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A Report on Operations and Pricing at Pennsylvania Turnpike Service Plazas

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Report Summary and Recommendations

The Pennsylvania Turnpike System consists of 506 roadway miles on an east-west Mainline, the Northeast Extension, and Western Expansion projects. During FY 1997-98, more than 150 million vehicles traveled on the Turnpike. The Pennsylvania Turnpike Commission oversees all aspects of the roadway's operations including the operation of 22 service plazas at which food, fuel, and other amenities are available to Turnpike travelers.

In July 1997 the Legislative Budget and Finance Committee (LB&FC) released a performance audit report dealing with the Turnpike Commission's organizational structure, management, and operations, including the operation and management of the Turnpike service plazas. The LB&FC subsequently directed its staff to carry out a follow-up study focusing on those portions of the 1997 report which pertained to service plaza operations and pricing.

As directed by the Committee this follow-up study was to examine service plaza operations and oversight, service delivery through contracted restaurant and service station concessionaires, contract compliance, and the comparability of food and fuel prices at the service plazas to those at nearby off-Turnpike establishments. The study was also to determine the implementation status of service plaza-related recommendations which resulted from the Committee's 1997 performance audit.

Summary and Findings

The Pennsylvania Turnpike Commission owns the land, buildings, and facilities at its current 22 service plaza locations. The Commission leases these properties to operators who become the sole providers of service at these locations. At the time of this study, the Commission had five major lease agreements with service plaza vendors/operators. Three of these are food service agreements with the Marriott Corporation, the McDonald's Corporation, and Arby's, Inc. The agreement with the Marriott Corporation covers 16 of the 22 plazas. McDonald's has the lease at five plazas and Arby's, Inc., at one.

<u>Lessee</u>	<u># of Plazas</u>	<u>Terms of Lease</u>
Marriott Corporation	16	1987 - 2004
McDonald's Corporation	5	1994 - 2014
Arby's, Inc	1	1988 - 2005

For fuel services, the Commission has agreements with the Sun Company, Inc., (operating under the Sunoco brand name) and an independent Sunoco dealer, On Line, Inc.

<u>Lessee</u>	<u># of Plazas</u>	<u>Terms of Lease</u>
Sun Company, Inc.	21	1990 - 2005
On Line, Inc.	1	1998 - 2005

For each plaza, the Commission signs a separate lease for the restaurant operation and a separate lease for the service station. The lessees may then sublease to other vendors, if approved by the Commission. For example, the lease with the McDonald's Corporation is for a food court concept. In addition to its own operation, McDonald's also subleases to various concessionaires such as Auntie Anne's, Oscar Meyer, and Breyer's. Under its lease agreement, the Marriott Corporation provides 14 different food service concepts at the various service plazas it operates. Examples include Burger King, KFC, Roy Rogers, Sbarro, and Starbucks.

The leases in effect between the Turnpike Commission and the various Turnpike service plaza concessionaires contain specific provisions governing the day-to-day operation of the plazas as well as the pricing of food and fuel sold at those locations. During January and April 1999 LB&FC staff conducted a series of field visits to a sample of service plazas on both the eastbound and westbound sections of the Turnpike.¹ From this follow-up review of service plaza operations and pricing, we found that:

A. Availability of Services. The Turnpike Commission has an ongoing program to modernize and upgrade its service plazas. The current plazas are open on a 24-hour basis and provide a variety of services and amenities for Turnpike travelers, including a wide range of contemporary food concepts in food court settings. (See the listing of available food services, by service plaza, on the next page.)

In addition to 24-hour food and fuel services, the Turnpike service plazas offer numerous other amenities. As of early 1999, 13 plazas had MAC machines, 12 had gift shops, 5 had RV sanitary stations, 4 had seasonal farmers markets, and the 2 terminal plazas had welcome centers. The plazas are handicapped accessible and also provide traveler locator maps, dog walks, reservation phones, and other traveler information. Craft centers which had been opened at two of the plazas in 1996 were closed in 1998.

B. Service Plaza Revenues. Service plaza rentals and concession payments generated \$9.2 million in revenues for the Turnpike Commission in calendar year 1998, an average of \$416,000 per service plaza.

¹The service plazas LB&FC staff visited as part of this study included Bowmansville, North Somerset, South Midway, Peter J. Camiel, Sideling Hill, King of Prussia, South Neshaminy, Lawn, South Somerset, Plainfield, and Valley Forge.

Food and Fuel Services Available at Pennsylvania Turnpike Commission Service Plazas

(As of February 1999)

	Burger King	TCBY	Popeye's	Mrs. Fields	Bob's Big Boy	Roy Rogers	KFC	Sbarro	Pretzel Time	Starbucks	Nathans	Pizza Hut Express	Pretzelmania	Hot Dog City	McDonald's	Oscar Mayer	King's Family	Breyers	Aunte Anne's	Arby's	T.J. Cinnamon	Sunoco	
Zelienople	X	X		X		X																	X
Butler	X	X	X																	X			X
Oakmont																				X			X
Hempfield															X			X					X
New Stanton															X								X
North Somerset	X														X								X
South Somerset		X			X					X													X
North Midway		X					X		X														X
South Midway		X		X				X						X									X
Sideling Hill	X	X		X	X																		X
Blue Mountain		X		X		X					X												X
Plainfield		X				X								X									X
Highspire		X						X															X
Lawn	X	X		X										X									X
Bowmansville		X		X	X							X											X
P.J. Camiel		X		X		X			X	X													X
Valley Forge	X	X		X						X													X
King of Prussia														X	X								X
N. Neshaminy	X	X							X	X													X
S. Neshaminy														X	X								X
Allentown		X		X	X							X											X
Hickory Run											X			X	X								X

Source: Developed by LE&FC staff from information obtained from the Pennsylvania Turnpike Commission.

<u>Restaurant Concessions</u>	<u>Service Station Concessions</u>	<u>Combined Total</u>
\$4,603,712	\$4,558,243	\$9,161,955

The service plaza lessees pay the Turnpike Commission monthly rentals based on the volume or dollar amount of goods and services they sell. Due to location, size, and traffic flow, the rental amounts which are generated can vary substantially from one service plaza to another. On average, each service plaza generated about \$416,000 in rentals during calendar year 1998. Actual rentals ranged from a low of \$226,068 at Hempfield Service Plaza to a high of \$938,707 at the Allentown Service Plaza on the Northeast Extension.

C. Award of Service Plaza Contracts. The Turnpike Commission awards service plaza leases through a Request for Proposal (RFP) and competitive bid process. Because of the capital investment requirements which the lessees are required to assume, the lease periods tend to be long, currently ranging from 14 to 20 years. The Commission will next be initiating this RFP process in mid-2002 to award new leases for those which expire in 2004 and 2005.

D. Turnpike Commission Oversight of Service Plaza Operations. The Commission has an active program to manage and monitor contractor compliance with the service plaza lease agreements, including periodic on-site inspections, regular financial audits, and annual facility assessments. Primary responsibility for service plaza oversight rests with the Commission's Marketing Department. We found that:

1. During the three-month period we examined (October 1 through December 31, 1998), the Commission's three Service Review Analysts conducted a total of 383 inspections at the 22 service plazas. This meets the Commission unwritten standard of having each analyst visit two service plazas per day. (Using this standard, the three analysts would need to conduct a combined total of 360 inspections in a three-month period.)
2. Although Turnpike analysts inspected each of the plazas at least once a month, not all the concessionaires at each plaza received inspections. Turnpike Commission files do not contain inspection reports for service station operations at Bowmansville, North Midway, Sideling Hill, and South Midway during the period we examined.
3. The vast majority (98 percent) of the service plaza inspections conducted by the Turnpike's inspectors occurred between the hours of 6:00 a.m. and 6:00 p.m. Ideally, inspections would be done at differing times in order to get an

assessment of plaza operations at various times throughout a 24-hour period, as well as on weekends.

4. The Commission's monitoring and inspection program at the service plazas has not been automated. The current management review process involves the manual tabulation of the individual inspector's reports into a monthly summary sheet. No automated process is in place to review the inspection results, identify trends or patterns, or track the status of corrective actions.
5. As was the case at the time of the Committee's 1997 audit, the Commission does not have a centralized, automated system to receive and respond to customer comments, suggestions, and complaints or to track their disposition. The Commission agrees that a better system for dealing with customer input is needed and plans to establish a more formalized complaint handling system in conjunction with the development of a "Turnpike Customer Assistance Center." (See Section V for further information on this plan.)
6. The Commission has not formally attempted to gauge the overall satisfaction of Turnpike travelers with the service plazas since 1995. At that time customer satisfaction was measured through a contracted statewide telephone survey.
7. The Commission appears to be taking adequate steps to monitor and audit the service plaza concessionaires' records in order to ensure that the Commission receives the amounts of rental payments due it under the lease agreements. We note, however, that the Commission had not yet resolved an audit adjustment which, according to 1993 and 1994 internal audits, is due the Commission in the amount of \$84,000.

E. LB&FC Staff Testing of Vendor Compliance With Service Plaza Operating Provisions. LB&FC staff found relatively few instances of noncompliance with key operating provisions on the part of service plaza operators and vendors. The most prevalent problem observed related to unsatisfactory conditions in the restrooms at some of the service plazas. Other deficiencies noted at one or more of the plazas we visited involved inadequate trash removal and grounds maintenance and absence of on-duty management personnel at one plaza.

The lease agreements between the Turnpike Commission and the service plaza operators contain detailed provisions governing service plaza operations. These cover such areas as rental payments, control of items sold, facility maintenance, public restroom facilities, cleaning and waste disposal, standards of service, and hours of operation. LB&FC staff did not find major instances of noncompliance with the terms of the lease agreements during on-site visits made to a sample of plazas in January and April 1999.

F. Service Plaza Food Pricing Provisions. The prices for food items at the Turnpike service plazas are established in relation to the prices charged for the same or similar items at comparable off-Turnpike locations. The Turnpike’s lease agreements allow service plaza vendors to set their food prices up to 5 percent per item higher (McDonald’s) or 5 percent on the aggregate of all menu items higher (Host Marriott and Arby’s) than the average of off-Turnpike prices. According to Turnpike officials, this concession is made in recognition of the additional costs involved in operating a 24-hour facility which, by its nature and location, has higher operating costs than off-Turnpike establishments. We found that this practice is not unique to the Pennsylvania Turnpike. Although percentages and amounts differ, this is standard practice on toll roads in each of the three states we surveyed: the New Jersey Turnpike, the New York State Thruway, and the Ohio Turnpike.

1. Under the Pennsylvania Turnpike’s lease agreement, Host Marriott and Arby’s are permitted a 5 percent increase on the total for all comparable items on the menu at the same or similar off-Turnpike establishments. This means that at Host Marriott and Arby’s establishments, the price of a single item may exceed the 5 percent limitation, provided that the aggregate price of all items on the menu does not exceed 5 percent of the amount charged for the same items by comparable off-Turnpike restaurants. The lease provides that McDonald’s can price individual items up to 5 percent higher than the average price for the same item at off-Turnpike establishments.
2. The differentials in food pricing allowed in the Pennsylvania Turnpike leases do not appear to be out-of-line with those allowed in the other sample states. The maximum allowable increases in these states are:

New Jersey Turnpike	10 percent on an aggregate of menu items.
New York State Thruway	Prices based on average prices on other northeastern toll roads.
Ohio Turnpike.....	5 percent on single items.

G. Service Plaza Fuel Pricing Provisions. Pennsylvania Turnpike service plaza fuel prices are also set in relation to per gallon average prices at off-Turnpike stations. As is the case with food, the lease agreements allow the vendors to increase their prices over the off-Turnpike averages. This mark-up, however, can be no more than 4 cents per gallon per grade based on weekly price surveys conducted by the Sun Company, Inc. Fuel prices on the toll roads in New Jersey and New York are also set using similar methodologies. Ohio requires that its Turnpike fuel prices be no greater than the average of off-Turnpike prices.

1. The formula for setting per gallon fuel prices in the Pennsylvania Turnpike can be expressed as follows: Allowable Turnpike Prices = Average Area Price Per Gallon (Off-Turnpike) Per Grade + 4 Cents.
2. Each of the sample states, New Jersey, New York, and Ohio reports using weekly fuel price surveys as a means of monitoring and, if warranted, adjusting on-turnpike prices. The mark-ups allowed on these toll roads are as follows:

	<u>Surveys Conducted by:</u>	<u>Allowed Mark-Up</u>
New Jersey Turnpike	Independent Contractor	Up to 2¢ per gallon
New York State Thruway	Fuel Vendor	3¢ to 6¢ per gallon
Ohio Turnpike	Fuel Vendor	No increase allowed

H. Turnpike Commission Oversight of Service Plaza Pricing. The Turnpike Commission monitors restaurant and fuel prices at its service plazas in two ways. First, the Commission has procedures in place through which it approves or disapproves the prices initially set for products, as well as procedures to review and approve all changes in those prices. The Commission also maintains and examines all “price sweep” (i.e., pricing survey) data submitted by the vendors and performs written price surveys of off-Turnpike fuel prices. Also, as was previously recommended by the LB&FC, the Turnpike’s Service Review Analysts began in March 1999 to conduct periodic surveys of restaurant prices.

I. LB&FC Testing of Service Plaza Food Pricing. The LB&FC staff’s January 1999 surveys included spot-check comparisons of food prices at a sample of Turnpike service plazas to the prices of similar items at comparable off-Turnpike food establishments. From these surveys we determined that, in most cases, the service plaza prices of the individual items we sampled were higher than the prices for the same items at comparable off-Turnpike establishments.

1. Most of the prices for the food items we checked at the service plazas operated by Host Marriott were higher than the prices of the same items at comparable off-Turnpike establishments. The service plaza prices of 42 of the 54 items for which we obtained comparative data were higher than the off-Turnpike prices--many as much as 20 percent or more expensive than off-Turnpike. We found Turnpike prices in four cases to be the same as the off-Turnpike average; in the case of eight other items, Turnpike prices were lower than the off-Turnpike average by 2 to 36 percent.

2. Most prices for food items we checked at service plazas operated by the McDonald's Corporation (at King of Prussia and South Neshaminy), were also higher than the posted prices for the same items at nearby off-Turnpike locations. The prices of 30 of 35 items we checked at both the McDonald's-operated service plazas were higher than the same or comparable items at off-Turnpike locations--most in the range of 5 to 15 percent higher. We found Turnpike prices on two items to be the same as the off-Turnpike average; in three instances, we found Turnpike prices to be lower.

The detailed results of the LB&FC staff's food price survey, by item and service plaza, are contained in Appendix B of this report.

J. LB&FC Testing of Service Plaza Fuel Pricing. In January 1999, LB&FC staff compared fuel prices at a sample of nine Turnpike service plazas to prices at 23 off-Turnpike establishments. From these surveys we found that, although prices were lower at one service plaza, most of the service plaza fuel prices we spot-checked were higher than the prices we found for the same grades of fuel at the off-Turnpike locations we visited. Often, the differences were greater than would be allowed in the lease provision. It is important to recognize, however, that this finding is based on prices at off-Turnpike stations selected by LB&FC staff in the proximity of the respective service plazas. We did not attempt to replicate the vendor surveys and the resulting analysis may be based on a sample of stations which is different than the one used by the vendor and Turnpike Commission in their weekly price surveys.

1. In most cases (24 of 27) the Turnpike service plaza per gallon prices we spot-checked exceeded the average off-Turnpike price. The exception was at the Sideling Hill Plaza at which we found prices to be lower than the off-Turnpike average: 1.5¢ lower on 87 octane, 4.5¢ lower on 89 octane, and 5.0¢ lower on 93 octane.
2. Eleven of the 27 Turnpike fuel prices which we compared were higher than the off-Turnpike average and exceeded the 4¢ overage allowed in the service plaza leases. In most cases, the prices we identified which would exceed the 4¢ overage were for the 89 and 93 octane grades; only one plaza exceeded the 4¢ allowance for 87 octane.
3. The largest price differentials we found between Turnpike service plaza prices and the average off-Turnpike prices were for high-test fuel which was 10¢ higher per gallon for 93 octane at North Somerset Plaza, 9.0¢ higher per gallon for 93 octane at South Somerset Plaza, and 9.3¢ higher per gallon for 93 octane at South Neshaminy Plaza.

The detailed results of the LB&FC staff's survey of fuel prices are contained in Appendix B of this report.

