airport Authority
Pittsburgh International Airport
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

Pittsburgh International Airport
Report on Street Pricing
Compliance Procedures

Dear Ms. Cassotis:

We performed certain procedures to assess AIRMALL Pittsburgh, Inc.'s (AIRMALL) compliance with the street pricing provisions contained in the Fourth Amended and Restated Master Lease, Development and Concession Agreement. Our procedures included documenting the measures utilized by AIRMALL 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 430 items selected from 45 stores including the Sunoco gas station. Of the 430 items, we could not find or could not test 139 of the items at the agreed upon comparable locations. Of the remaining 291 items that could be tested, we found that 260 (89%) items were in compliance, 13 (5%) identical items were priced higher at the AIRMALL / Sunoco gas station, and 18 (6%) similar items were priced higher at the AIRMALL.

Ms. Christina A. Cassotis
October 16, 2017
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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 for their courtesy and cooperation during our engagement.

Kind regards,



Chelsa Wagner
Controller



Lori Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Mary C. Soroka, Director, Budget and Finance
Mr. Kenneth J. Varhola, Chief of Staff, County Council
Ms. Sarah Roka, Budget Manager, County Council
Mr. David Minnotte, Board Chairman, Airport Authority Board
Ms. Jan Rea, Audit Committee Chair, Airport Authority Board
Mr. Dale Cottrill, Chief Financial Officer, Airport Authority
Ms. Kristy Jenkins, Controller, Airport Authority
Ms. Cathy Simoni, Vice President Pittsburgh, AIRMALL Pittsburgh

Executive Summary

Purpose of Procedures

The purpose of this engagement was to test the AIRMALL'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 Fourth Amended and Restated Master Lease, Development and Concession Agreement (Master Lease Agreement), between AIRMALL Pittsburgh, Inc. (AIRMALL) and the Allegheny County Airport Authority (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:

Finding #1

- A total of 14 (31%) out of 45 stores tested had non-compliant items.
- Of the 291 items that could be compared:
 - 260 (89%) items were in compliance,
 - 13 (5%) identical items were priced higher at the AIRMALL / Sunoco gas station,
 - 18 (6%) similar items was priced higher at the AIRMALL.

Finding #2

- 119 (28%) of 430 items selected for testing could not be found at the comparable locations for 32 of the 45 (71%) stores tested.
 - Seven stores had one item that could not be compared
 - 23 stores had more than one item that could not be compared and
 - Two stores had all ten items that could not be compared
- The comparable locations would not provide pricing information to us for 20 items (5%) for two additional stores.

Finding #3

- Nine stores are repeatedly non-compliant with the Street Pricing Requirements. Each of the stores had non-compliant items in at least two of the last six annual or follow-up Price Comparison Surveys that were performed by Customer Service Consultants.

Executive Summary

Recommendations

We recommend that the AIRMALL:

Finding #1

- Require the stores found to be non-compliant with street pricing requirements to adjust the price of the 13 items to reflect the current comparable street price.
- Require the stores that appear to be non-compliant to provide information on the 18 items to support the higher price, such as size or quality, or adjust the price to reflect the current comparable location.

Finding #2

- Work with the Airport Authority and the subtenants.
 - Determine if there are better comparable locations available for stores selling items that are not carried at the current comparable locations.
 - Consider amending the contract to allow for multiple comparable locations for stores where there are other entities of the same business, franchise, or trade name due to limited availability of items in certain stores.

Finding #3

- Perform more frequent follow ups with stores that have proven to be continually non-compliant.
- Work with the Airport Authority to strengthen the language of the Master Lease Agreement to include penalties for stores that are continually non-compliant with the street pricing regulations.
- Ensure continually non-compliant stores are made aware of penalties and that these penalties are enforced.

I. Introduction

The Fourth Amended and Restated Master Lease, Development and Concession Agreement (Master Lease Agreement), between AIRMALL Pittsburgh, Inc. (AIRMALL Pittsburgh) and the Allegheny County Airport Authority (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. This contract expires December 31, 2029.

The street pricing provisions of the Master Lease Agreement require that the sales price of a good or service of the AIRMALL subtenants (stores) 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 store 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.

