

**Compliance Review of
Street Pricing
At the
Pittsburgh
International Airport**

August 15, 2001

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June 11, 2001

Board of Directors
Allegheny County Airport Authority
Pittsburgh, International Airport
P.O. Box 12370
Pittsburgh, PA 15231-0370

Subject: Compliance Review of Street Pricing at the Pittsburgh International Airport

Board of Directors:

We conducted a review of BAA Pittsburgh, Inc.'s (BAA) and the Allegheny County Airport Authority's (Airport Authority) 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.

During our review we determined that BAA has effectively monitored the prices charged to patrons of the Pittsburgh International Airport and has substantially complied with the street pricing provisions of its Amended and Restated Master Lease, Development and Concession Agreement. Additionally, the Airport Authority has implemented sufficient procedures to ensure the Sunoco Gas Station complies with the street pricing provisions of its concession agreement.

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,

Amy Griser
Assistant Deputy, Auditing

DAN ONORATO
Controller

cc: Kent George, Executive Director, Airport Authority
Thomas G. Richardson, Chief Financial Officer and Treasurer, Airport Authority
Eric Ruprecht, Director of Business Administration, Airport Authority
Mark Knight, President, BAA

Executive Summary

Purpose of Review

We conducted a review of BAA Pittsburgh, Inc.'s (BAA) and the Allegheny County Airport Authority's (Airport Authority) 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.

Background

Under the terms of the Amended and Restated Master Lease, Development and Concession Agreement (Master Lease), which expires in 2007, BAA is to ensure the sales prices charged to patrons of Pittsburgh International Airport's Airmall do not exceed the prices charged for the identical goods or services at an off-airport comparable location.

The street pricing provisions of the Master Lease 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 shall be within a range of the regular prices of three separate and comparable businesses. The Master Lease also requires Airmall duty-free prices to be comparable to the range of duty-free prices at airports located in New York City, Atlanta, Miami and Boston.

Results in Brief

During our review, we found that:

- Three percent or five items randomly selected from a statistically determined sample of 146 items were not in compliance with the street pricing provisions of the Master Lease, and
- The lease agreement with the Dauphin County General Authority does not require that the Hyatt Hotel comply with the Airport Authority's street pricing policy.

Executive Summary

Conclusion

BAA has effectively monitored the prices charged to patrons of the Pittsburgh International Airport and has substantially complied with the street pricing provisions of the Master Lease. Additionally, the Airport Authority has implemented sufficient procedures to ensure the Sunoco Gas Station complies with the street pricing provisions of its concession agreement. BAA and the Airport Authority's efforts to ensure compliance with the street pricing policy could be furthered by implementation of the following recommendations.

Recommendations

Based upon the results of our review, we recommend:

- BAA immediately instruct the subtenants to adjust the prices of the five Airmall items identified as overpriced during our price comparison, and
- The Airport Authority consider amending the lease agreement with the Dauphin County General Authority to incorporate street pricing provisions.

I. Background

Under the terms of the Master Lease, which expires in 2007, BAA is to ensure the sales prices charged to patrons of Pittsburgh International Airport's Airmall do not exceed the prices charged for the identical goods or services at an off-airport comparable location.

The street pricing provisions of the Master Lease 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 shall be within a range of the regular prices of three separate and comparable businesses. The Master Lease also requires Airmall duty-free prices to be comparable to the range of duty-free prices at airports located in New York City, Atlanta, Miami and Boston.

The only concessions not subject to the Master Lease's street pricing provisions are car rentals, airline lounges, the post office, parking, telephones, the Sunoco Gas Station and the Hyatt Hotel. However, the Sunoco Gas Station is subject to street pricing provisions under a separate concession agreement with the Airport Authority.

BAA utilizes a local firm, Customer Service Consultants (CSC) to evaluate the Airmall subtenants' compliance with the street pricing provisions of their concession agreements on an annual basis. In the December 2000 survey, CSC sampled 1,240 items from 72 subtenants and identified 39 items or 3% of the items sampled that were not in compliance with the street pricing provisions. BAA also utilizes periodic price checks and a toll free telephone number to assist their monitoring of subtenant compliance with the street pricing policy. Additionally, the Airport Authority periodically monitors the Sunoco Gas Station's compliance with the street pricing provisions of its concession agreement.

II. Scope & Methodology

We conducted a review of BAA's and the Airport Authority's 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. In particular we:

- Tested a statistically determined sample of 146 item prices from subtenants of the Airmall and Sunoco Gas Station and compared these prices to the prices of the agreed upon comparable locations. When possible, we used the items universal product code or stock keeping unit number to ensure identical items were compared. These comparisons were performed from May 30, 2001 through June 11, 2001;
- Determined BAA's timeliness in resolving the overpriced items identified in the CSC's annual survey and our August 3, 2000 report, and
- Ensured all subtenants were subjected to CSC's price survey procedures.