- K. Service Plaza Hours of Operation.** While all service plazas provide fuel and basic food services on a 24-hour basis, there is a considerable degree of variability in the hours which the “subconcepts” (i.e., food vendors other than the 24-hour operator) operate from one plaza to another. Hours of operation are not posted in conspicuous locations at the plazas and this situation can provide a degree of uncertainty and inconvenience for Turnpike customers. Turnpike officials acknowledge that this has, in some cases, been a problem, and report that they are working with the plaza operators and concessionaires to reach a consensus on the schedule.
- L. Service Plaza Infrastructure and Configuration.** Despite the ongoing upgrades and improvements, the basic infrastructure and configuration of the Turnpike's service plazas are becoming outmoded. The Commission recognizes this and has issued an RFP for a consultant study and planning process to develop a long-range plan for the Commission's service plazas. The ultimate purpose of this contract is to provide the Commission with recommendations to modernize and streamline the delivery of customer services.

The number one goal in the Pennsylvania Turnpike's recently adopted “Strategic Plan--A Road to the Future” is to achieve a state-of-the-art highway transportation system. The Plan states that “customer satisfaction will be achieved through process re-engineering, innovative use of technology, and responsive, valued services to travelers' satisfaction.”

The Commission's Plan calls for a total reconstruction of the highways, a rebuilding of the communications infrastructure, implementation of a new fare collection system, installation of Intelligent Transportation Systems (ITS), and other potentially significant operational and administrative enhancements. While the Plan does not specifically reference the service plazas, changes in their design and configuration appear inevitable given the nature of the changes to the Turnpike system envisioned in the Strategic Plan. Despite the upgrades and remodeling activities which have been carried out at the plazas, they remain essentially facilities which were designed and constructed during the Turnpike's early years in the 1940s and '50s.

The physical condition of the plaza infrastructure is evaluated annually by the Turnpike's Consulting Engineer. Based on the most recent assessments, the overall condition of 13 of the 22 plaza buildings is rated as either fair or poor; 9 are rated as good. Exhibit 10 in Section IV lists the Consulting Engineer's

ratings in other infrastructure categories such as water systems, lighting, and sewage systems.

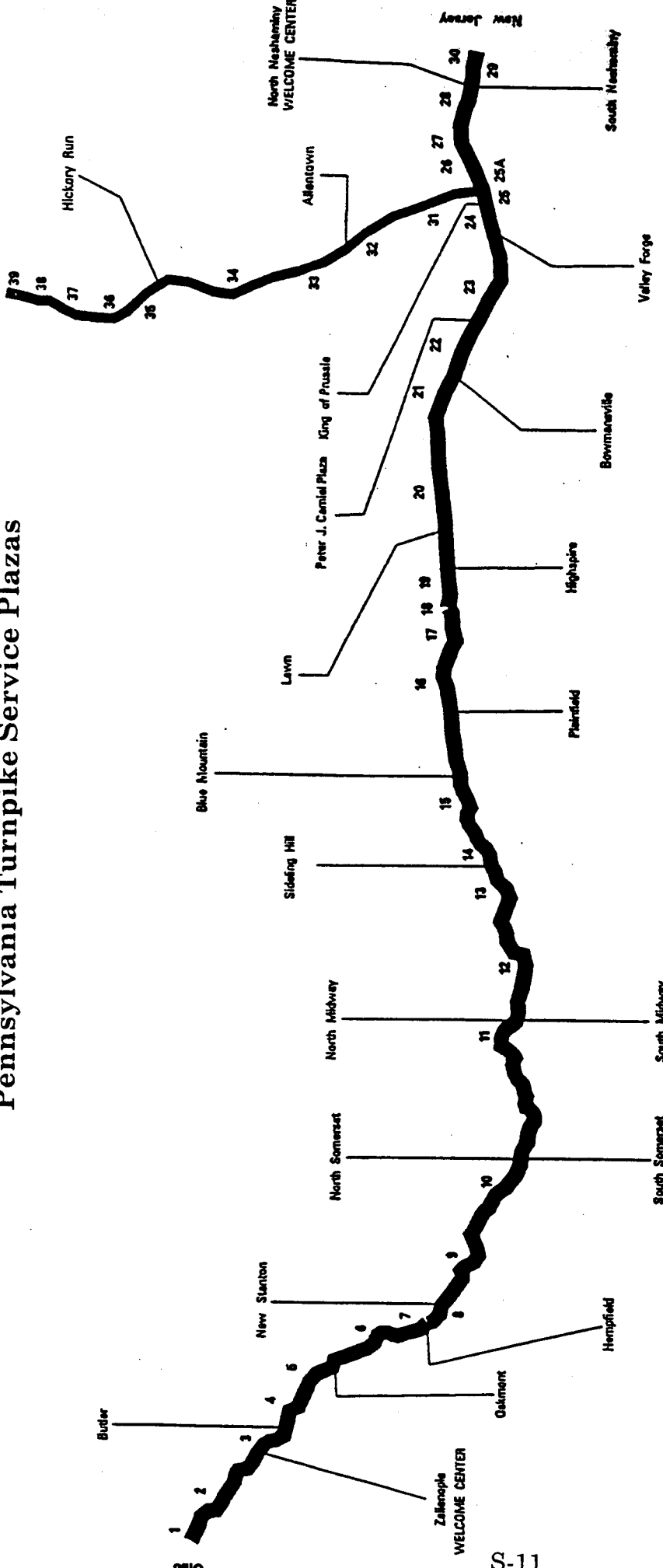
It also appears that the number and configuration of plazas may no longer be appropriate. The current system composition evolved over the years from the concept of operating ten service plazas on the original 160 mile Turnpike Mainline. Today, the 20 plazas on the Turnpike's Mainline are, on average, about 34 miles apart, the shortest distance between plazas being 23 miles (between North Neshaminy and King of Prussia), and the longest distance being 56 miles (between Lawn and Blue Mountain). The present configuration of Turnpike service plazas is shown on the map on the following page.

M. Response to Prior LB&FC Recommendations. The Turnpike Commission has been responsive to the service plaza-related recommendations which were contained in the LB&FC's 1997 performance audit report. That report contained recommendations related to the establishment of a "customer services center," the resolution of an open service plaza lease agreement, clarification of Commission versus vendor responsibility for repairs and reconstruction at the service plazas, and the periodic verification of vendor pricing data.

We found that:

1. a Customer Assistance Center is being planned as part of a reorganization of the Turnpike Commission's Marketing Department; expected start-up by fall 1999;
2. the Commission resolved the lease situation by executing a service station lease agreement at the Hempfield Service Plaza in November 1998;
3. Commission versus contractor responsibilities for repair and reconstruction of the service plazas are being defined and clarified during annual facility inspections; and
4. Commission staff performs written price surveys of off-Turnpike fuel prices twice monthly and, as of March 1999, began checking food prices at off-Turnpike restaurants to spot-check and verify pricing data submitted by the service plaza vendors.

Pennsylvania Turnpike Service Plazas



	Located at Mile Post:	Westbound	Located at Mile Post:	Northeast Extension	Located at Mile Post:
Zelienople	21.7	North Neshaminy	351.9		
Oakmont	49.3	King of Prussia	328.4	Allentown ^a	A35.9
Hempfield	74.7	Peter J. Camiel	304.8	Hickory Run ^a	A66.1
South Somerset	112.3	Lawn	258.8		
South Midway	147.3	Blue Mountain	202.5		
Siding Hill ^a	172.3	Siding Hill ^a	172.3		
Plainfield	219.1	North Midway	147.3		
Highspire	249.7	North Somerset	112.3		
Bowmansville	289.9	New Stanton	77.6		
Valley Forge	324.6	Butler	31.0		
South Neshaminy	351.9				

^aServes both directions.
Source: Pennsylvania Turnpike Commission.

Recommendations

1. **Future Design and Operation of Service Plazas.** The Turnpike Commission should develop a concept or vision for the design and operation of Turnpike service plazas in the 21st century. The Commission should use the planned consultant study of its service plaza system as a means of developing a concept or vision for Turnpike service plazas as strategically located and, perhaps, specialized “travel centers” which will better meet the needs of a diverse traveling public. This concept should be compatible with the Commission’s recently enacted *Strategic Plan—A Road to the Future*, and should be incorporated into the Turnpike’s 10 Year Capital Plan.
2. **Service Plaza Pricing.** The Turnpike Commission’s Marketing Department should continue and expand its efforts to verify vendor compliance with the food and fuel pricing provisions of the service plaza lease agreements. In future lease negotiations (for leases expiring in 2004 and 2005), the Commission should consider requiring that the percentage increases allowed on food be uniformly calculated on a per item rather than menu aggregate basis. The Commission may also wish to consider allowing price increases only at those concepts which operate on a 24-hour basis, as is currently done on the Ohio Turnpike.
3. **Hours of Operation.** The Turnpike Commission’s Marketing Department should work with the service plaza operators to arrive at a consensus on standard hours of operation for the various food concessions and develop a current and complete operating schedule. The Commission should also consider the feasibility of posting the hours of operation for all plaza vendors at the entrances to the plaza buildings and possibly on Turnpike signs which alert motorists to service plaza facility locations.
4. **Monitoring of Service Plaza Operations.** The Turnpike Commission’s Marketing Department should take the following actions to enhance service plaza monitoring activities:
 - a. Fully automate the service plaza inspection and reporting process, both at the central office and in the field. Establish a master inspection database at Commission headquarters and equip Service Review Analysts with electronic inspection forms residing on laptop computers.
 - b. Increase the number of service plaza inspections which are conducted during the evening and overnight hours. (About 98 percent of all inspections currently occur between 6:00 a.m. and 6:00 p.m.)

I. Introduction

Since the mid-1980s the Legislative Budget and Finance Committee (LB&FC) has conducted three separate performance audits of the Pennsylvania Turnpike Commission. The most recent of these was carried out in two phases during 1996 and early 1997.

The first phase, which was completed in April 1997, dealt with the Commission's performance in implementing the Turnpike improvement and extension program outlined in the Turnpike Organization, Extension and Toll Road Conversion Act (Act 1985-61, as amended). This report also included an accounting of how the Commission had expended the state tax revenues it received from the Oil Company Franchise Tax through November 30, 1996.

The second phase of the 1996-1997 audit dealt with the Turnpike Commission's organizational structure, management, and operations, including the operation and management of Turnpike service plazas. A report on these subjects was released in July 1997. In November 1998, the Committee directed its staff to follow up on that portion of the 1997 report which pertained to service plaza operations and pricing.

This report focuses on service plaza operations and pricing and the status of prior audit recommendations pertaining to the plazas.

Audit Objectives

1. To review the administrative structure, management, and oversight of the Pennsylvania Turnpike Commission's service plazas.
2. To determine the number and status of all contracts currently in effect between the Turnpike Commission and its service plaza vendors and concessionaires; and to review the process through which these contracts are awarded.
3. To test vendor/concessionaire compliance with the facility, service delivery, pricing, and other provisions of the contracts identified in #2 above.
4. To assess the comparability of food and fuel prices at the service plazas to those at nearby off-Turnpike locations.
5. To determine the implementation status of service plaza-related recommendations which resulted from the LB&FC's 1997 performance audit of the Turnpike Commission.

Scope and Methodology

This study focused on the Turnpike Commission's management of its 22-facility service plaza system with an emphasis on service plaza contracting and contractor compliance with operating and pricing requirements. The period covered by the study was 1997 through April 1999, essentially the time period since the LB&FC's most recent performance audit of the Commission.

During this project we worked extensively with Turnpike officials and staff of the Commission's Marketing Department, including the Service Review Analysts, who are responsible for conducting service plaza inspections. We also examined Commission administrative files and service plaza leases, inspection reports, and vendor-generated pricing information. We also discussed various terms of the leasing agreements with representatives of the major service plaza operators.

We also reviewed the process through which service plaza contracts are awarded and reviewed the terms and provisions of the current lease agreements. Using a compliance checklist based on this review, we tested vendor compliance with operating provisions during site visits to a sample of Turnpike service plazas during January and April 1999.

To assess the comparability of food and fuel prices at the service plazas to those at nearby off-Turnpike locations, LB&FC staff conducted surveys during January 1999. These surveys included spot-check comparisons of food and fuel prices at a sample of Turnpike service plazas to the prices of similar items at comparable off-Turnpike food establishments and gas stations. Staff also examined December 1998 and January 1999 "price sweep" survey data which the concessionaires submitted to the Turnpike Commission.

We compared food prices at seven different Turnpike service plazas with comparable off-Turnpike establishments. Five of the service plazas were operated by Host Marriott (Sideling Hill, North Somerset, South Somerset, Bowmansville, and Valley Forge) and two were operated by McDonald's (King of Prussia and South Neshaminy). LB&FC staff visited a total of nine off-Turnpike food establishments with the same or similar franchise as that of the nearest Turnpike plaza.

We compared fuel prices at a sample of Turnpike Commission service plazas (Sideling Hill, North Somerset, South Somerset, South Midway, Bowmansville, Valley Forge, South Neshaminy, King of Prussia, and Lawn) to prices at a total of 23 off-Turnpike establishments.

We also checked the implementation status of service plaza-related recommendations which the LB&FC made in its 1997 performance audit report as well as recent developments related to the service plazas. The Commission reported on

actions taken since 1997 and LB&FC staff performed follow-up activities and verification reviews in these areas.

To obtain comparative information on service plaza operations, contracting, and pricing, LB&FC staff contacted officials of toll road agencies in New Jersey (New Jersey Turnpike), New York (New York State Thruway), and Ohio (Ohio Turnpike).

Acknowledgments

We gratefully acknowledge the assistance that the Pennsylvania Turnpike Commission members and staff provided during this project. We thank the Turnpike Commission members: Chairman James F. Malone; Vice Chairman James J. Dodaro; Commissioner Bonney C. Daubenspeck; Commissioner Mitchell Rubin; and Secretary of Transportation Bradley L. Mallory; and Commission Executive Director John T. Durbin for their cooperation and support. We also wish to thank Associate Executive Director Deborah L. Everly; Director of Marketing William J. Capone; Supervisor of Concession Management Anthony Liberatore; Concession Management Administrative Officer Natalie Bortz; and Director of Internal Audits Brenda Szeles-Bratina for working with us throughout the project.

Important Note

This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as indicating that the Committee's members endorse all the report's findings and recommendations.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Background Information on Pennsylvania Turnpike Commission Service Plazas

Brief History

The project plan for the original 160-mile Pennsylvania Turnpike provided for the construction of 10 service plazas at which travelers could eat and purchase fuel. The plazas were to be located 25 to 30 miles apart.

The first plaza opened in late 1940. Rather than directly operate these plazas, the Turnpike Commission licensed them to Standard Oil, Co. of Pennsylvania, which ran the gas stations and subcontracted the dining areas and gift shops to the Howard Johnson's restaurant firm. Planners designed the buildings to resemble regional architecture--in this case, early Pennsylvania stone houses.

Over the years the service plazas have expanded and evolved along with the Turnpike system. Throughout the 1950s, Turnpike traffic increased at an unprecedented rate. During this time, the Commission combined and enlarged some of its service plazas, and opened new service plazas on the extensions.

In time, the service plaza restaurants became one of the Turnpike's oldest and most familiar institutions. However, tastes and expectations changed and, by the 1980s, the fast food trend was well established. It was at this time that a new look came to the service plaza restaurants. Howard Johnson's restaurants, which had become a Turnpike fixture, eventually disappeared. Some locations offered travelers two choices, a popular sit-down restaurant and a fast-food outlet. Drive-through pickup windows were installed at some plazas. Among the popular names that began to appear along the Turnpike were Arby's, Burger King, Hardee's, McDonald's, Popeye's, and Roy Rogers; more extensive menus were introduced by Bob's Big Boy, King's, and Sbarro.

The 1990s brought further changes, modernization, and upgrades to the service plazas. Lighting was improved and entrance and exit ramps were lengthened for safety reasons. Also, various amenities were added such as public fax machines, automatic teller banking, and informational lodging boards to allow travelers to make hotel reservations while on the road. Credit-card-activated self-service fuel pumps were also installed and provisions were made to offer alternative fuels. More recently, farmer's markets were set up at four of the service plazas.

Service Plaza Locations and Services

Currently, travelers on the Pennsylvania Turnpike have access to 22 service plazas, all of which are open on a 24-hour basis. Exhibit 1 below lists the service plazas along with locational information.