The AIRMALL utilizes a local firm, Customer Service Consultants (CSC), to conduct price surveys in order to evaluate the AIRMALL subtenant 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

Our procedures tested the AIRMALL'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 (stores) and the Sunoco gas station. Specifically, we:

- Gained an understanding of the procedures utilized by the AIRMALL to monitor and enforce subtenant compliance with the street pricing requirements and examined supporting documentation maintained by the AIRMALL.
- Compared the prices for a sample of items from the AIRMALL stores and the Sunoco gas station to the prices at agreed upon comparable locations. When applicable, the UPC code was recorded for the item. These comparisons were made from September 6, 2017 through September 27, 2017.
- Reviewed the 2016 Customer Service Consultant price comparison survey and performed testing to determine if the AIRMALL properly followed-up on the deficiencies found in the report.

We provided a draft copy of this report for comment to the Vice President Pittsburgh, AIRMALL Pittsburgh. The response begins on page 17.

III. Findings and Recommendations

Finding #1
**14 out of 45 Stores Sampled Are Non-Compliant
With Street Pricing Requirements**

The Fourth 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.”

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. Therefore, monitoring of the street pricing requirement is the responsibility of the Airport Authority.

We intended to select a sample of 10 items from each of the 45 stores tested, including the Sunoco gas station, for a total of 450 items. During our testing, we found that Smarte Carte only had one item available, Travelex had eight items available, and The Club only had one item available. Since these stores collectively only offered ten items, compared to the 30 items we had anticipated, our sample size was reduced by 20 items to 430 items. Of these 430 items:

- 139 (32%) items could not be found or tested at the agreed upon comparable locations (See Finding #2).
- Of the 291 items that could be tested:
 - 260 (89%) items were in compliance with the street pricing requirements,
 - 13 (5%) items were priced higher at the AIRMALL / Sunoco gas station than the identical item at a comparable location,
 - 18 (6%) items were priced higher at the AIRMALL than a similar item at a comparable location.

The 31 non-compliant items are detailed in the charts on the following pages. The charts below include the pricing at the time our testing was performed.

III. Findings and Recommendations

Non-Compliant Identical Items:

Identical Non-Compliant items at the AIRMALL

Store	Item	AIRMALL Price	Street Price	Difference	% Overcharged
Harley Davidson	Black Leather HD Jacket	\$ 519.99	\$ 450.00	\$ 69.99	16%
	Black Sweatshirt - Logo Left Side	\$ 79.99	\$ 65.00	\$ 14.99	23%
	Black Jacket, HD on sleeve, 2 zippers right side, hood	\$ 179.99	\$ 160.00	\$ 19.99	12%
Hudson News	Peanut M&M's Sharing Size 10.70 oz	\$ 6.99	\$ 4.99	\$ 2.00	40%
	Dasani Bottle Water - 20 fl oz	\$ 1.89	\$ 1.49	\$ 0.40	27%
McDonald's	Egg McMuffin Meal	\$ 4.69	\$ 4.50	\$ 0.19	4%
	Espresso - Caramel Macchiato	\$ 2.49	\$ 2.00	\$ 0.49	25%
Paradies News	Lifesaver Gummies	\$ 3.99	\$ 3.49	\$ 0.50	14%
	Cheez-its	\$ 3.99	\$ 3.49	\$ 0.50	14%
Starbucks	Hot Chocolate	\$ 3.00	\$ 2.75	\$ 0.25	9%
Vino Volo	Chateau Lagrezette – Red Red Wine Malbec	\$ 15.00	\$ 12.00	\$ 3.00	25%
	Faire la Fete – Chardonnay Blend	\$ 12.00	\$ 10.00	\$ 2.00	20%

Identical Non-Compliant item at Sunoco Gas Station

Store	Item	AIRMALL Price	Street Price	Difference	% Overcharged
Sunoco	2 Liter Pepsi	\$ 2.49	\$ 2.29	\$ 0.20	9%

Non-Compliant Similar Items:

Store	Item	AIRMALL Price	Street Price	Difference	% Overpriced
Bar Symon	Cobb Salad	\$ 14.99	\$ 13.00	\$ 1.99	15%
Black & Gold	Steeler Lanyard	\$ 9.99	\$ 6.99	\$ 3.00	43%
Burgh Sportz Bar	Turkey Club	\$ 11.00	\$ 10.50	\$ 0.50	5%
	Chili w/ Cheese	\$ 6.50	\$ 5.95	\$ 0.55	9%
	Orange Crush (Drink)	\$ 13.00	\$ 10.25	\$ 2.75	27%
	Miller Lite 12 oz can	\$ 5.00	\$ 4.25	\$ 0.75	18%