We conducted our work in accordance with standards issued by the American Institute of Certified Public Accountants. We provided a draft copy of this report for comment to the Executive Director of the Airport Authority and the President of BAA. The respective responses are presented in Appendix I, page 8, and Appendix II, page 9.

III. Findings and Recommendations

Subtenant Pricing at the Airmall and Sunoco Gas Station

To ensure Airmall subtenants comply with the street pricing provisions of their concession agreements, BAA conducts annual and periodic price surveys and investigates patron complaints reported to a toll free telephone number. Additionally, the Airport Authority periodically monitors the Sunoco Gas Station's compliance with the street pricing provisions of its concession agreement.

During the testing of our statistically determined sample of 146 items sold by Airmall subtenants and the Sunoco Gas Station, which was conducted from May 30, 2001 to June 11, 2001, five items, or 3% of the sample were not in compliance with the street pricing policy as detailed below.

<u>Subtenant/Item</u>	<u>Airmall Price</u>	<u>Street Price</u>	<u>Overcharge</u>
Charlie's Steakery: Small Veggie Deluxe	\$3.99	\$3.49	\$0.50
WH Smith – Center Core:			
Neosporin (1/2 oz)	\$5.99	\$5.19	\$0.80
Pringles (1 3/4 oz)	\$0.99	\$0.79	\$0.20
Kodak Advantix Film (200 sp. 25 exp.)	\$8.99	\$6.99	\$2.00
TGI Fridays:			
Fresh Vegetable Medley	\$7.29	\$6.99	\$0.30

It is our understanding that the above overpriced item at TGI Fridays was a result of an error in menu prices that is currently being resolved. However, the above item's Airmall and street prices were confirmed with representatives of TGI Fridays on June 11, 2001.

Recommendations

To ensure all subtenants are in compliance with the street pricing policy, we recommend BAA immediately instruct the subtenants to adjust the prices of the five Airmall items identified as overpriced during our price comparison.

III. Findings and Recommendations

The Hyatt Hotel is Not Subject to Street Pricing

Under the terms of its amended and restated lease agreement, the Dauphin County General Authority (Dauphin County) constructed the Hyatt Hotel at the Pittsburgh International Airport. The Hyatt Hotel offers lodging, fine dining and other amenities to patrons. However, the lease agreement with Dauphin County does not include street pricing provisions.

Recommendation

In order to maintain the Airport Authority's commitment to street pricing, we recommend the Executive Director of the Airport Authority consider amending the lease agreement with Dauphin County to incorporate street pricing provisions.



PITTSBURGH INTERNATIONAL AIRPORT

1000 Airport Boulevard, Suite 4000
P.O. Box 12370, Pittsburgh, PA 15231-0370
Tel: 412.472.3500. Fax: 412.472.3636

July 26, 2001

Mr. Dan Onorato
Controller
County of Allegheny
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219

Dear Mr. Onorato:

Thank you for the opportunity to comment on the draft report "Compliance Review of Street Pricing at the Pittsburgh International Airport".

The Airport Authority agrees with your recommendation to have BAA notify the applicable subtenants regarding the five (5) items not in compliance with the "street pricing" provision of their lease.

A letter to the Dauphin County Authority requesting a modification to their operating agreement with the Hyatt Hotel as it pertains to street pricing will be sent within the next two weeks. It is important to note that the Airport Authority did not negotiate this agreement.

Thank you and your staff for their assistance.

Sincerely,

Kent G. George, A.A.E.
Executive Director

KGG/par
cc: Mark Knight, BAA
Tom Richardson
Eric Ruprecht



BAA Pittsburgh, Inc.
P.O. Box 12318
Pittsburgh International Airport
Pittsburgh, PA 15231-0318
Telephone (412) 472-5180
Fax (412) 472-5190
Web site: <http://www.airmall.com>

July 25, 2001

Mr. Michael Wassil
Audit Manager
County of Allegheny
Controller's Office
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219-2498

Dear Mr. Wassil

Thank you for your letter concerning the pricing audit that was performed on the AIRMALL's® 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 thoroughness and time put into ensuring an accurate, factual and unbiased review.

In response to the recommendations on Page 6 of your report, we are pleased to inform you that these items currently comply with their street pricing comparison. While we strive for 100 percent compliance, due to the highly dynamic and volatile nature of retail pricing, some price variances are to be expected.

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, and our ongoing monitoring and compliance measures, we can better ensure the continued success of the program.

Sincerely yours, I

A handwritten signature in black ink, appearing to read "Jay Krusselbrink".

Jay Krusselbrink
Vice President Development