Exhibit 1

Pennsylvania Turnpike Service Plazas

<u>Eastbound</u>	<u>Westbound</u>	<u>Northeast Extension</u>
Zelienople (milepost 21.7)	North Neshaminy (mp 351.9)	Allentown ^a (mp A35.9)
Oakmont (mp 49.3)	King of Prussia (mp 328.4)	Hickory Run ^a (mp A66.1)
Hempfield (mp 74.7)	Peter J. Camiel (mp 304.8)	
South Somerset (mp 112.3)	Lawn (mp 258.8)	
South Midway (mp 147.3)	Blue Mountain (mp 202.5)	
Sideling Hill ^a (mp 172.3)	Sideling Hill ^a (mp 172.3)	
Plainfield (mp 219.1)	North Midway (mp 147.3)	
Highspire (mp 249.7)	North Somerset (mp 112.3)	
Bowmansville (mp 289.9)	New Stanton (mp 77.6)	
Valley Forge (mp 324.6)	Butler (mp 31.0)	
South Neshaminy (mp 351.9)		

^aServes both directions.

Source: Pennsylvania Turnpike Commission maps.

The plazas on the Turnpike's Mainline are, on average, about 34 miles apart, the shortest distance between plazas being 23 miles (North Neshaminy and King of Prussia), and the longest distance being 56 miles (Lawn and Blue Mountain).

Available Services

In addition to food and fuel services, the Turnpike service plazas offer numerous other amenities. As of early 1999, 13 plazas had MAC machines, 12 had gift shops, 5 had RV sanitary stations, 4 had seasonal farmers markets, and the 2 terminal plazas had welcome centers. The plazas, which are handicapped accessible, also provide traveler locator maps, dog walks, reservation phones, and other traveler information.

As discussed in detail in later sections of this report, the Turnpike Commission has lease agreements with the Host Marriott Corporation, the McDonald's Corporation, Arby's, Sun Company, Inc., and On line Inc., to provide food and fuel

services at the plazas. Exhibit 2 lists the primary services available at each of the plazas.

Exhibit 2

Services Available at PA Turnpike Service Plazas
(As of February 1999)

<u>Service Plaza</u>	<u>Food</u>	<u>Fuel</u>	<u>Gift Shop</u>	<u>MAC Machine</u>	<u>Farmer's Market^a</u>	<u>RV Sanitary Station</u>	<u>Welcome Center</u>
Zelienople	X	X	X				X
Butler	X	X	X				
Oakmont	X	X					
Hempfield	X	X	X	X			
New Stanton	X	X	X	X	X		
North Somerset	X	X	X				
South Somerset	X	X	X	X			
North Midway	X	X	X				
South Midway	X	X	X	X			
Sideling Hill	X	X	X	X	X	X	
Blue Mountain	X	X		X			
Plainfield	X	X					
Highspire	X	X	X				
Lawn	X	X				X	
Bowmanville	X	X		X			
P.J. Camiel	X	X	X	X			
Valley Forge	X	X		X	X	X	
King of Prussia	X	X		X			
N. Neshaminy	X	X				X	X
S. Neshaminy	X	X		X			
Allentown	X	X		X	X	X	
Hickory Run	X	X	X	X			

^aSeasonal.

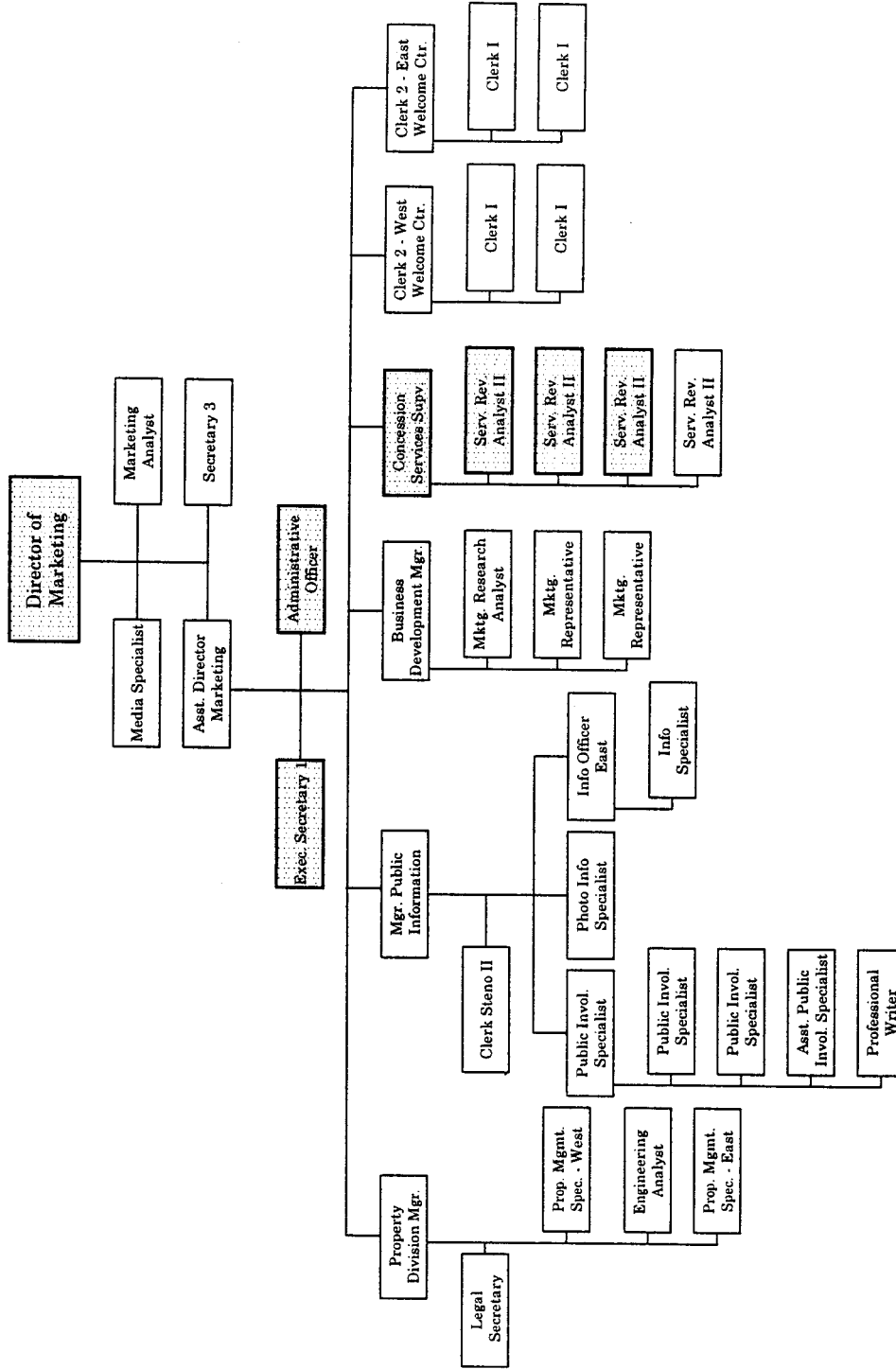
Source: Developed by LB&FC staff from information obtained from the PA Turnpike Commission.

Service Plaza Administrative Structure

Organizational responsibility for oversight of service plaza operations is assigned to the Turnpike Commission's Deputy Executive Director of Customer Services. Within this organizational unit, the Director of Marketing is responsible for the overall administration of service plaza operations. As shown on Exhibit 3 five other Turnpike Commission staff, the Supervisor of Concession Management, the Administrative Officer, and three Service Review Analysts, have major responsibilities relative to service plaza management and oversight.

Exhibit 3

PA Turnpike Commission Marketing Department
 (Shaded Positions Are Involved in Service Plaza Administration)



Source: Pennsylvania Turnpike Commission.

Revenues From Service Plaza Leases

The rental provisions in the lease agreements between the Commission and private operators/vendors generate monthly income for the Turnpike. In short, food rentals are based on a percentage of the volume of sales and the fuel rentals are based on a cents per gallon formula.

Since FY 1986-87, annual revenues from combined restaurant and service station concessions rentals have more than doubled. (See Table 1.) In FY 1997-98, service plaza rentals generated \$8.7 million. The Commission is projecting that service plaza rentals will reach nearly \$10 million a year by the year 2000.

Table 1

Turnpike Commission Income From Service Plaza Rentals (FY 1986-87 Through FY 1997-98) (\$ Million)

<u>Fiscal Year</u>	<u>Rental Payments From</u>		<u>Total</u>
	<u>Restaurants</u>	<u>Service Stations</u>	
1986-87.....	\$2.8	\$1.0	\$3.8
1987-88.....	2.9	1.3	4.2
1988-89.....	3.4	1.3	4.7
1989-90.....	4.1	1.2	5.3
1990-91.....	3.9	1.2	5.1
1991-92.....	4.0	1.8	5.8
1992-93.....	3.9	2.5	6.4
1993-94.....	3.9	2.6	6.5
1994-95.....	4.1	3.0	7.1
1995-96.....	4.2	3.9	8.1
1996-97.....	4.3	3.7	8.0
1997-98.....	4.4	4.3	8.7

Source: Developed by LB&FC staff from information obtained from the PA Turnpike Commission.

Table 2 lists rental payments made to the Commission in calendar year 1998 from concessions at each of the 22 service plazas. The amounts paid by each of the major concessionaires, the Host Marriott Corporation, McDonald's, Arby's, the Sun Company, Inc., and On Line, Inc., are also available from this table.

Due to location, size, and traffic flow, the rental amounts which are generated can vary substantially from one service plaza to another. On average, each service plaza generated about \$416,000 in rentals during calendar year 1998. Actual rentals ranged from a low of \$226,068 at Hempfield Service Plaza to a high of \$938,707 at the Allentown Service Plaza on the Northeast Extension.

Table 2

PTC Revenues From Service Plaza Lease Agreements
(Restaurant and Service Station Rentals - CY 1998)

Service Plaza	Restaurant		Service Station		Combined Total Rentals
	Concessionaire	CY 1998 Rentals	Concessionaire	CY 1998 Rentals	
Zelienople	Host Marriott Corp.	\$ 126,776	Sun Company, Inc.	\$ 131,435	\$ 258,211.
Butler	Host Marriott Corp.	163,392	Sun Company, Inc.	175,321	338,713
Oakmont	Arby's	105,101	Sun Company, Inc.	131,038	236,139
Hempfield	McDonald's	199,153	On Line, Inc.	26,915	226,068
New Stanton	McDonald's	219,030	Sun Company, Inc.	236,106	455,136
North Somerset	Host Marriott Corp.	197,980	Sun Company, Inc.	218,164	416,144
South Somerset	Host Marriott Corp.	308,367	Sun Company, Inc.	282,098	590,465
North Midway	Host Marriott Corp.	220,721	Sun Company, Inc.	205,246	425,967
South Midway	Host Marriott Corp.	270,534	Sun Company, Inc.	250,223	520,757
Sideling Hill	Host Marriott Corp.	327,605	Sun Company, Inc.	354,881	682,486
Blue Mountain	Host Marriott Corp.	244,320	Sun Company, Inc.	250,446	494,766
Plainfield	Host Marriott Corp.	161,177	Sun Company, Inc.	159,131	320,308
Highspire	Host Marriott Corp.	149,806	Sun Company, Inc.	167,790	317,596
Lawn	Host Marriott Corp.	180,263	Sun Company, Inc.	195,037	375,300
Bowmansville	Host Marriott Corp.	126,412	Sun Company, Inc.	197,492	323,904
P.J. Camiel	Host Marriott Corp.	281,459	Sun Company, Inc.	271,707	553,166
Valley Forge	Host Marriott Corp.	168,228	Sun Company, Inc.	223,522	391,750
King of Prussia	McDonald's	105,886	Sun Company, Inc.	174,463	280,349
N. Neshaminy	Host Marriott Corp.	125,823	Sun Company, Inc.	130,068	255,891
S. Neshaminy	McDonald's	116,228	Sun Company, Inc.	174,639	290,867
Allentown (NE Ext.)	Host Marriott Corp.	573,431	Sun Company, Inc.	365,276	938,707
Hickory Run (NE Ext.)	McDonald's	<u>232,020</u>	Sun Company, Inc.	<u>237,245</u>	<u>469,265</u>
Totals		\$4,603,712		\$4,558,243	\$9,161,955 ^a

^aDiffers from the total shown on Table _ since this total is reported on a calendar year rather than a fiscal year basis.

Source: Developed by LB&FC staff using information obtained from the PTC's Marketing Office.

III. Turnpike Commission Contracts With Private Vendors to Operate the Service Plazas

The relationship between the Pennsylvania Turnpike Commission and the parties who operate the service plazas is that of lessor-lessee. The leases include a section on “common tenancy.” The following language is typically found in the first paragraph of this section:

The operating responsibilities for each plaza are divided and shared between the restaurant operator, service station operator and the Commission. Both leases identify the responsibilities of each operator regarding maintenance and service, and both parties are expected to mutually perform their responsibilities in compliance with the performance requirements of the Commission. The operator herein shall faithfully perform its maintenance responsibilities, cooperate fully with the [service station operator or restaurant operator, as appropriate], and work for the common interest of both parties and the Commission.

This section of the report examines the service plaza contract award process, identifies current contractors and services provided, and summarizes the key provisions of the lease agreements. These agreements include provisions that cover a wide range of topics including rental payments, the types of items to be sold, pricing, facility maintenance, cleaning standards, hours of operation, and standards of service.

Award of Service Plaza Contracts

The Pennsylvania Turnpike Commission leases the restaurants, service stations, and other properties,¹ to various parties to operate for a specified period of years (usually for an extended period, such as 15 years). For each service plaza, the Commission signs separate leases for service station and for restaurant operations. The lessee sometimes then subleases to multiple providers. A lease with the McDonald’s Corporation, for example, is for a food court concept. In addition to its own operation, McDonald’s also subleases to various concessionaires such as Auntie Anne’s, Oscar Mayer, and Breyer’s.

These vendors are given exclusive rights to sell certain products at each service plaza. For example, the restaurant operators have the exclusive right to sell goods and services commonly sold in restaurants. Although not required by the

¹The Turnpike Commission’s Master Lease Agreement with Host Marriott leases the Turnpike Administration Building’s cafeteria, as well as restaurants and gift shops at selected Turnpike service plazas.

contracts, a vendor may also operate a gift shop with the approval of the Commission. For instance, the Host Marriott Corporation manages its gift shops separately from its restaurant concepts and pays 12 percent rental for gift shop operations. Service station operators have the exclusive right to sell gasoline and other goods and services commonly sold at service stations.

The Turnpike Commission awards service plaza leases through a Request for Proposal (RFP) process. About a year and a half before the lease expiration date, the Commission advertises in various trade journals, financial periodicals, and major Pennsylvania newspapers giving interested firms the opportunity to submit a proposal. According to the Marketing Director, the RFP specifically states that value, service, and competitive pricing are important considerations to the Commission. Revenue to the Turnpike is also a factor, but it is reportedly given less weight than service to patrons. The contract award process is summarized in Exhibit 4.

Exhibit 4

Contract Award Process for Service Plaza Concessionaires

<u>Step</u>	<u>Activity</u>
1. Prepare RFP	Turnpike Commission Marketing Director receives approval from the Commission to issue RFP.
2. Advertise in major Pennsylvania newspapers/the Wall Street Journal/trade journals....	Marketing staff insures appropriate advertisements are made.
3. Interested parties request RFP/bid-packets ...	Turnpike Commission staff provides bid packets.
4. Pre-proposal conference is conducted.....	Turnpike Commission marketing staff host pre-proposal conference. All interested bidders must attend.
5. Interested parties submit proposals by suspense date	Turnpike Commission logs in bidder's proposals.
6. Turnpike Commission evaluates bids.	Turnpike Commission internal committee evaluates and ranks bid proposals according to criteria ranking sheet.
7. Most responsive bidder is selected.	Turnpike Commission Marketing Director reviews evaluations with evaluation committee and selects most responsive bidder.
8. Turnpike Commission selects bidder.....	Turnpike Commission Marketing Director briefs Commission on recommended bidder. If there are no problems, Commission approves.
9. Contract negotiations are conducted.....	Turnpike Commission Marketing Director and other Turnpike Commission representatives conduct detailed contract negotiations with winning bidder(s).