III. Findings and Recommendations

Store	Item	AIRMALL Price	Street Price	Difference	% Overpriced
Marathon Diner	Gyro Salad	\$ 12.95	\$ 12.90	\$ 0.05	0%
	Marathon Burger	\$ 12.95	\$ 10.98	\$ 1.97	18%
	Turkey Club	\$ 9.55	\$ 9.45	\$ 0.10	1%
	Chicken Club	\$ 9.55	\$ 9.25	\$ 0.30	3%
	B.L.T.	\$ 8.95	\$ 7.99	\$ 0.96	12%
Martini Bar	Moscow Mule	\$ 13.00	\$ 10.50	\$ 2.50	24%
	The Dirty Martini	\$ 13.00	\$ 12.00	\$ 1.00	8%
	Soup of the Day	\$ 6.00	\$ 4.00	\$ 2.00	50%
	Raspy Bull	\$ 13.00	\$ 10.25	\$ 2.75	27%
	Southern Tier 2x IPA bottle	\$ 6.75	\$ 6.00	\$ 0.75	13%
Spirit of the Red Horse	Scala Shapeable Red Cowboy Hat, Silver charm on front	\$ 38.00	\$ 30.00	\$ 8.00	27%
The Strip Market	Fruit Smoothie - 16 oz	\$ 5.45	\$ 4.59	\$ 0.86	19%

RECOMMENDATIONS

We recommend that the AIRMALL:

- Require the stores found to be non-compliant with street pricing requirements to adjust the price of the 13 items to reflect the current comparable street price.
- Require the stores that appear to be non-compliant to provide information on the 18 items to support the higher price, such as size or quality, or adjust the price to reflect the current comparable location.

III. Findings and Recommendations

Finding #2

Products from 34 out of 45 Stores Sampled Could Not be Found or Tested at a Comparable Location

The Fourth 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, determined as follows.”

1. If an entity of the same business, franchise or trade name as a Subtenant operates in a non-Airport location, within a reasonable geographic radius from the Airport, the Street Price shall be the price of the good or service at the nearest agreed non-Airport location. A reasonable geographic radius shall be, the Authority of Allegheny, followed by the Counties of Beaver, Butler, Washington, and Westmoreland Counties in no particular order.
2. If an entity of the same business, franchise or trade name as a Subtenant does not operate within a reasonable geographic radius, the Street Price shall be the regular price of the good or service at the nearest agreed entity of the same business, franchise or trade name.
3. If a good or service is not available from an entity of the same business, franchise or trade name as stated above, the Street Price shall be within a range of the regular prices of three separate businesses, of comparable nature, ambiance and product and service lines, within a reasonable geographic radius as defined above.
4. If the Subtenant is a franchisee or retail outlet of an entity with a national pricing structure which is identical for all franchisees or outlets, the Street Price shall be the same.

The Agreement also states that where an identical good or service, including food, beverages, and liquor, is not available at the agreed comparable location, any difference in size or quality shall constitute a price differential.

We intended to select a sample of 10 items from each of the 45 stores tested, including the Sunoco gas station, for a total of 450 items. During our testing, we found that Smarte Carte only had one item available, Travelex had eight items available, and The Club only had one item available. Since these stores collectively only offered ten items, compared to the 30 items we had anticipated, our sample size was reduced by 20 items to 430 items. Of these 430 items:

- 119 (28%) items from 32 stores could not be found at the agreed upon comparable locations.
 - Seven stores had one item that could not be compared
 - 23 stores had more than one item that could not be compared and
 - Two stores had all ten items that could not be compared

III. Findings and Recommendations

- The comparable locations would not provide pricing information to us for 20 items (5%) for two additional stores.

The 32 stores with products that could not be found at a comparable location, as well as the two stores with comparable locations that would not provide pricing, are listed on the next page. We've separated the stores into those with exact comparable locations, and those with a range of similar comparable locations.

