

**COMPLIANCE REVIEW OF
STREET PRICING
AT THE
PITTSBURGH INTERNATIONAL
AIRPORT**

JULY 15, 2009

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June 5, 2009

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

Subject:

Compliance Review of
Street Pricing at the
Pittsburgh International Airport

Dear Mr. Penrod:

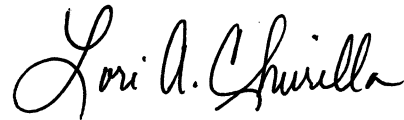
We conducted a review of BAA Pittsburgh, Inc.'s (BAA) monitoring of prices charged to patrons of the Pittsburgh International Airport. Our review focused on the Airmall subtenants' and the Sunoco Gas Station's compliance with the street pricing provisions of their concession agreements.

Using a standard sampling technique, we selected a sample of 72 items from 25 Airmall subtenants and the Sunoco Gas Station and compared the price charged by the subtenant to the price charged by the agreed upon comparable location. Our review found that the prices for 5 of 72 (7%) items tested were not in compliance with the street pricing provisions of their concession agreement. The results of our review and recommendations are detailed in the attached report.

Mr. Penrod
June 5, 2009

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

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 Review:

We conducted a review of BAA's monitoring of prices charged to patrons of the Pittsburgh International Airport. Our review 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 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 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 review disclosed the following:

- Our review found 5 (7%) of the 72 items sampled were not in compliance with street pricing provisions.

Recommendations:

We recommend that the BAA:

- Require the Airmall subtenant Paradies (SE-3) to adjust the price of Butterfinger (2.1 ounces) to reflect the comparable street price.
- Require the Airmall subtenant Au Bon Pain (AC-33) to adjust the price of the Diet Pepsi Soda (20 ounces) to reflect the comparable street price.
- Require the Airmall subtenant McDonald's (SE-9A) to adjust the price of the fruit walnut snack size to reflect the comparable street price.
- Require the Airmall subtenant Paradies-News Stand (NW-8) to adjust the price of the Dr. Pepper (20 ounces) to the comparable street price.
- Require the Airmall subtenant PGA (SE-14) to adjust the price of the Nike Juice Plus 312 Golf Balls (12 count) to the comparable street price.

I. Introduction

The Amended and Restated Master Lease, Development and Concession Agreement (Master Lease 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 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 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.

BAA utilizes a local firm, Customer Service Consultants (CSC) to conduct annual price surveys in order to evaluate the Airmall subtenants' compliance with the street pricing provisions of their concession agreements. In the December 2008 survey, CSC sampled 954 items from 58 subtenants and identified 39 items (4%) that were not in compliance with the street pricing provisions. BAA also monitors prices through a toll free telephone number and a web site, which may be used by Airmall customers to register price complaints. The Airport Authority also conducts periodic price checks for the Sunoco Gas Station to ensure compliance with the street pricing provisions.

II. Scope & Methodology

We conducted a review of BAA's monitoring of prices charged to patrons of the Pittsburgh International Airport. Our review focused on compliance with the street pricing provisions of the concession agreements for the Airmall subtenants and the Sunoco Gas Station. Specifically, we:

- Compared the prices for a sample of items from subtenants and the Sunoco Gas Station to the prices at agreed upon comparable locations. We used the UPC or SKU number, if available, to ensure that identical items were compared. These comparisons were made from June 3, 2009 through June 5, 2009.
- Reviewed the CSC's survey to verify that all subtenants were included in the pricing survey issued in December 2008.
- Examined documentation maintained by BAA regarding pricing corrections made by subtenants based on the exceptions noted in CSC's December 2008 Price Comparison Survey.

We provided a draft copy of this report for comment to the Vice President of Development of BAA Pittsburgh, Inc. His response is on page 8.

III. Findings and Recommendations

Five Airmall Subtenants Need to Adjust Prices

During our review, we used a standard sampling technique and selected a sample of 72 items from 25 Airmall subtenants and the Sunoco Gas Station. We tested the pricing of these items for compliance with street pricing provisions of the concession agreements. Our review found five items (7%) that were not in compliance with street pricing provisions, as listed below:

Subtenant (Location)	Item	Airmall Price	Street Price	Difference
Paradies (SE-3)	Butterfinger 2.1 oz	\$1.09	\$0.99	\$0.10
Au Bon Pain (AC-33)	Soda Diet Pepsi 20 oz Bottle	\$2.29	\$2.19	\$0.10
McDonald's (SE-9A)	Fruit Walnut Snack Size	\$1.89	\$1.79	\$0.10
Paradies (Newsstand NW-8)	Soda Dr. Pepper 20 oz Bottle	\$1.59	\$1.49	\$0.10
PGA (SE-14)	Nike Juice Plus 312 Golf Balls (12 count)	\$24.99	\$21.99	\$3.00

RECOMMENDATIONS

We recommend that BAA:

- Require the Airmall subtenant Paradies (B-1) to adjust the price of Butterfinger (2.1 ounces) to reflect the comparable street price.
- Require the Airmall subtenant Au Bon Pain (#111) to adjust the price of the Diet Pepsi Soda (20 ounces) to reflect the comparable street price.

III. Findings and Recommendations

- Require the Airmall subtenant McDonald's (SE-9A) to adjust the price of the fruit walnut snack size to reflect the comparable street price.
- Require the Airmall subtenant Paradies (News Stand) to adjust the price of the Dr. Pepper (20 ounces) to the comparable street price.
- Require the Airmall subtenant PGA to adjust the price of the Nike Juice Plus 312 Golf Balls (12 count) to the comparable street price.

BAA Pittsburgh, Inc.

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July 13, 2009

Ms. Lori Churilla
Assistant Deputy Controller, Auditing
County of Allegheny
Controller's Office
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219-2498

Dear Ms. Churilla::

Thank you for your letter concerning the pricing audit that was performed on the AIRMALL® stores by your office. It is our view that the AIRMALL's® street pricing philosophy is fundamental to the success and top-level performance of the development. To that end, we sincerely appreciate the effort your team put into this audit and value the diligence and time put into ensuring an accurate, factual and unbiased review. It is very rewarding to have the success of our diligent efforts of our street pricing program confirmed by your office.

In response to the recommendations on Page 3 of your report, we are pleased to inform you that these items currently comply with their street pricing comparison.

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 yours,

A handwritten signature in black ink, appearing to read 'Jay Kruisselbrink', written over a horizontal line.

Jay Kruisselbrink
Vice President Development