Source: Developed by LB&FC staff from information obtained from the Pennsylvania Turnpike Commission.

This contract award process was last implemented with a Request for Proposal (RFP) in June 1993. As a result of that process, McDonald's Corporation was selected and a lease agreement was signed on June 7, 1994, to provide food services at four Turnpike service plazas--Hempfield, King of Prussia, South Neshaminy, and Hickory Run.

Once the selection process is completed, the Turnpike Commission enters into negotiations with the winning bidder to define the specifics of each agreement. The Commission's Marketing Director stated that in this process, the issues of contract rental rates, the length of the leases and restrictions on the prices and types of goods sold are very complex. The problem is one of balancing the requirements of achieving reasonable revenues, satisfying customers, and attracting competition for the contracts.

In the 1980s the Commission agreed to low rentals in order to encourage new concepts. However, when a contractor proposes new concepts (i.e., establishments) then the rentals must be reexamined since the introduction of a new concept might affect the revenues of other concepts located in the same service plaza.

The rentals vary by plaza and configuration of concepts. For instance, the Marriott rents vary from 5 to 12 percent of gross sales, averaging 9.86 percent overall. The Commission would prefer a constant rental rate because the varying rates create difficulties in auditing. The vendors, however, prefer sliding scale rental rates which vary with the amount of gross sales. In general, if the Commission requires more capital investment from the vendor, it must make concessions in terms of lower rents or a longer lease.

In preparing for contract negotiations, the Turnpike Commission's Financial Office conducts detailed reviews of rental rates to assist the Marketing Department in analyzing rates. This process will next be initiated beginning in mid-2002 in order to award new leases for those which expire in 2004 and 2005.

Current Contractors and Services

The Turnpike Commission has five major lease agreements with service plaza operators. These service plaza vendors/operators are shown on Exhibit 5 along with the terms of their current leases.

As shown on the following exhibit, the Turnpike Commission has food service lease agreements with three vendors, the Marriott Corporation, the McDonald's Corporation, and Arby's, Inc. The agreement with the Marriott Corporation covers 16 of the 22 plazas. McDonald's has the lease at five plazas and Arby's, Inc., at one.

Exhibit 5

**Lease Agreements Between the Turnpike Commission and
Service Plaza Concessionaires**

Vendor/Operator	# of Service Plazas	Term of Lease
Marriott Corporation(Master Lease Agreement) ^a	16	Late 1987 to December 31, 2004
McDonald's Corporation	5	February 1, 1994 to January 31, 2014
Arby's, Inc.	1	August 1988 to June 30, 2005
On Line, Inc. (Sunoco)	1	November 1998 to June 30, 2005
Sun Company, Inc. ^b	21	April 25, 1990, to April 30, 2005

^aThe Master Lease Agreement covers 14 of the 16 Marriott plazas. The Butler and Zelenople plazas are covered by a separate lease with Marriott that runs from August 30, 1988 to June 30, 2005.

^bSun Company, Inc. acquired this lease by assignment from Cumberland Farms, Inc., debtor-in-possession in Chapter 11 Bankruptcy proceedings in April 1993.

Source: Developed by LB&FC staff from a review of Turnpike Commission contract files.

The Commission has an agreement with the Sun Company, Inc., (operating under the SUNOCO brand name) to provide fuel services at 21 of the 22 service plazas. Fuel services at the remaining plaza--Hempfield--are provided under a contract with an independent SUNOCO dealer (On Line, Inc., formerly known as Frank A. Salvati, trading as Sunrise Sunoco). On Line, Inc. has continuously operated the Hempfield plaza under a lease that ran from 1983 to 1993. In 1993, the Turnpike Commission began renegotiations of the lease but halted this process pending a decision on whether to close this plaza. On Line, Inc. continued to operate the plaza under the prior lease. The Turnpike Commission is developing a long-range strategic plan for service station operations that will address the future nature and location of the plazas. The Commission intends to have the plan completed prior to the expiration of the current leases. The Turnpike Commission and On Line, Inc. negotiated a lease extension until the termination of the other service station leases.

Under its lease with the Turnpike Commission, the Marriott Corporation provides 14 different food service concepts to Turnpike travelers. All of these are not, however, available at each of the 16 plazas which the Marriott operates. Exhibit 6 shows the various food concepts provided by each of the three major food service contractors.

Exhibit 6

Food Services Available at Turnpike Service Plazas*

Marriott Corporation	Bob's Big Boy Burger King Hot Dog City KFC Mrs. Fields Nathan's Pizza Hut Express	Popeye's Pretzel Time Pretzelmania Roy Rogers Sbarro Starbucks TCBY
McDonald's Corporation.....	Auntie Anne's Breyers King's Family	McDonald's Oscar Mayer
Arby's Inc.....	Arby's	T. J. Cinnamon

*Note: This list represents all food service concepts provided by each of the three major contractors. Not all concepts are available at each of the plazas which the respective contractors operate.

Source: Developed by LB&FC staff from Turnpike Commission lease agreements.

Service Plaza Contract Provisions

Operating Provisions

Rental Payments. Lessees of restaurants/gift shops and service stations pay the Turnpike Commission monthly rentals based on the volume or dollar amount of goods/services sold. During calendar year 1998, the Turnpike Commission received \$9.2 million in restaurant and service station concession payments.

The total amount due the Commission each year is to be verified by an annual audit conducted by the Turnpike Commission's Department of Internal Audit. Books and records are to be kept in a uniform way, and are to be available to the Commission for inspection. Additionally, lessees are to maintain separate records for each restaurant/gift shop or service station covered by the lease.

The leases for restaurants/gift shops also require the lessee to reinvest a percentage of gross receipts in capital assets at the plaza. The amount that must be reinvested varies by individual lease.

Control of Items Sold. The Commission has considerable control over the goods and services sold at its service plazas. With respect to restaurants and gift shops, the Commission reserves the right to approve all goods and services sold on the premises, as well as the type, number, and location of vending, video, and/or game machines. With respect to service stations, the contracts state that all

categories of products and accessories sold and all services performed must first be approved in writing by the Commission.

The Turnpike Commission's leases for restaurants and gift shops require the operators to provide food and beverages of the grade customarily used for each style of service. The operator must submit the proposed menu selections, including portion size and quality of all items, to the Commission. The operator must then notify the Commission of any proposed changes in the menu. The operator must notify the Turnpike Commission either 30 days in advance for the Marriott leases or 60 days in advance for the McDonald's and Arby's leases, so the Commission has a chance to approve or disapprove the proposal before it takes effect.

The leases for service stations require the operator to provide goods and services equal to or exceeding the standard generally prevailing at major oil company service stations in the general vicinity with similar types of operations. The leases require certain goods and services to be available. For example, the stations must provide air gauges for all customers, window-washing equipment for self-service patrons, and free window cleaning and oil checks for full-service patrons. The contracts also establish a minimum level of repair services. For instance, stations must offer installation services for engine coolant, windshield-wipers, and minor items necessary for safety. Vehicle towing is not part of the contracts but is available from the Turnpike's Authorized Road Service Garages.

Facility Maintenance. The responsibilities of the restaurant/gift shop operators include: (1) maintaining their assigned portion of the interior of buildings including all lighting; (2) painting the interior of the buildings as required, but no less frequently than every three years; (3) painting trash containment areas in the spring of each year and fencing them in; and (4) providing general preventive maintenance of its buildings.

The responsibilities of the service station operators include (1) maintaining the interior of the buildings assigned to it, including all lighting; (2) painting its portion of the building interior as required, but no less than every three years; (3) removing snow at the plaza, although the Commission plows access ramps and plows one pass across the plaza and one to the truck island; (4) providing general preventive maintenance of its buildings; and (5) maintaining all exterior lighting and paved surfaces at the plaza.

Certain maintenance responsibilities are shared between the operators. Some of these include (1) heating and air conditioning services; (2) electrical service; (3) water service; (4) sewage treatment service; and (5) policing and maintaining the picnic areas. To ensure that contractors fulfill their responsibilities, the Commission has the right to inspect the premises and facilities of the contractors at all times.

Public Rest Room Facilities. Each operator is committed in its lease to pay special attention to the rest rooms and rest room facilities. The operator must keep them in an orderly, clean and sanitary condition, free from unpleasant odors, and acceptable to the public.

Each operator is cautioned in its agreement that the condition of rest room facilities has been and will continue to be a matter of particular concern to the Commission as it is to patrons of the Turnpike. Moreover, the operators are forewarned that such facilities are used by patrons who may not patronize the restaurant, and that the Commission will insist upon full and strict compliance with the contract section pertaining to public rest rooms. It is the operator's responsibility to maintain the equipment in the rest rooms and to keep them adequately supplied at all times with soap, towels, and other rest room necessities. The leases for service stations include similar language.²

Public restrooms are to be cleaned, inspected and maintained as required on an hourly basis.³ The operator is to maintain such standards of cleanliness as will reflect a favorable public opinion of the operator and the Commission.

Cleaning and Waste Disposal. The restaurant/gift shop contracts state that the operator will maintain its restaurants in an attractive, safe, clean, and sanitary manner. The lessee is also required to keep the grounds and shrubbery immediately adjacent to the restaurants in a clean, neat, and attractive condition. The operator is to remove trash and trash containers at least daily.

The restaurant/gift shop lessee is to collect and dispose of trash at the premises, except that the service station operator is to collect trash in its areas. Policing the plaza grounds is a shared responsibility, with each lessee policing the areas of its responsibility. The service station operator is responsible for mowing all grass areas within the service plaza lease lines. It is also required to maintain the service station in an attractive, clean, safe, and sanitary manner.

Hours of Operation. The restaurant/gift shop leases specify the minimum hours of operation for all contractors and subcontractors. These hours may be increased but not decreased without the written approval of the Commission. At the Marriott plazas all restaurants are open 24 hours except snack bars and certain Bob's Big Boy restaurants.⁴ McDonald's and Arby's are open 24 hours. The

²At the four service plazas that apparently have service station buildings separate from the restaurant/gift shop buildings, the service station operator is responsible for maintaining public rest rooms in its building.

³The McDonald's leases contain more specific requirements. From 6:00 a.m. to 10:00 p.m. daily the operator must assign one employee for the restrooms at each service plaza restaurant whose sole responsibility shall be to maintain the standard of cleanliness in the restrooms. This employee may not be assigned to the maintenance of other areas of the restaurant.

⁴Bob's Big Boy restaurants at Sideling Hill, Allentown, Zelienople, and South Somerset do not have to be open 24 hours because there is also either a 24-hour Burger King or Roy Rogers at those locations. The Bob's Big Boy at Bowmansville is scheduled to be open 24 hours.

subconcepts at McDonald's plazas are open only for specified hours as agreed to between McDonald's and the Turnpike Commission. The service station leases state that the stations will be open 24 hours a day or as otherwise agreed to between the operator and the Commission.

During these specified hours of operation the restaurant/gift shop operators must maintain speedy and efficient service. They must maintain adequate staff and management for service and cleaning. The service station operators also must maintain sufficient staff to provide customers with prompt service. Additional information concerning the standards of service are contained in the next subsection.

Standards of Service. The restaurant/gift shop leases require that staffing and supervision be adequate to properly operate the facilities. During slack periods of shifts, the operator is to use its best efforts to ensure that at least three employees will be on duty at each restaurant at all times, including one utility person who is responsible for housekeeping duties.

All auto and truck islands are to be available at all times for full and self service. At most service plazas, a minimum of two trained, uniformed staff members must be on duty to operate the facility. At a few plazas, however, the minimum staffing level is set at three. Staffing schedules are to be submitted to the Commission on a monthly basis at least one week in advance of the beginning of the month. The Turnpike Commission reserves the right to require the operator to add additional attendants or employees as necessary for the efficient operation of the service station. Service station personnel are to be knowledgeable of the Turnpike and emergency road service availability; trained to direct motorists to appropriate interchanges; and, able to instruct motorists in the proper procedure for obtaining emergency services.

The leases for service stations and restaurants/gift shops contain some similar clauses. For example, all lessees are to operate their facilities efficiently in accordance with high standards so that the patron is served promptly and courteously. Additionally, all employees are to be neat and clean, with uniforms that are neat and presentable. A person responsible for making operational decisions (such as a manager or assistant manager) must be present at all times. Finally, the operator is required to review its operations with the Commission annually and at such other times as the Commission designates.

Service station operators must accept their own credit card(s) as well as Master Card, VISA, American Express, Discover and other cards they normally accept for payment of all purchases. The list of credit cards must be conspicuously posted at each island and at the entrances to the station buildings. The service stations must also accept certain checking services for payment of all purchases.

Pricing Provisions

Food Pricing. The lease agreements specify that the prices charged by Host Marriott, Arby's, and McDonald's are to be established in relation to the prices charged by the same or similar type establishments at off-Turnpike locations. Under the lease agreement, Host Marriott and Arby's are permitted a 5 percent increase on the total for all comparable items on the menu at the same or similar off-Turnpike establishments. This means that at Host Marriott and Arby's establishments, the price of a single item may exceed the 5 percent limitation, provided that the aggregate price of all items on the menu does not exceed 5 percent of the amount charged for the same items by comparable off-Turnpike restaurants. The lease provides that McDonald's can price individual items up to 5 percent higher than the average price for the same item at off-Turnpike establishments. (See Exhibit 7.)

Exhibit 7

Provisions Governing Restaurant Pricing at Turnpike Commission Service Plazas

<u>Formula:</u>	<u>Host Marriott^a</u>	<u>Arby's</u>	<u>McDonald's</u>
Prices prevailing for like or similar concepts of service in the area of the Turnpike	X	X	--
Prices prevailing for like or similar concepts of service at restaurants off the Turnpike	--	--	X
<u>Limit:</u>			
Total price of menu items cannot exceed the total price of all comparable items at off-Turnpike locations by more than 5 percent	X	X	--
Cannot exceed 5 percent more than the average price for the same item at off-Turnpike establishments	--	--	X

^aThe Marriott lease also includes provisions concerning prices at the Turnpike Commission's Administration Building cafeteria. These provisions require that food and beverages are provided to Turnpike Commission employees on a break-even basis.

Source: Developed by LB&FC staff from lease agreements between the Turnpike Commission and service plaza concessionaires.

According to Turnpike officials, the Commission permits such price variations because of the nature of the service plazas and their 24-hour operating requirements. Turnpike Commission officials state that the price differentials are needed

because the operating costs for the plaza operators are typically greater than those incurred by off-Turnpike businesses. For example, the restrooms at the service plaza are much larger than at a fast food restaurant and require hourly attention. A typical off-Turnpike facility is smaller and easier and less costly to maintain, thus allowing it to operate at a less expensive margin. Service plaza vendors also pay for lighting and other utilities and operating costs, which are generally more costly than the same costs at an off-Turnpike fast food restaurant or service station.

We found that the practice of contractually allowing a specified variation in turnpike versus off-turnpike pricing is not unique to Pennsylvania. As is the case in Pennsylvania, the predominant food concessionaires on the turnpikes in New Jersey, Ohio, and New York are Host Marriott Corporation and McDonald's. Food prices at these plazas are based on several different pricing methods.

New Jersey reportedly bases its food prices on pricing surveys from 60 to 70 establishments throughout the state. The New Jersey agreements allow service plazas to raise their prices 10 percent above an average of aggregate prices from the price surveys, but New Jersey officials told us that Host Marriott rarely raises prices to this limit. Ohio also bases its service plaza food prices on prices at comparable off-turnpike establishments. Vendors who are open 24 hours per day may charge up to 5 percent more (on an item-by-item basis) than the average price of the item as determined by price surveys. Vendors who are not open 24 hours a day must charge the same price as determined by the price survey. New York bases food prices at its service plazas on an average of the prices charged for comparable items on other major toll roads in the northeast. Vendors on the New York Thruway thus are directed to charge the same prices as the average of the turnpike prices determined in the other state survey.

All three of these states reported that they authorize vendors to conduct price surveys or "sweeps" on a periodic basis in order to propose price adjustments. They note, however, that price change proposals rarely occur more than once a year, if that often. As was expressed by Pennsylvania Turnpike officials, the basic rationale for allowing turnpike/thruway vendors to increase prices over average off-turnpike prices is because of the additional expenses involved in the 24 hour operation of a large scale dining or service station facility. By virtue of adopting the average pricing of other major northeastern toll roads, New York provides for a differential between on-thruway and off-thruway pricing without having to conduct detailed in-state surveys.