Stores with One Exact Comparable Location			
	Store	Number of Items Without Comparables	Reason
1	Brighton Collectibles	2 out of 10 (20%)	The comparable location did not carry the same items sampled at the AIRMALL.
2	Brookstone	2 out of 10 (20%)	The comparable location did not carry the same items sampled at the AIRMALL.
3	Cinnabon	1 out of 10 (10%)	Comparable location did not carry the same drink sampled at the AIRMALL.
4	Creative Kids Stuff	10 out of 10 (100%)	Auditors sampled well-known brands such as Barbie, Shopkins, Crayola, Sesame Street and Hot Wheels. The comparable location does not carry the same brands sampled at the AIRMALL.
5	Desigual	5 out of 10 (50%)	The comparable location does not carry the same items sampled at the AIRMALL. Per discussion with the comparable location employee, all merchandise that could not be found was last season's inventory.
6	Ecco	6 out of 10 (60%)	The comparable location does not carry the same shoes sampled at the AIRMALL.
7	Furla	7 out of 10 (70%)	The comparable location does not carry the same accessories sampled at the AIRMALL. Per discussion with the comparable location employee, she said the purses that were on sale, may have been older inventory and were bags she never heard of.
8	Harley Davidson	2 out of 10 (20%)	The comparable location does not carry the same items sampled at the AIRMALL.
9	Hugo Boss	6 out of 10 (100%)	The comparable location does not carry the same item sampled at the AIRMALL.

III. Findings and Recommendations

	Store	Number of Items Without Comparables	Reason
10	Johnston & Murphy	5 out of 10 (50%)	Auditors sampled both women and men's clothing at the AIRMALL. The comparable location does not carry women's clothing.
11	Lacoste	5 out of 10 (50%)	The comparable location does not carry the same clothing sampled at the AIRMALL.
12	Lids	2 out of 10 (20%)	The comparable location does not carry the same hats or team hats sampled at the AIRMALL.
13	Pinkberry	1 out of 10 (10%)	The comparable location does not carry the same food item sampled at the AIRMALL.
14	Rite Aid	1 out of 10 (10%)	The comparable location does not carry the same item sampled at the AIRMALL.
15	SportZburg	1 out of 10 (10%)	The comparable location had already sold out of the item sampled at the AIRMALL.
16	Starbucks	2 out of 10 (20%)	The comparable location did not carry the same drinks sampled at the AIRMALL.
17	Sunglass Hut	3 out of 10 (30%)	The comparable location did not carry the same sunglasses sampled at the AIRMALL.
18	Vino volo	3 out of 10 (30%)	The comparable location did not carry the same items sampled at the AIRMALL.

64 out of 180 (36%) Stores with Exact Comparable Location

Stores with Multiple Similar Locations			
	Store	Number of Items Without Comparables	Reason
1	Black & Gold	4 out of 10 (40%)	The comparable locations do not carry the same brand of clothing sampled at the AIRMALL.
2	Burgh Sportz Bar	3 out of 10 (30%)	Comparable location did not carry the similar food items sampled at the AIRMALL.
3	Green Beans Coffee	4 out of 10 (40%)	The comparable locations do not carry the same food or drink items sampled at the AIRMALL.
4	Hudson Gifts (Concourse A)	9 out of 10 (90%)	The comparable locations do not carry similar items sampled at the AIRMALL.
5	Hudson News	2 out of 10 (20%)	The comparable locations do not carry the same items sampled at the AIRMALL.

III. Findings and Recommendations

6	Marathon Diner	1 of 10 (10%)	The comparable locations do not carry the same size fountain drinks sampled at the AIRMALL.
7	Martini Bar	1 of 10 (10%)	The comparable locations do not carry a similar appetizer salad sampled at the AIRMALL.
8	Paradies Gifts (Concourse D)	4 out of 10 (40%)	The comparable locations do not carry similar items sampled at the AIRMALL.
9	Paradies News	1 out of 10 (10%)	The comparable locations do not carry the same items sampled at the AIRMALL.
10	Radio Road	3 out of 10 (30%)	The comparable locations do not carry similar items sampled at the AIRMALL.
11	Spirit of the Red Horse	8 out of 10 (80%)	The comparable locations do not carry similar items sampled at the AIRMALL.
12	The Strip Market	3 out of 10 (20%)	The comparable locations do not carry similar items sampled at the AIRMALL.
13	Zozo	10 out of 10 (100%)	The comparable locations do not carry similar items sampled at the AIRMALL.