Fuel Pricing. The prices that the Sun Company, Inc., service stations charge for gasoline and other fuels at the 21 Turnpike Commission service plazas where it provides the fuel are set by a formula and are limited by prices set by local off-Turnpike service stations. The On Line, Inc., Sunoco service station prices at the Hempfield Service Plaza are not tied to any given formula but are simply

limited by prices set by local off-Turnpike service stations. All plaza operators must notify the Commission in advance of changes in fuel prices.

The Commission’s Marketing Director stated that he believes there is a misperception among some Turnpike customers regarding the service plaza fuel prices. He believes that many people feel the service plaza prices are artificially marked-up since there is no competition from other stations along the Turnpike. He stressed, however, that while the prices may be slightly higher than those found at comparable off-Turnpike stations, the mark-up is due to the added operational costs incurred by the service plaza vendors (i.e., 24-hour operation, facility upkeep, cleaning parking areas, etc.). The Marketing Director also stated that some individuals attempt to compare Turnpike fuel plaza prices to convenience store fuel prices and that this is not a fair comparison since the Turnpike plazas have substantially higher operating costs than do convenience stores.

The two service station leases in effect at the time of the audit differ in the use of a formula to set motor fuel prices. The manner of calculating the limitations set by local off-Turnpike providers, however, is the same for both leases. Sun Company, Inc., is allowed a per gallon markup above the wholesale price plus applicable taxes; On Line, Inc., is not restricted by such a formula. Both the prices for Sun Company, Inc., and for On Line, Inc., are not to exceed four cents greater than the average prices of the three closest off-Turnpike stations. (See Exhibit 8 below.)

Exhibit 8

Provisions Governing Fuel Pricing at Turnpike Service Plazas

<u>Formula:</u>	<u>On Line, Inc.</u>	<u>Sun Company, Inc.</u>
Cents ^a per gallon mark-up over prevailing Dealer Tank Wagon per gallon prices, plus all state and federal taxes and Oil Company Franchise Tax adjustments.	NA	X
<u>Limit:</u>		
4 cents per gallon more than the average price per gallon charged by the three closest off-road stations	X	X

^aThe Sun Company lease does not state the size of this cents-per-gallon markup.

Source: Developed by LB&FC staff from the lease agreements in effect between the Turnpike Commission and service plaza concessionaires.

For purposes of pricing, Sun Company, Inc., places their fuel service plazas into five geographic groups. The purpose of these groupings is to account for different fuel prices in different geographic areas. The groupings are as follows:

<u>Group 1</u>	<u>Group 2</u>	<u>Group 3</u>	<u>Group 4</u>	<u>Group 5</u>
Zelienople	North Midway	Plainfield	P.J. Camiel	Allentown
Butler	South Midway	Highspire	Valley Forge	Hickory Run
Oakmont	Sideling Hill	Lawn	King of Prussia	
New Stanton	Blue Mountain	Bowmansville	North Neshaminy	
North Somerset			South Neshaminy	
South Somerset				

For each plaza, three comparable off-Turnpike stations are selected for price comparisons. Each week Sun Company, Inc., representatives collect prices at these stations and an average is determined for each group. Once the area group average is determined, Sun Company, Inc., is permitted to add a four-cent markup to the average price.

A similar procedure is used in calculating the On Line, Inc., prices, using three comparable off-Turnpike stations mutually agreed upon by the operator and the Turnpike Commission on through streets or roads closest to the Irwin and New Stanton interchanges. On Line, Inc., likewise is permitted to add a four-cent markup to the average price.

We also examined fuel pricing practices on the toll roads in New Jersey, New York, and Ohio. Sun Oil (Sunoco) holds fuel contracts on New Jersey, New York, and Ohio turnpikes/thruways; the Mobil Oil Company also has a fuel contract on the New York Thruway. Fuel contracts in these states run from 5 to 10 years with 3 to 5 year extension options depending on the state.

All three of these sample states report using weekly fuel price surveys as a means of monitoring and, if warranted, adjusting on-turnpike prices. New Jersey requires that an independent contractor survey off-turnpike fuel prices at about 100 service stations located throughout the state. New Jersey Turnpike authorities allow fuel prices to be no more than 2 cents higher per gallon than the off-turnpike average prices by grade. Ohio and New York require their fuel vendors to conduct weekly fuel price surveys at off-turnpike/thruway establishments to obtain an average per gallon price (per grade). The Ohio contract provisions require that turnpike prices be the same as off-turnpike with no price increase allowed above the computed averages. The New York toll road agreements allow fuel price increases of from 3 to 6 cents per gallon above the computed off-thruway averages, depending on the grade and contractor.

IV. Vendor Compliance With Service Plaza Lease Agreements

The leases in effect between the Turnpike Commission and the various Turnpike service plaza concessionaires contain specific provisions governing the day-to-day operation of the plazas as well as the pricing of food and fuel sold at those locations. During January 1999 LB&FC staff conducted a series of field visits to a sample of service plazas on both the eastbound and westbound sections of the Turnpike. The plazas visited in conjunction with this phase of the study were:

Bowmansville	North Somerset
South Midway	Sideling Hill
King of Prussia	South Neshaminy
Lawn	South Somerset
Plainfield	Valley Forge

During the course of these visits, LB&FC staff tested contractor compliance with the service plaza lease agreements, including (1) key operating provisions and (2) food and fuel pricing requirements.

Compliance With Operating Provisions

Turnpike Commission Oversight of the Contracted Operating Provisions

The Turnpike Commission's Marketing Department, organizationally located under the DED of Customer Service, is responsible for managing and monitoring contractor compliance with the service plaza lease agreements. The Commission's Internal Audit Section in the Department of Internal Audit monitors and audits rental payments which the contractors pay to the Commission under the terms of their lease agreements. Additionally, the Turnpike Commission's Consulting Engineer, Michael Baker, Jr., Inc., in conjunction with Turnpike personnel and the lessees, conducts an annual inspection of service plaza facilities.

The Marketing Department. The Marketing Department has dual management and contract oversight responsibilities for the service plazas. In total, five Commission staff members spend all or a substantial portion of their work time on service plaza matters. The Director of Marketing is responsible for the planning and delivery of quality customer services.¹ The Supervisor of Concession Management is responsible for supervising the Service Review Analysts, liaisons with the vendors, and negotiating and monitoring operator compliance with all long-term

¹Does not include the Assistant Director of Marketing who is currently assigned to a Commission special project.

concession agreements. Additionally, the Commission assigns three Service Review Analysts (East, West, and Central) to make on-site visits to and inspect the plazas.

The three Service Review Analysts are responsible for monitoring contractor compliance with the provisions of their lease agreements. They perform this function through periodic on-site visits and inspections of both the service plaza restaurants and service station facilities. Their inspections are to be conducted from a customer's viewpoint on cleanliness, convenience, and service levels.

Although not a formal Commission policy, the unwritten standard is that each analyst should visit at least two plazas per day. Using inspection checklists, the analysts review compliance with key operating provisions. The analysts are additionally to spot-check price listings against menu prices filed by the concessionaire with Turnpike headquarters. When the analysts identify facility problems that are the Commission's responsibility, they prepare a work order and send it along with the inspection report to the Turnpike's Maintenance Section. In some cases, the analysts also forward matters to the Supervisor of Concession Management for follow-up contact with management of the involved concessionaires.

Following the inspections, the analysts provide and review their findings with the service plaza managers. Another copy of the inspection report is filed in the Concession Management Office at Commission headquarters and a third copy is retained in the analyst's files. In addition to informing the Commission members and officials of conditions in the field, the Service Review Analysts are also to act as liaisons between the Turnpike Commission and the concessionaires.

LB&FC staff examined the records of the analysts' service plaza inspection activities during the period October 1 through December 31, 1998. We reviewed the inspection reports from this time period to determine if all service plazas are regularly being inspected, and if inspectors meet the unwritten standard of two visits a day. We also noted the overall findings and results of these inspections.

We found that during the three-month period we examined, the three Service Review Analysts conducted a total of 383 inspections at the 22 service plazas. (See Table 3.) This meets the Commission's unwritten standard of having each analyst visit two service plazas per day. (Using this standard, the three analysts would need to conduct a combined total of 360 inspections in a three-month period.)

As Table 3 shows, each plaza was visited at least once a month. While each of the plazas was visited, not all the concessionaires at each plaza received inspections. We found that the service station operations at Bowmansville, North Midway, Sideling Hill, and South Midway were not checked during this period.

Table 3

Number of Inspections Conducted by Turnpike Commission Service Review Analysts, by Service Plaza

(For the period October 1 - December 31, 1998)

Plaza	Inspections Conducted		Total
	Restaurant	Service Station	
Allentown	5	4	9
Blue Mountain	10	2	12
Bowmansville	8	0	8
Butler	12	13	25
Hempfield	13	12	25
Hickory Run	5	4	9
Highspire	7	2	9
King of Prussia	22	19	41
Lawn	8	1	9
New Stanton	12	12	24
North Midway	7	0	7
North Neshaminy	18	11	29
North Somerset	7	8	15
Oakmont	9	9	18
PJ Camiel	8	8	16
Plainfield	12	1	13
Sideling Hill	8	0	8
South Midway	4	0	4
South Neshaminy	18	13	31
South Somerset	10	9	19
Valley Forge	18	11	29
Zelienople	<u>11</u>	<u>12</u>	<u>23</u>
Total	232	151	383

Source: Developed by LB&FC staff from a review of Turnpike Commission service plaza inspection forms.

Marketing Department officials noted that there are several factors which must be considered when looking at inspection frequencies. For example, the analysts reportedly sometimes stop at a plaza to conduct an informal visual check. During such visits it is likely that they would not complete a written inspection form. The officials also point out that other responsibilities such as annual inspections, price surveys, required training on new computer equipment, and operational meetings reduce the time available to do on-site inspections.

We also reviewed the inspection reports to determine the nature of problems and deficiencies found by the inspectors. These reports show that the primary problems and deficiencies relate to the restrooms and trash collection areas.

In addition to the frequency and results of the plaza inspections, we also examined the inspection records to determine the time of day the inspections take place. Ideally, inspections would be done at differing times in order to get an assessment of plaza operations at various points throughout a 24-hour period, as well as on weekends. The inspection reports we examined, however, show that the vast majority (about 98 percent) of all inspections occurred between 6:00 a.m. and 6:00 p.m. (See Table 4.)

Table 4

**Inspections of Turnpike Commission Service Plazas,
by Time of Day**

(For the period October 1 - December 31, 1998)

<u>Time Inspected - Between:</u>	<u>No. of Inspections</u>	<u>% of Total</u>
Midnight and 5:59 a.m.	1	0.3%
6:00 a.m. and 11:59 a.m.	196	51.2
Noon and 5:59 p.m.	178	46.5
6:00 p.m. and 11:59 p.m.	7	1.8
Review Time Not Available	<u>1</u>	<u>0.3</u>
Total	383	100%

Source: Developed by LB&FC staff from review of Turnpike Commission service plaza inspection reports for the period 10/1/98 to 12/31/98.

In reviewing the Commission’s internal monitoring of the service plazas we found the processes to be entirely manual and paper-based. The current management review process involves the manual tabulation of the reports into monthly summary sheets. There is no automated process for reviewing the inspection forms to ensure unsatisfactory items are rectified.

The Commission’s Marketing Department reports that an automated system based on Microsoft Access is planned for the future. The proposed system would involve central office data entry from the inspection forms which are completed by the analysts. Such a system would greatly benefit the Concession Management staff as it would facilitate instantaneous updating of reports and would aid in the resolution of unsatisfactory items at the service plazas. For example, deficiency trends could be quickly identified. Once trends are identified, notification letters to the service plaza contractors could then be automatically generated alerting them to the deficient conditions.

The Marketing Department is also responsible for handling customer input and complaints from Turnpike travelers who use the service plazas. During the LB&FC’s 1997 Turnpike Commission performance audit, we reported that the

Commission had discontinued its Traveler Services Hot Line Card system. Under this system Turnpike customers could provide comments, suggestions, and complaints to the Commission using Hot Line Comment Cards which were available at each service plaza. Representatives from the Commission's Traveler Services section subsequently processed the cards and frequently routed the input to other Turnpike Commission departments (e.g., to Maintenance).

We found in 1997 that the Commission did not have a centralized method to receive and respond to customer comments and complaints or to track their disposition. In the absence of such a system, the Turnpike Commission Marketing Department did not have adequate management information regarding the nature of customer comments, complaints, and inquiries received and whether appropriate follow-up actions had been taken.

Turnpike Commission officials agreed that a better system for dealing with customer input was needed. The restructuring resulting from the 1996 Management Study and subsequent creation of a Deputy Executive Director of Customer Services was expected to facilitate the development of such a system.

We found that, as of early 1999, the Commission had not yet developed a formal system to handle customers input and complaints. In addition to its toll-free telephone number, the Turnpike Commission receives customer contacts via the Internet and by letter. Information on the total number of complaints/comments submitted to the Turnpike Commission on a monthly or annual basis is not available. Marketing Department staff estimate, however, that the Commission receives from 50 to 75 e-mail messages a week. The Commission does not classify or otherwise analyze the nature of these messages or maintain a centralized record of their disposition.

The Commission reports that it expects to establish a more formalized complaint handling system once the planned Turnpike Customer Assistance Center is established by the summer or fall of 1999. (See Section V for further information.)

The Internal Audit Section. Each of the service plaza lease agreements contains specific provisions defining the basis and amount of rental payments the operator is to pay to the Turnpike Commission. Rental payments are made monthly to the Internal Audit Section along with a report of the vendor's gross sales for the month. The Commission monitors the payment of these rentals in two ways.

On a monthly basis, the Internal Audit Section calculates the rental payments based on reported gross sales and compares this amount with the actual payments made to the Commission. Additionally, the Internal Audit Section conducts an annual audit of the concessionaire's sales records and rental payments for the prior calendar year.

LB&FC staff examined Commission files to determine if all of the annual audits of the vendors' rental payments for CY 1997 had been done. We found that the audits were conducted, as required, with one exception. We found that the Arby's audit is conducted on a two-year cycle rather than annually. An official of the Internal Audit Section stated that Arby's is audited every two years rather than annually to reduce costs since Commission staff must travel out-of-state to review the firm's financial records. The revenue from this contract is also significantly lower than from the other concessionaires (Arby's is operated in only one plaza--Oakmont) and, in the professional judgement of the Turnpike auditors, there is no significant material risk in conducting the audit on a two-year cycle.

The rental audits are based on a detailed audit workplan which first analyzes the process the vendor uses to record and report gross sales. Depending on an assessment of the reliability of this process (i.e., of the internal controls used in the process), the Commission staff determines the steps to take in conducting a review of the recorded and reported information. Audit records show that the Internal Audit Section typically takes three or four report periods and checks cash register tapes, bank deposit slips, sales summary reports, and rental calculations. The auditors also check the calculation of authorized deductions from gross sales such as employee meals and coupons.

Most of the audits are done on a centralized basis for the larger concessionaires such as Host Marriott and Sun Company, Inc. Smaller vendors such as On Line, Inc., the owner-operated McDonald's and Arby's are audited on site or at a corporate headquarters. The results of the audits for CY 1997, showing a total credit adjustment for the Turnpike Commission of \$4,301, are shown on Exhibit 9.

Exhibit 9

Turnpike Commission Audits of Rental Payments of Service Plaza Concessionaires for CY 1997

<u>Concessionaire</u>	<u>Date of Audit</u>	<u>Net Adjustment Required - CY 1997</u>	<u>Comment</u>
Host Marriott	June 1-5, 1998	\$3,528.63	Due to two bookkeeping errors as reported by Host Marriott in an internal audit.
McDonald's.....	June and July, 1998	(931.15)	Various minor adjustments resulting in the Commission refunding this amount.
Arby's.....	April 21-22, 1998	1,703.00	Due to inaccurate sales reporting.
Sun Company, Inc. ...	May 20-22, 1998	None required	\$84,000 unresolved from the 1993 and 1994 audits. ^a
On Line, Inc.	July 7, 1998	None required	

^aThis payment to the Turnpike Commission has not been made and is being disputed by Sun Company, Inc. The issue involves the interpretation of the lease and the method to be used to calculate minimum payments.

Source: Developed by LB&FC staff from review of CY 1997 Turnpike Commission Internal Audit report files.

The Consulting Engineer. Michael Baker, Jr., Inc., an engineering consulting and construction firm based in Pittsburgh, PA, is the Turnpike Commission's Consulting Engineer. In its capacity as Consulting Engineer, the Baker firm performs various duties related to the issuance of revenue bonds, budget development, financial administration, and toll-setting. The Consulting Engineer is also required to review and approve all plans and specifications, prepare progress reports on Turnpike Commission construction projects and approve payments, and make an annual inspection and report on the maintenance, repair, and operation of the Turnpike System, including the service plazas.

During September and October 1998 the Turnpike's Consulting Engineer, Turnpike personnel (facilities, engineering, and maintenance representatives), and representatives from the various plaza concessionaires inspected all of the service plazas. The areas subject to inspection at each plaza include the parking areas, the restaurant buildings' exterior and interior, the roofs, the service station bays and pump areas, the generator building, the sewage treatment area, the dumpster area, and lighting and signage. Deficiencies for each area are noted and responsibility for correcting the deficiency is assigned to the appropriate party(ies). The Turnpike Commission's field Service Review Analysts are to monitor the correction of the noted deficiencies.

A final report on the 1998 inspection identified deficiencies and necessary upgrades or improvements at each of the service plazas. Data from this inspection report is being installed in a database in order to enable the Commission and the concessionaires to better monitor the maintenance and service needs of both buildings and equipment. Standard routine maintenance procedures are also to be developed to achieve optimum performance of the various components of each plaza. Exhibit 10 shows the ratings which resulted from the most recent plaza inspections.

LB&FC Testing of Vendor Compliance With Operating Provisions

Section III lists and describes the key operating provisions contained in the lease agreements between the Turnpike Commission and the Marriott Corporation, the McDonald's Corporation, Arby's, Sun Company, Inc., and On Line, Inc. For purposes of compliance testing, LB&FC staff summarized these provisions on Exhibit 11.

We used the summary of provisions shown on the exhibit as an inspection checklist during the January 1999 visits to the following Turnpike service plazas: Bowsmanville, Peter J. Camiel, King of Prussia, North Somerset, Sideling Hill, Plainfield, Lawn, South Neshaminy, South Somerset, and Valley Forge. These visits were supplemented by follow-up visits to three plazas (Valley Forge, King of Prussia, and Peter J. Camiel) in early April 1999 to further check hours of operation.

Exhibit 10

**Assessment of the Physical Condition of
Pennsylvania Turnpike Commission Service Plazas**

LOCATION	COMPONENT						
	Building	Water System	Sewage Plant	Fuel Tanks	Lighting	Roof	Parking
Zelienople	Fair	Good	Good	Good	Fair	Good ^a	Good
Butler	Fair	Good	N/A	Good	Poor	Good	Poor
Oakmont	Fair	Good	N/A	Good	Fair	Fair	Poor
Hempfield	Good	Good	N/A	Good	Fair	Good	Fair
New Stanton	Good	Good	N/A	Fair	Good	Fair	Good ^a
South Somerset	Fair	Fair ^b	N/A	Good	Poor	Good ^a	Poor
North Somerset	Poor	Fair ^b	N/A	Good	Good	Fair	Good ^a
South Midway	Good	Good	N/A	Good	Good ^a	Fair	Good ^a
North Midway	Good	Good	N/A	Good	Good ^a	Good	Good
Sideling Hill	Good	Poor	Good	Good	Good	Good ^a	Good
Blue Mountain	Good	Good ^a	Good ^a	Good	Good ^a	Good ^a	Good ^a
Plainfield	Good	Good	Good	Good	Good	Good ^a	Good
Highspire	Good	Good	N/A	Good	Good	Fair	Fair
Lawn	Fair	Fair	Good	Good	Good	Good ^a	Fair
Bowmansville	Poor ^c	Fair ^b	N/A	Good	Good	Good	Good
Peter J. Camiel	Good	Good	Good	Good	Good	Good	Fair
Valley Forge	Fair	Good	N/A	Good	Fair	Good	Fair
King of Prussia	Fair	Good	N/A	Good	Poor	Good	Fair
South Neshaminy	Fair	Good	N/A	Good	Poor	Good	Fair
North Neshaminy	Poor	Good	N/A	Good	Poor	Fair	Fair
Allentown	Poor	Fair	N/A	Good	Fair	Good	Good
Hickory Run	Fair	Fair	Good ^a	Good	Good ^a	Good	Good ^a

^aThe Consulting Engineer's assessment of these components has been upgraded to "good" due to the completion of construction projects in 1997 and 1998.

^bThe water service to these plazas is provided by a municipal authority.

^cThe Turnpike Commission Marketing Department believes this rating should be upgraded to "fair."

Source: Turnpike Commission Consulting Engineer's 58th Annual Report, May 1998, as amended by Turnpike Commission Concession Management updates.

Exhibit 11

**Contract Provisions Governing Turnpike
Service Plaza Operations**

Food Service Operations

<i>The following contract provisions apply to all food service vendors.^a</i>
Building interior and lighting is maintained.
Interior painted within last three years.
Trash areas painted each spring and are fenced in.
General preventative maintenance is provided for in buildings and on grounds and equipment.
Snow is removed.
Exterior lighting and paved surfaces are maintained.
All restrooms are inspected and cleaned hourly.
All restrooms are adequately supplied (soap, towels, etc.).
Maintained in an attractive, safe, clean and sanitary manner.
Grounds adjacent to restaurant are clean, neat, and attractive (landscaping).
Trash is removed at least daily.
Grass is mowed.
Employees are neat, clean, and presentable; able to give directions.
Manager or assistant manager present at all times.
Patron is served promptly and courteously.
Installation and operation of video display terminals in the lobby provide traffic/weather/travel information at selected plazas.
Food, beverages are to be of expected grade/quality for style of service.
Building exterior is painted within the last three years.
Buildings are maintained (windows, doors, etc.).
Interior of buildings is clean, safe, etc. (includes lobby, gift shop, entrances, exits, etc.).
<i>The following provisions apply only to food services operated by the Marriott Corporation:</i>
Every restaurant, except snack bars, and certain Bob's Big Boy Restaurants, must operate 24 hours-a-day (Bob's Big Boy Restaurants at plazas also with Roy Rogers or Burger King are only open 7 a.m.- 10 p.m. initially, except Sideling Hill. Thereafter, hours are upon agreement with the Turnpike Commission as per demand.
<i>The following provisions apply only to food services operated by the McDonald's Corporation:</i>
One employee assigned for restrooms between 6 a.m. and 10 p.m.
Flags must be properly placed, raised, and lowered.
Open 24 hours (except subconcepts).

Exhibit 11 (Continued)

Service Station Operations

<i>The following contract provisions apply to the Sun Company, Inc., and On Line, Inc., which hold the leases for all Turnpike service station concessions:</i>
Building interior and lighting is maintained.
Interior painted within last three years.
Snow is removed.
Exterior lighting and paved surfaces are maintained.
All restrooms are inspected and cleaned hourly.
All restrooms are adequately supplied (soap, towels, etc.).
Maintained in an attractive, safe, clean, and sanitary manner.
Grass is mowed.
Open 24 hours unless otherwise permitted (full-service and self-service).
Employees trained to direct motorists appropriately and are able to instruct on methods of obtaining emergency services.
Employees are neat, clean, and presentable; knowledgeable of turnpike and its operations.
Manager or assistant manager present at all times.
Patron is served promptly and courteously.
Flags must be properly placed, raised, and lowered.
RV sanitary stations are properly maintained.
Emergency generator is inspected and maintained.
Buildings are maintained (windows, doors, etc.).
Interior of buildings is clean, safe, etc. (includes storage areas, public sales area, entrances, exits, etc.).
Where full-service is offered—provide windshield cleaning, and offer to check oil levels. For self-service, windshield washing supplies and towels must be available.
Service station pavement surfaces are properly cleaned.
Air, air gauges, and water are offered free of charge.
Offer services for installation of coolant, windshield washers, cleaning fluid, transmission fluid, brake fluid, power steering fluid, belts, hoses, filters, fuses, battery charger, tire changing, wheel balancing, and other minor items needed for safety.

³Includes the Marriott Corporation, McDonald's Corporation, and Arby's Inc.

Source: Developed by LB&FC staff from an examination of contracts and lease agreements between the Pennsylvania Turnpike Commission and Marriott Corporation, McDonald's Corporation, Arby's, Inc., Sun Company, Inc., and On Line, Inc.

We found relatively few instances of noncompliance by the plaza operators and vendors. As shown on Exhibit 12, the most prevalent problem observed related to the condition of the restrooms at some of the service plazas. Other deficiencies noted at one or more of the plazas we visited involved inadequate trash removal and grounds maintenance, and absence of management personnel.

LB&FC staff also observed and inquired about hours of operation at the various food establishments in selected plazas. The purpose of this activity was to test compliance with contracted hours of operation. Some persons expressed concerns at the onset of this study regarding the unavailability of certain items and/or early closings of some of the plazas' food concessions.

Testing compliance with the hours of operation provisions of the agreements is made difficult by the absence of a current and definitive listing of opening and closing times for all food establishments at each plaza. The lease agreements specify hours of operation and service requirements for the plaza vendors. (See Exhibit 13.) We found, however, that this list is not complete or current. Another listing obtained from the Marketing Department was dated 1993/94. During on-site visits to the Peter J. Camiel, Valley Forge, and King of Prussia Service Plazas, we determined actual hours differed from the listing we had obtained from the Turnpike headquarters. We also observed that, in some cases, the hours of operation are not posted in conspicuous locations.

At the plazas we visited, most of the vendors remained open beyond the closing times shown on the 1993/94 schedule referred to in the paragraph above. On the other hand, on the days we checked a few closed about 15 minutes earlier than the listed time and turned away several customers as a result.

The Turnpike Commission's Director of Marketing characterized the variability of the closing times of the various establishments as a constant irritant for the Commission. At the time of this study, the Commission was discussing the hours of operation issue with the various vendors so that a consensus can be reached on operating hours.

Compliance With Pricing Provisions

Turnpike Commission Oversight: Pricing Provisions

We found that the Turnpike Commission regulates restaurant and fuel prices at its service plazas in two ways. First, the Commission has procedures in place through which it can approve or disapprove the prices initially set for products, as well as procedures to review and approve all changes in those prices. The Commission's Service Review Analysts reportedly monitor prices charged at comparable off-Turnpike locations.

Exhibit 12

**Instances of Non-Compliance With Operating Provisions Observed
by LB&FC Staff at a Sample of PTC Service Plazas**
(January 1999)

Contract Provision	Service Plaza	LB&FC Staff Observations
1. Trash areas are to be painted each spring and be fenced in.	Plainfield Bowmansville Valley Forge Lawn	Some trash areas not enclosed by fences.
2. Exterior lighting and paved surfaces are to be maintained.	Valley Forge	Some paved surfaces needed repair.
3. All restrooms are to be inspected and cleaned hourly with a written inspection record maintained in the facility.	Plainfield South Somerset North Somerset South Neshaminy King of Prussia Lawn	Inspections either not conducted, inspection checklist not signed, or inspections not conducted on time.
4. All restrooms are to be adequately supplied (soap, towels, etc.).	Plainfield King of Prussia	Some toilet paper and paper towel dispensers were empty.
5. McDonald's—one employee is to be assigned for restrooms between 6 a.m. and 10 p.m.	South Neshaminy King of Prussia	Sign-off checklist not signed off for all these hours.
6. Grounds adjacent to restaurant are to be clean, neat, and attractive.	Plainfield North Somerset Valley Forge	Grounds littered in varying degrees around restaurant.
7. Trash is to be removed at least daily.	Bowmansville	Trash overflowing and ground littered.
8. A manager or assistant manager is to be present at all times.	Plainfield	Manager not present, but was on-call at time of visit (11:45 p.m.).

Source: Developed by LB&FC staff from an examination of contracts and lease agreements between the Pennsylvania Turnpike Commission and Marriott, McDonald's, and Sun Company, Inc., and observations made by LB&FC staff during visits to a sample of Turnpike service plazas during January 1999.

Exhibit 13

**Hours of Operation and Service Requirements
at PA Turnpike Service Plazas**

Lease	Hours	Service Requirements
<i>Marriott</i>		
Snack bars	Per demand	Render speedy and efficient service and maintain adequate staff and management for service and cleaning. Minimum of 3 staff, including 1 maintenance.
Bob's Big Boy (only at plazas with Roy Rogers or Burger King & Bob's Big Boy)	7 a.m. - 10 p.m. initially (except Sideling Hill ^a), thereafter hours upon agreement with the Commission as per demand.	
All other concessionaires	24 hrs.	
<i>McDonald's^b</i>		Same as above.
McDonald's	24 hrs.	
Auntie Anne's	6 a.m. - 10 p.m.	
Breyer's	11 a.m. - 9 p.m.	
Hot Dog ^c	11 a.m. - 9 p.m.	
McPizza ^c	11 a.m. - 9 p.m.	
Bake Shop ^c	8 a.m. - 9 p.m.	
Gift Shop	10 a.m. - 8 p.m.	
<i>Arby's</i>	24 hrs.	Same as above.
<i>Sun Company, Inc.</i>	24 hrs. unless otherwise permitted by the Commission in writing	Sufficient personnel to provide prompt service.
<i>On Line, Inc. (Hempfield Sunoco)</i>	Same as above.	Same as above.

^aThe hours for the Sideling Hill Bob's Big Boy restaurant were initially required to be 24 hours-a-day.

^bThe minimum hours of operation under the McDonald's lease for concepts other than McDonald's may be increased without approval of the Turnpike Commission but may not be reduced without Turnpike Commission approval.

^cThese concepts were not in operation as of April 1999.

Source: Developed by LB&FC staff from a review of service plaza lease agreements.

To comply with the lease's pricing provisions, the food and fuel concessionaires are required to conduct periodic surveys to determine prices at off-Turnpike locations. We found that the frequency of these surveys (referred to as "pricing sweeps") varies. Fuel price surveys are conducted weekly because of the high variability of fuel prices. Food price surveys are conducted at the discretion of the

vendor and usually only once or twice a year; primarily to support a price change proposal.

Pricing sweeps are conducted by company representatives who travel to the off-Turnpike area surrounding the service plaza to locate establishments of the same or similar concept. The term “surrounding area” is somewhat loosely defined. No set minimum or maximum radius is established for the survey area; thus, the most likely places to locate other restaurants are the population centers nearest the service plaza. For those establishments with fewer locations, the geographic “surrounding area” is, in some cases, expanded.

Before the Commission approves a price increase, the concessionaire must submit data which compares the average prices for comparable items at similar off-Turnpike establishments to the service plaza prices. The Commission and the service plaza operator agree on the number and type of establishments to test. The Turnpike Commission then reviews the information to ensure that the new prices are within the acceptable limits of the contract. We found that the Turnpike Commission maintains and monitors such data and that Service Review Analysts from the Commission’s Office of Concession Management report that they spot-check pricing during their routine visits to the service plazas.

LB&FC Spot-Checks of Service Plaza Food Prices. The LB&FC staff’s January 1999 surveys included comparisons of food prices at a sample of Turnpike service plazas to the prices of similar items at comparable off-Turnpike food establishments. Staff also examined December 1998 and January 1999 “price sweep” survey data which the concessionaires submitted to the Turnpike Commission.

We compared food prices at six different Turnpike service plazas with comparable off-Turnpike establishments (see Table 5). Four of the service plazas were operated by Host Marriott (Sideling Hill, North Somerset, South Somerset, and Valley Forge) and two were operated by McDonald’s (King of Prussia and South Neshaminy). LB&FC staff visited a total of nine off-Turnpike food establishments with the same or similar franchise as that of the nearest Turnpike plaza.

The detailed item-by-item price comparisons resulting from our survey are shown in Appendix B. This appendix provides pricing information for the service plazas, including the listed per item price at the plaza, the off-Turnpike average price for the same or comparable item, and the percentage by which the Turnpike price is lower or higher than the off-Turnpike average.

From these surveys we determined that, in most cases, the service plaza prices of the individual items we spot-checked were higher than the prices for the same items at comparable off-Turnpike establishments.