53 out of 130 (41%)

Stores with Similar Comparable Locations

Sunoco Gas Station			
	Store	Number of Items Without Comparables	Reason
1	Sunoco	2 out of 10 (20%)	The comparable location did not carry the same items sampled at the Sunoco Gas Station

2 out of 10 (20%)

Sunoco Total

III. Findings and Recommendations

Comparable Locations that did not Provide Pricing:			
	Store	Number of Items	Reason
1	Armani Jeans	10 out of 10 (100%)	Per email from Armani's legal counsel, they will not be providing us with the prices for items requested.
2	Duty Free	10 out of 10 (100%)	The comparable store asked for Auditors to send the list of items to be price checked via email. Auditor sent the email 3 different time and did not get a response.

20 out of 20 (100%) Comparable Prices not Provided

Because the Street Pricing requirement in the Agreement allows for a price differential for non-identical items, it is difficult to determine the stores' compliance when identical items cannot be located at the agreed upon comparable location.

RECOMMENDATIONS

We recommend that the AIRMALL:

- Work with the Airport Authority and the subtenants to:
 - Determine if there are better comparable locations available for stores selling items that are not carried at the current comparable locations.
 - Consider amending the contract to allow for multiple comparable locations for stores where there are other entities of the same business, franchise, or trade name due to limited availability of items in certain stores.

III. Findings and Recommendations

Finding #3 **9 Stores are Repeatedly Non-Compliant With Street Pricing Requirements**

Customer Service Consultants (CSC) evaluates the pricing of the AIRMALL stores each December and prepares a report containing the results referred to as a Price Comparison Survey (PCS). If a store is non-compliant in the December Survey, CSC will perform an interim PCS the following spring. The Airport Authority also requests that the Controller's Office perform procedures to test the Street Pricing requirement for stores at the AIRMALL on an annual basis.

We identified all of the current stores with non-compliant items in the December 2016 CSC Survey, then reviewed the December 2015 and 2014 and the Spring 2017, 2016, and 2015 surveys to determine if any of the stores also had non-compliant items in those surveys. If they did, we added the store on the chart below and noted the number of non-compliant items in each of the reports, including the Controller's Office report for the applicable year. Of the six surveys reviewed, if the store was non-compliant in the December 2016 survey and any other survey, they are noted below.

AIRMALL Store	Year	December Comparison	Above Sample	Spring Follow-Up	Above Sample	Auditor's Test	Above Sample
Black & Gold	2016/2017	1 of 22	5%	3 of 18	17%	1 of 6	17%
Black & Gold	2015/2016	6 of 21	29%	3 of 14	21%	0 of 7	0%
Black & Gold	2014/2015	Not in AIRMALL					

Green Beans Coffee	2016/2017	1 of 16	6%	13 of 28	46%	0 of 6	0%
Green Beans Coffee	2015/2016	0 of 20	0%	Not Tested		Did Not Test	
Green Beans Coffee	2014/2015	3 of 20	15%	0 of 20	0%	2 of 5	40%

Harley Davidson	2016/2017	3 of 20	15%	6 of 20	30%	3 of 8	38%
Harley Davidson	2015/2016	7 of 20	35%	1 of 20	5%	1 of 6	17%
Harley Davidson	2014/2015	8 of 18	44%	9 of 20	45%	0 of 5	0%

Hudson Gifts	2016/2017	1 of 10	10%	2 of 12	17%	0 of 1	0%
Hudson Gifts	2015/2016	4 of 8	50%	2 of 7	29%	Did Not Test	
Hudson Gifts	2014/2015	3 of 8	38%	2 of 11	18%	3 of 5	60%

Hudson News	2016/2017	7 of 30	23%	5 of 30	17%	2 of 8	25%
Hudson News	2015/2016	16 of 30	53%	10 of 32	30%	3 of 6	50%
Hudson News	2014/2015	10 of 30	33%	2 of 27	7%	1 of 5	20%

III. Findings and Recommendations

AIRMALL Store	Year	December Comparison	Above Sample	Spring Follow-Up	Above Sample	Auditor's Test	Above Sample
Martini	2016/2017	5 of 17	29%	4 of 17	24%	5 of 9	56%
Martini	2015/2016	3 of 21	14%	0 of 21	0%	4 of 6	67%
Martini	2014/2015	Not in AIRMALL					

McDonalds	2016/2017	6 of 19	32%	3 of 20	15%	2 of 10	20%
McDonalds	2015/2016	7 of 20	33%	Not Re-tested		1 of 7	14%
McDonalds	2014/2015	0 of 20	0%	Not Tested		0 of 5	0%