- Most of the prices for the food items we checked at the service plazas operated by Host Marriott (at Sideling Hill, North Somerset, South Somerset, and Valley Forge) were higher than the prices of the same items at comparable off-Turnpike establishments. The service plaza prices of 42 of the 54 items for which we could obtain comparative data were higher than the off-Turnpike prices--many as much as 20 percent or more expensive than off-Turnpike. We found Turnpike prices in four cases to be the same as the off-Turnpike average; in the case of eight other items, Turnpike prices were lower than the off-Turnpike average by 2 to 36 percent. (See Table 5.)

- Most prices for food items we checked at service plazas operated by the McDonald's Corporation (at King of Prussia and South Neshaminy), were also higher than the posted prices for the same items at nearby off-Turnpike locations. The prices of 30 of 35 items we checked at both the McDonald's-operated service plazas were higher than the same or comparable items at off-Turnpike locations--most in the range of 5 to 15 percent higher. We found Turnpike prices on two items to be the same as the off-Turnpike average; in three instances, we found Turnpike prices to be lower. (See Table 5.)

Our finding that individual items at the Marriott-operated service plazas were priced higher than at comparable off-Turnpike locations does not in itself, however, indicate contractor noncompliance with the lease agreement. As discussed in Section III, the lease agreement between the Marriott Corporation and the Turnpike Commission stipulates that service plaza prices shall not exceed by 5 percent *in the aggregate* prices prevailing for like or similar concepts in the area of the Turnpike.²

Thus, testing compliance on this basis requires adding the prices of all individual items on the menus at each of the service plazas operated by Marriott to obtain a "total menu cost" for each. The Turnpike Commission and the concessionaire are then to compare this total to the total of all identical items on menus at nearby off-Turnpike businesses. The lease agreement allows that the Marriott's "total menu cost" can exceed the "total menu cost" off-Turnpike, but by no more than 5 percent.

At the time of the LB&FC's survey, the Turnpike Commission was considering, but had not yet approved, a set of proposed price changes submitted by the Marriott Corporation in December 1998. We examined the price survey data supporting the proposed price adjustments. As shown on Table 6, this information includes the following for each concept (i.e., vendor): (1) both the old and the proposed Host Marriott pricing for all items on the menu at the various concepts (e.g., Roy

²This provision also applies to the Turnpike Commission's lease agreement with Arby's, Inc.

Table 5

Results of LB&FC Staff Spot-Checks of Service Plaza Food Prices

(January 1999)

Items	% Turnpike Prices Higher (+) Lower (-) Than Off-Turnpike Prices					
	Sideling Hill ^a	Valley Forge ^a	North Somerset ^a	South Somerset ^a	King of Prussia ^b	South Neshaminy ^b
Hamburger - regular	+25.3%	+5.3%	+20.7%	--	+5.3%	+5.3%
Cheeseburger - regular	+22.5	+10.1	+22.3	--	+19.2	+20.2
Big Mac/ Whopper/ Qtr. lb.	0.0	+4.6	+8.0	+3.8%	+11.9	+10.4
Double Cheeseburger	--	--	-36.3	--	--	+65.3
French Fries - regular	+46.6	+30.3	+24.0	+4.8	0.0	0.0
French Fries - large	+15.5	-6.3	+10.4	-4.4	-8.8	-5.8
Chicken Sandwich	-1.8	+5.7	+1.8	+12.8	+13.3	+13.3
Fish Sandwich	+5.0	-17.7	+16.8	--	+5.9	+31.7
Chicken - 6 pieces	--	--	--	+40.1	+5.0	+9.1
Chicken - 8 pieces	-17.9	+6.7	0.0	--	+33.5	--
Chicken - 9 pieces	--	--	--	+3.5	--	+88.1
Soda - small	0.0	+2.1	+11.2	+11.2	+8.2	+8.3
Soda - medium	+9.1	+14.4	+22.7	+22.7	+10.6	+10.6
Soda - large	-7.2	-10.4	+18.3	+11.0	-3.5	+16.8
Coffee - regular	+43.5	+20.7	+43.5	--	+20.7	+8.5
Coffee - large	+22.5	+12.4	+51.4	+51.4	+18.6	+12.4
Chicken Medium Value Meal	+6.8	--	--	--	--	--
Big Mac Value Meal	--	--	--	--	+7.5	+7.5
Double Cheeseburger Value Meal	--	--	0.0	--	--	--
Two Cheeseburgers Value Meal	+13.6	--	+28.2	--	+13.2	+13.2
Quarter Pounder Value Meal	--	--	--	--	+8.9	+16.3

^aOperated by the Host Marriott Corporation

^bOperated by the McDonald's Corporation.

Source: Developed by LB&FC staff based on data on prices collected at service plazas and off-Turnpike locations, January 1999.

Rogers, Sbarros, Burger King); (2) the average pricing for the same items at comparable off-Turnpike locations; and (3) the percentage by which the prices proposed by Host Marriott are higher or (lower) than the off-Turnpike average.

Table 6

Host Marriott Proposed Price Changes
(Based on December 1998 "Price Sweep")

Concept	Host Marriott Prices		Off-Turnpike Average ^b	% Proposed Turnpike Prices Higher (Lower) Than Off-Turnpike
	Old	Proposed ^a		
Big Boy	\$ 387.98	\$ 387.98	\$ 389.94	(0.5)%
Roy Rogers	262.71	262.61	256.02	2.6
Snack Bar	79.13	80.23	84.09	(4.6)
Sbarros	204.80	210.20	205.79	2.1
Popeyes.....	43.46	43.46	41.89	3.7
Burger King	85.49	85.39	81.29	5.0
Mrs. Fields	7.55	7.55	7.23	4.4
KFC	76.75	72.95	69.53	4.9
Nathan's.....	28.56	30.06	29.03	3.5
Vending.....	9.20	9.20	9.40	(2.1)
Pretzel Time.....	12.86	13.46	15.67	(14.1)
Pizza Hut	8.87	9.27	8.89	4.3
Boardwalk Fries	8.37	8.37	8.19	2.2
Starbucks	<u>349.15</u>	<u>351.00</u>	<u>334.41</u>	<u>5.0</u>
Total	\$1,564.88	\$1,571.73	\$1,541.37	2.0%

^aThese prices may not exceed, in the aggregate, the off-Turnpike average prices by more than 5 percent.

^bAs determined by the Host Marriott Corporation price sweeps.

Source: Developed by LB&FC staff from information obtained from the Turnpike Commission's Office of Concession Management.

As shown on Table 6, none of the Marriott's aggregated menu totals, including the proposed price changes, exceed the contract guidelines (i.e., Turnpike menu prices in the aggregate may not exceed the off-Turnpike average cost for the same or similar items by more than 5 percent). On an individual concept basis, the total menu prices of only two, the Burger King and Starbucks totals, exceeded the comparable off-Turnpike prices by as much as 5 percent. Most of the others are in the 2 to 4 percent higher range while the totals for four are reported to be actually lower than the off-Turnpike average. Overall, the reported total menu aggregate prices for all the concepts operated by Host Marriott are 2 percent higher than the off-Turnpike average, well below the 5 percent allowable.

Assuming the price sweep data is accurate, Host Marriott would be in compliance with the pricing provisions of the lease agreement. The Turnpike Commission Office of Concession Management was reviewing this proposed pricing as of April 1999. This review reportedly involves checking the vendor's price sweeps and verifying that the calculations are correct as well as requesting follow-up or clarifying information from Host Marriott. The Commission expects to notify the contractor of its decision on the pricing proposal by mid to late summer 1999.

LB&FC Spot-Checks of Service Plaza Fuel Prices. In January 1999³, we compared fuel prices at a sample of Turnpike Commission service plazas (Sideling Hill, North Somerset, South Somerset, South Midway, Bowmansville, Valley Forge, South Neshaminy, King of Prussia, and Lawn) to prices at a total of 23⁴ off-Turnpike establishments. The purpose of these comparisons was to gauge compliance with the lease pricing provision which requires that the per gallon fuel prices at Turnpike Commission service plazas be no more than 4 cents per gallon higher (per grade) than the average price per gallon (for the same grade) charged by the three closest off-Turnpike stations.

At each of the plazas, we checked the posted prices of 87 octane, 89 octane, and 93 octane fuel, resulting in 27 separate price postings. We then compared these prices to the prices posted for the same grades of fuel at nearby off-Turnpike locations. Whenever possible we attempted to survey stations with similar services to the Turnpike plazas; i.e., full-service, major-brand garages. Because full service off-Turnpike stations are often not available in the vicinity of all Turnpike plazas, we focused our survey only on self-service prices and did not compare the per gallon costs of fuel available in the full-service lanes at the plazas.

From these surveys we determined that, although prices were lower at one service plaza, most of the service plaza prices sampled were higher than the off-Turnpike averages, frequently by more than is allowed in the lease provision. It is important to recognize, however, that this finding is based on prices at off-Turnpike stations selected by LB&FC staff in the proximity of the respective service plazas. We did not attempt to replicate the vendor surveys and the resulting analysis may be based on a sample of stations which is different than the one used by the vendor and Turnpike Commission in their weekly price surveys. From our analysis, we found that:

- In most cases (24 of 27) the Turnpike service plaza per gallon price exceeded the average off-Turnpike price. The exception was at the Sideling Hill Plaza at which we found prices to be lower than the off-Turnpike

³During the period January 11 to 13, 1999.

⁴Five of these stations were in the proximity of more than one service plaza.

average: 1.5¢ lower on 87 octane, 4.5¢ lower on 89 octane, and 5.0¢ lower on 93 octane. (See Table 7.)

- Eleven of the 27 Turnpike fuel prices which we compared were higher than the off-Turnpike average and would exceed the 4¢ overage allowed in the service plaza leases. In most cases, the prices we identified which would exceed the 4¢ overage were for the 89 and 93 octane grades; only one plaza exceeded the 4¢ allowance for 87 octane. (See Table 7.)
- The largest price differentials we found between Turnpike service plaza prices and the average off-Turnpike prices were for high-test fuel which was 10¢ higher per gallon for 93 octane at North Somerset Plaza, 9.0¢ higher per gallon for 93 octane at South Somerset Plaza, and 9.3¢ higher per gallon for 93 octane at South Neshaminy Plaza. (See Table 7.)

Table 7

**Results of LB&FC Staff Survey
of Service Plaza Fuel Prices**
(January 1999)

<u>Service Plaza^a</u>	<u>Number of Cents Turnpike Prices Higher (+) Lower (-) Than Off-Turnpike Avg. Prices</u>		
	<u>87 Octane</u>	<u>89 Octane</u>	<u>93 Octane</u>
Sideling Hill.....	-1.5¢	-4.5¢	-5.0¢
Valley Forge	+2.5	+0.7	+4.5
North Somerset.....	+4.0	+6.0	+10.0
South Somerset.....	+4.0	+6.0	+9.0
Bowmansville	+2.0	+2.2	+4.4
King of Prussia.....	+2.5	+0.7	+4.5
South Neshaminy.....	+5.3	+4.0	+9.3
Lawn	+4.0	+3.3	+3.3
South Midway	+4.0	+5.0	+7.0

^aAll plazas listed are operated by the Sun Company, Inc.

Source: Developed by LB&FC staff based on pricing data collected at the service plazas listed above and at nearby off-Turnpike locations during January 1999.

We also examined the weekly price survey which Sun Company, Inc., submitted to the Turnpike Commission for the week ending January 8, 1999. (This is the survey upon which Turnpike fuel prices during the week of January 11, 1999--when

the LB&FC staff conducted its surveys--would have been based.) As discussed in Section III, the vendor's weekly price survey places each Turnpike service plaza into one of five different "geographic groups." This is done to account for differing fuel prices in different geographic areas of the state.

The Sun Company, Inc., price survey for the week ending January 8, 1999, represents 11 of its 27 Turnpike service plaza self-service fuel prices as being exactly the same as the per gallon price levels allowed by the lease (i.e., the average off-Turnpike area prices plus 4 cents). According to the Sun survey, prices in 16 cases were lower than the allowable per gallon price levels. None of the gasoline prices shown on their report exceeded the prices allowed by the lease.⁵ (See Table 8.)

The vendor's survey data for the week ending January 8, 1999, is inconsistent with the findings of the LB&FC staff survey which found 11 instances in which service plaza prices were higher than the off-Turnpike average by more than the allowed 4¢ per gallon. This difference may largely be due to the Sun Company, Inc., and the LB&FC staff surveying different off-Turnpike stations. Although the LB&FC survey may, by chance, have included some of the same off-Turnpike stations surveyed by the vendor, we intentionally did not replicate the Sun Company survey.

⁵Although none of the reported gasoline prices exceeded the allowable overage, self-service diesel fuel at Group 2 plazas was listed at \$1.07, 6 cents above the limit.

Table 8

Sun Company, Inc., Weekly Fuel Price Survey

(For the Week Ending January 8, 1999)

(Price Per Gallon)

Formula: Allowable Turnpike Prices = Average Area Price (Off-Turnpike) + 4 Cents

Regular (Minimum 87 Octane)						
Self Service				Full Service		
Stations	Average Area Price	Turnpike Prices		Average Area Price (Off-Turnpike)	Turnpike Prices	
	(Off-Turnpike)	Allowable	Actual		Allowable	Actual
Group 1	\$.89	\$.93	\$.93	\$1.19	\$1.23	\$1.16
Group 2 .....	.89	.93	.93	1.09	1.13	1.13
Group 3 .....	.92	.96	.96	1.16	1.20	1.16
Group 4 .....	.96	1.00	.99	1.17	1.21	1.21
Group 5 .....	.97	1.01	.96	--	--	1.16
Plus (Minimum 89 Octane)						
Self Service				Full Service		
Stations	Average Area Price	Turnpike Prices		Average Area Price (Off-Turnpike)	Turnpike Prices	
	(Off-Turnpike)	Allowable	Actual		Allowable	Actual
Group 1	\$.98	\$1.02	\$1.02	\$1.27	\$1.31	\$1.21
Group 2 .....	.99	1.03	1.03	1.19	1.23	1.21
Group 3	1.02	1.06	1.05	1.26	1.30	1.21
Group 4	1.08	1.12	1.09	1.46	1.50	1.26
Group 5	1.10	1.14	1.05	--	--	1.21
Super (Minimum 92 Octane)						
Self Service				Full Service		
Stations	Average Area Price	Turnpike Prices		Average Area Price (Off-Turnpike)	Turnpike Prices	
	(Off-Turnpike)	Allowable	Actual		Allowable	Actual
Group 1	\$1.08	\$1.12	\$1.12	\$1.36	\$1.40	\$1.32
Group 2	1.08	1.12	1.12	1.29	1.33	1.32
Group 3	1.11	1.15	1.15	1.36	1.40	1.31
Group 4	1.15	1.19	1.19	1.40	1.44	1.35
Group 5	1.14	1.18	1.17	--	--	1.31

Source: Developed by LB&FC Staff from Sun Company, Inc., price surveys submitted to the Pennsylvania Turnpike Commission for the week ending January 8, 1999.

V. Status of Prior LB&FC Recommendations Related to the Service Plazas

The LB&FC's July 1997 audit report contained recommendations in four areas related to customer services and the operation of service plazas on the Pennsylvania Turnpike. These related to the establishment of a "customer service center," the resolution of an open lease agreement, clarification of Turnpike Commission versus vendor responsibility for repairs and reconstruction at the service plazas, and the periodic verification of vendor pricing data.

For each recommendation, this section provides the following information:

- A categorization of the recommendation's current status.
- A brief explanation of the Turnpike Commission's current position on the recommendation and actions taken to date, if any, in response to it.
- If implementation is not complete or is currently planned or underway, the estimated percentage of completion as of February 1999 or the projected date of completion.

1. The Turnpike Commission should establish a Customer Services Center. (The LB&FC's prior (1997) recommendation stated as follows:)

Consistent with its stated goal to improve customer service, the Turnpike Commission should establish a "customer service center." Through the DED of Customer Service, the Commission should:

- *establish formal mechanisms to obtain customer input and comments, including conducting periodic customer satisfaction surveys; and*
- *reactivate a customer input/complaint system (at the service plazas and through a toll-free telephone number).*

Implementation Status: (In Process) In early March 1999, the Commission's Director of Marketing reported that a "Customer Assistance Center" is being planned as part of the reorganization of the Turnpike Commission's Marketing Department. This center will reportedly employ individuals who are solely responsible for assisting Turnpike customers who contact the Commission by telephone, letter, e-mail, or in person. The Commission currently has a toll-free telephone number (800-331-3414) that is available to customers seeking information or assistance. Customer service representatives are available Monday through Friday between the hours of 8:00 a.m. and 4:30 p.m. After hours, information on Turnpike roadway

and weather conditions is available via a pre-recorded message which is updated every three to four hours during the months of November through March.