Paradies Gifts	2016/2017	3 of 21	14%	4 of 17	24%	0 of 6	0%
Paradies Gifts	2015/2016	5 of 17	29%	3 of 14	21%	5 of 13	38%
Paradies Gifts	2014/2015	1 of 20	5%	3 of 15	20%	1 of 5	20%

Paradies News	2016/2017	6 of 30	20%	4 of 28	14%	2 of 9	22%
Paradies News	2015/2016	2 of 30	7%	2 of 29	7%	2 of 6	33%
Paradies News	2014/2015	7 of 27	26%	0 of 28	0%	3 of 5	60%

RECOMMENDATIONS

We recommend that the AIRMALL:

- Perform more frequent follow ups with stores that have proven to be continually non-compliant.
- Work with the Airport Authority to strengthen the language of the Master Lease Agreement to include penalties for stores that are continually non-compliant with the street pricing regulations.
- Ensure continually non-compliant stores are made aware of penalties and that these penalties are enforced.



November 1, 2017

Ms. Chelsa Wagner
Allegheny County Controller
436 Grant Street
Courthouse, Room 104
Pittsburgh, PA 15219

Dear Ms. Wagner:

SUBJECT: STREET PRICING COMPLIANCE REPORT
77 STORES AT AIRMALL PITTSBURGH
45 STORES AUDITED, 430 ITEMS SAMPLED, 31 ITEMS FOUND NON-
COMPLIANT

On behalf of AIRMALL® Pittsburgh, developer and manager of the AIRMALL at Pittsburgh International Airport, 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 in the airport when we established the AIRMALL at Pittsburgh International Airport 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.

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November 1, 2017

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

- **Require the stores found to be non-compliant with street pricing requirements to adjust the price of the 13 items to reflect the current comparable street price. Require the stores that appear to be non-compliant to provide information on the 18 items to support the higher price, such as size or quality, or adjust the price to reflect the current comparable location:** Out of 77 stores at the AIRMALL, there were 45 stores that were sampled and 31 items that were found to be non-compliant. AIRMALL is pleased to inform you that the AIRMALL currently complies with the street pricing policy. Of the 28 items found to be non-compliant, the items have been changed to the current street price or have been transferred out of the locations. On the similar items, supporting documentation has been received from subtenant to support the correct price on the product. AIRMALL also requests that while conducting pricing audits, the Controller's office request "Price Inquiries" for all items being audited. This will 100% verify all items being surveyed have the correct retail price for the audit, resulting in no misunderstanding between AIRMALL, the Controller's office and the tenants.
- **Work with the Airport Authority and the subtenants to determine if there are better comparable locations available for the stores selling items that are not carried at the current comparable locations. Work with the Airport Authority and the subtenants to consider amending the contract to allow for multiple comparable locations for stores where there are other entities of the same business, franchise, or trade name due to limited availability of items in certain stores:** AIRMALL Pittsburgh understands the frustration of the Controller's Office in not being able to test every item that was selected to be sampled, but the uniqueness of our restaurants, news and gift stores and non-traditional retailers within the AIRMALL is one factor that makes the program award winning, and therefore, many items may not be able to be tested. While our airport retail partners specialize in buying for the traveling public, traditional retailers have a completely different target market or customers. With that in mind, AIRMALL



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supports whenever possible comparing like to like, brand to brand to get a true and accurate comparison. The Controller's Office should consider expanding its audit size to get a better sampling of the product. It was recommended to AIRMALL that at least 25 to 30 items would obtain a better sampling. With that said, AIRMALL will still continue to work with the Airport Authority to see if there are better comparable locations that may be available.

- **Perform more frequent follow ups with stores that have proven to be continually non-compliant. Work with the Airport Authority to strengthen the language of the Master Lease Agreement to include penalties for stores that are continually non-compliant with the street pricing regulations. Ensure continually non-compliant stores are made aware of penalties and that these penalties are enforced.** AIRMALL continues to go beyond what is contractually required to ensure that the street pricing policy is understood and adhered to by all Subtenants.

In summary, AIRMALL Pittsburgh is firmly committed to "Regular Mall Prices...Guaranteed" at the AIRMALL at Pittsburgh International Airport. 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 relationship with the Allegheny County Airport Authority as their concessions developer over the past 25 years.

Thank you again for your role 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,

A handwritten signature in black ink, appearing to read "Cathy A. Simoni".

Cathy A. Simoni
Vice President