According to the Marketing Director, additional toll-free telephone numbers will be activated and promoted once the Customer Assistance Center is established. The Commission plans to prominently display these numbers at the service plazas to encourage customers to call if they have a question or complaint regarding food or fuel services. The Commission expects to initiate the Customer Assistance Center by summer or fall 1999.

At the time of this study, the Commission was also receiving customer input and comments via the Internet at the Commission's customer service address ptccustsrv@paturndpike.com. On average, the Commission receives 50 to 75 e-mails a week, all of which are answered. Plans are also being made to use the Commission web site for conducting customer satisfaction surveys.

2. The Turnpike Commission should resolve an open lease agreement for fuel services at its Hempfield Service Plaza. (The LB&FC's prior (1997) recommendation stated as follows:)

The Turnpike Commission should act expeditiously to resolve a lease agreement with a current service plaza concessionaire, Sunrise Sunoco, which expired in October 1993.

Implementation Status: (Completed) The Turnpike Commission executed a service station lease agreement with Sunrise Sunoco for the Hempfield Service Plaza on November 20, 1998. The service station facilities at this plaza were closed for renovations on December 21, 1998, and reopened on February 8, 1999. The term of the current lease expires on April 30, 2005, as does the lease with Sun Company, Inc., for the other 21 service stations.

3. The Turnpike Commission should clarify Commission versus contractor responsibilities for repair and reconstruction at Turnpike service plazas. (The LB&FC's prior (1997) recommendation stated as follows:)

The Turnpike Commission should work with the service plaza concessionaires to clarify the lease provisions which relate to service plaza maintenance and, in particular, the general "rule of thumb" that any project requiring reconstruction is the responsibility of the Commission and projects requiring repairs are the responsibility of the operator.

Implementation Status: (Completed for 1998--Ongoing) Turnpike officials report that maintenance and capital replacement responsibilities are defined during an annual physical inspection which is done at each service plaza. These physical

inspections are performed by representatives of the Commission's engineering, facilities, and maintenance departments, as well as the Turnpike Commission's consulting engineer, Michael Baker, Jr. The service plaza operators also participate in each inspection.

Written summaries of the inspection results are then distributed and the individual responsibilities for repair or replacement are reportedly assigned at that time. Turnpike Commission officials acknowledge that disputes concerning responsibility sometimes occur but state that the matter is usually settled after a "thorough and reasonable discussion between the parties."

4. The Turnpike Commission should conduct periodic verification reviews of vendor pricing data. (The LB&FC's prior (1997) recommendation stated as follows:)

To ensure compliance with the pricing provisions of the service plaza lease agreements, the Turnpike Commission's Office of Concessionaire Services should:

- perform verification reviews of a sample of the "pricing sweep" data that service plaza concessionaires submit to the Commission; and*
- assign its service plaza analysts to perform periodic written surveys to check food and fuel prices at the service plazas and nearby off-Turnpike establishments and seek explanation from the concessionaires of any pricing variances that exceed the limits established in the lease agreements.*

Implementation Status: (In Process) The Commission performs written price surveys of off-Turnpike fuel prices twice a month. However, these are not timed to coincide with receipt of price survey information submitted by Sun Company, Inc. Such timing would be difficult since the Commission does not know when Sun will be submitting the data to support a fuel price adjustment. Typically, the Commission conducts fuel price surveys on the 1st and 15th day of the month. The Commission's Director of Marketing reports that efforts are being made to schedule their fuel price surveys so they occur on or around the day of Sun's survey.

Turnpike Commission staff does not conduct periodic surveys of restaurant prices, but reportedly conduct a thorough review of the price sweep information which is submitted by Marriott, McDonald's, and Arby's. Commission staff do not currently perform a verification review of each and every price. However, the Commission reports that it will do monthly verification reviews at the off-Turnpike restaurants used in the restaurant operator's price sweeps to ensure that the established food prices on the Turnpike are in line. This process was to begin in early March 1999.

VI. Other Recent Developments Related to the Service Plazas

Planned Consultant Study

The Commission has initiated a study and planning process in order to guide necessary changes in the service plaza system. In February 1999 the Turnpike Commission issued a Request for Proposal for a consultant to develop a long-range plan for the Commission's service plazas. The purpose of the contract is to provide the Commission with a comprehensive review of the plazas' operations along with recommendations to modernize and streamline the delivery of customer services. The selected firm is to perform customer and market research and conduct traffic studies with respect to service plaza operations. The consultant will also be required to investigate real estate development opportunities as they relate to the service plazas. The Commission also wants the firm to make recommendations regarding the future location and conceptual nature of the service plazas and how the Commission can best serve the needs of the customers in the coming years.

The notice for the RFP was advertised in the *Pittsburgh Post Gazette*, the *Philadelphia Inquirer*, the *Harrisburg Patriot News*, the *Pittsburgh and Philadelphia Business Times*, the *Tri-State Real Estate Journal*, the *Wall Street Journal*, the *Restaurant News*, and other publications. Representatives of 46 different firms attended a pre-bid meeting hosted by the Turnpike Commission's Director of Marketing on March 19, 1999.

The Director of Marketing stated that the major considerations in selecting the consultant will be the specialized experience and technical competence of the firm, the process and timeframe proposed by the firm for development of the long-range plan, and the proposed rate of payment. The Commission plans to award this contract during June 1999.

We also found that systemwide upgrades to the rest/service facilities are also underway on the New York Thruway and the Ohio Turnpike. New York officials report that the state has renovated 25 of its 27 restaurant travel plazas. New facilities replaced outdated buildings constructed in the 1950s and offer a variety of restaurants and other services. The renovations were financed through a public-private partnership. Ohio has embarked on a project to replace all of its 16 service plazas. Four plazas are currently under construction with the travel centers being built on the sites of demolished service plazas. The Ohio project is being entirely state funded so that the Turnpike Commission can exercise greater control over its lessors. The new Ohio travel centers will reportedly be modular in design so that vendors can move in and out without any major renovation costs.

Facility Upgrades

Since 1986, substantial renovation activity has occurred in the service plaza system. Foremost among these renovations is the expansion of the parking areas at many of the plazas to accommodate increased patron usage. Additional improvements include upgrading and replacing water supply and sewage treatment systems, and the addition of lighting and signing.

The renovation program is ongoing, with extensive construction scheduled to occur over the next several years. Upgrades completed as of spring 1997 included: (1) design of a public water service connection at the Allentown Service Plaza; (2) expansion of the women's rest room at the Valley Forge service plaza; (3) public water service connection at the Highspire service plaza; (4) demolition of the abandoned Path Valley service plaza; (5) resurfacing at the Sideling Hill service plaza; and (6) renovation of the sewage treatment plants and parking areas at the Blue Mountain and Plainfield service plazas. In addition to expanded facilities, modifications are being implemented at many service plazas to comply with the Americans with Disabilities Act.

The recent conversion of the restaurants and service stations by the concessionaires has placed a large demand for capital improvements at the service plazas on behalf of the Commission. The Turnpike's biggest dollar investment, over \$30 million, went into new parking lots and lighting at Hickory Run, Plainfield, Blue Mountain, New Stanton, North and South Midway, North Somerset, Allentown, Bowmansville, and Zelienople service plazas. In many instances, entry and exit lanes were lengthened. Parking lots were enlarged, reconfigured, and resurfaced. New lighting and signage were also installed.

Aging wastewater treatment plants at several service plazas were replaced at a cost of \$4.6 million. New dining room furniture and wall treatments were installed at Lawn, Valley Forge, Sideling Hill, Blue Mountain, and P.J. Camiel service plazas at a cost of \$150,000. A \$95,000 dining room package is on order for the North Somerset service plaza. A new cash register system is being phased in at all the Turnpike's service plazas. Additionally, Automatic Teller Machines (ATMs) are to be installed at all 22 plazas.

Service Plaza Farmer's Markets

On Memorial Day 1995, farmers' markets began operations at the Allentown and Sideling Hill service plazas. Two additional markets opened around Memorial Day 1996 at the Valley Forge and New Stanton plazas. According to Turnpike Commission officials, the concept of operating farmers' markets on the Turnpike had been under discussion with the Department of Agriculture for several years. Although not enacted into law, legislation introduced in 1994 that would have

mandated the program, reportedly prompted the Turnpike Commission and Department of Agriculture to take action. The bylaws established for the operation of the markets state that this program is to:

Provide traveling consumers with locally grown, good value Pennsylvania agricultural products at a convenient location; and provide farmers with a profitable, well-organized and operated retail marketplace.

According to the Turnpike Commission's Marketing Director, the Turnpike Commission selected the plazas and then attempted, along with the Department of Agriculture, to determine the level of interest of area farmers. Allentown and Sideling Hill were selected because of their large lawn areas and access from both directions of the Turnpike.

The Valley Forge and New Stanton markets, which opened in 1996, are not as convenient. The market at Valley Forge was constructed right next to the building and the market at New Stanton was placed in the parking lot (neither serve both directions of the Turnpike). The Turnpike Commission had to resolve some issues with Marriott and McDonald's, primarily to insure that the products sold by the farmers did not compete directly with existing service plaza concessions (e.g., no single serving portions of baked goods or beverages).

Each market can accommodate a set number of farmers and no more than ten individual vendors can operate at the market on any given day. The Department of Agriculture must first approve farmers before they may sell at the markets. If the Department of Agriculture approves the farmer, the Turnpike Commission then verifies with the farmer that the products they intend to sell are in compliance with the bylaws. Applicants may be disqualified if there is insufficient space or product demand, or if there is an excess supply of the products being sold at that market.

The markets are open only on Fridays, Saturdays, Sundays, and holiday Mondays. In some cases farmers have been permitted to operate on Thursdays, but only if the minimum of four required vendors is met. The program had to turn away some vendors who were initially interested because of the size limitations. Although there is no contract or lease entered into with the participating farmers, the program participants are required to take out a \$1 million group insurance policy and sign an indemnification agreement.

Program operations are governed according to bylaws. While the Turnpike Commission does not formally evaluate the program, it does monitor compliance with the bylaws through its service plaza inspectors. Each market must also select a manager from among the farmers, who is also responsible for making sure the day-to-day operations follow the rules and for resolving minor disputes. The Department of Agriculture is responsible for insuring that the farmers follow

food-handling guidelines. The farmers are also required to submit monthly sales reports.

According to Turnpike Commission officials, the Commission expended approximately \$60,000 to set up the four farmers markets (\$10,000 per market to construct the necessary structures plus the costs of site improvements such as utility connections and sidewalk modifications). The markets pay no rental or other fees to the Turnpike Commission but the Commission reserves the right to charge fees or rent at a later date, if the program is continued. The Turnpike Commission continues to view the program as a pilot at this time. Total sales at the four markets totaled more than \$359,000 in 1998.

Service Plaza Craft Centers

In mid-1996 the Turnpike Commission established "craft centers" at the Zelienople and North Neshaminy service plazas. These plazas were reportedly selected because they are the first service plazas on the Turnpike for travelers entering the Commonwealth from Ohio and New Jersey, respectively. The Turnpike's Welcome Centers adjoin each of the craft centers.

Initially, various craft organizations contacted the Turnpike Commission to express their interest in selling Pennsylvania-made crafts at the service plazas. The PA Council on the Arts and the Center for Rural Pennsylvania subsequently requested that the Turnpike Commission provide space for craft centers. The Turnpike Commission agreed and chose the two service plazas with Welcome Centers as the locations for the craft centers.

At the Zelienople plaza, the Turnpike Commission allowed Host Marriott to close the Big Boy restaurant to make space available. The welcome center was also rebuilt and relocated. At the North Neshaminy plaza, phones and vending machines were relocated to provide space for the craft center. The costs incurred by the Turnpike Commission for these renovations totaled \$489,341.

In 1996, the Turnpike Commission signed a two-year contract with Pennsylvania Made Crafts, Inc., a nonprofit Pennsylvania corporation, to operate craft centers at the Zelienople and North Neshaminy service plazas. Under the terms of the agreement, craft centers operated at these service plazas were to sell and demonstrate crafts made by Pennsylvania artisans. The Commission agreed to plan and pay the costs of renovation to accommodate the centers. The contract stated that the space was provided rent-free for the term of the original agreement but that rent for any additional term would be negotiated. Pennsylvania Made Crafts, Inc., and the respective service plaza operators were to establish and agree on a list of items that were permissible for sales at the craft centers.

The centers closed in 1998. The Turnpike Commission stated that the centers closed as a result of the vendor's inability to properly manage the stores. Reportedly, the vendor had trouble staffing the centers and they were often closed when they should have been open. The Turnpike Commission reports that it has since talked to other artist and promotional groups about operating the centers, but none have expressed an interest in taking over the operation of the craft centers.

VII. Appendices

APPENDIX A

Pennsylvania Turnpike Overview

The Pennsylvania Turnpike is referred to as America's first modern toll highway. The original 160-mile toll road opened on October 1, 1940. During the 1950s, four major extension projects expanded the Turnpike from the Ohio border to the New Jersey border, and from Norristown to Scranton. Since 1990, three major expansions have occurred on the Turnpike, creating the James J. Manderino Highway, the James E. Ross Highway, and the Amos K. Hutchinson Bypass.

As of February 1999, the Commission controlled a total of 506 roadway miles. The Pennsylvania Turnpike system includes an east-west Mainline section (about 360 miles) traversing the southern portion of Pennsylvania and connecting with the Ohio Turnpike at its western terminus and the New Jersey Turnpike at its eastern terminus. Connecting with the Mainline section is the Northeast Extension (110 miles). The Western Expansion projects added an additional 36 miles.

The Commission manages 20 maintenance facilities. The Commission also operates 51 fare collection facilities including 39 interchanges on a ticket collection system, 5 mainline toll plazas, and 7 ramp barrier plazas. The Commission also oversees the operation of 22 service plazas and 2 traveler information centers. Prominent features of the PA Turnpike include five tunnels and an extensive number of bridges (including eight major bridges ranging from about 1,200 feet to nearly 6,600 feet in length).

In FY 1997-98, Turnpike traffic totaled 151,099,000 vehicles, a 4.8 percent increase from the previous year. The increase was 4.6 percent for passenger vehicles and 6.6 percent for commercial vehicles, which comprise 88 percent and 12 percent of the total respectively.

The total net revenue generated from tolls in FY 1997-98 was \$335 million (\$186 million or 56 percent from passenger vehicles, and \$149 million or 44 percent from commercial vehicles). Total net fare revenue increased by \$15 million, or 4.7 percent over FY 1996-97.

APPENDIX B

Spot-Checks of Service Plaza Food and Fuel Prices Conducted by LB&FC Staff, January 1999

#1: Spot-Checks of Food and Fuel Prices at Sideling Hill Plaza (January 11, 1999)

Food: Sideling Hill

Items: Burger King	Prices		% Turnpike Higher (+) Lower (-) Than Off-Turnpike
	At Sideling Hill	Off-Turnpike Average ¹	
Hamburger - regular	\$.99	\$.79	+25.3%
Cheeseburger - regular.....	1.09	.89	+22.5
Big Mac/ Whopper/Qtr. lb.	2.29	2.29	0.0
French Fries - regular	1.29	0.88	+46.6
French Fries - large	1.49	1.29	+15.5
Chicken Sandwich	2.79	2.84	-1.8
Fish Sandwich.....	2.09	1.99	+5.0
Chicken - 8 pieces	2.29	2.79	-17.9
Soda - small.....	.99	.99	0.0
Soda - medium	1.19	1.09	+9.1
Soda - large	1.29	1.39	-7.2
Coffee - regular .....	.99	.69	+43.5
Coffee - large	1.09	.89	+22.5
Chicken Value Meal	4.69	4.39	+6.8
Double Cheeseburger Value Meal....	4.19	3.69	+13.6

Fuel: Sideling Hill

Gasoline Grade Self Serve	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike
	At Sideling Hill	Off-Turnpike Average ²	
87	\$.939	\$.954	- 1.5¢
89	1.039	1.084	- 4.5¢
93	1.129	1.179	- 5.0¢

¹Based on prices at a nearby McDonald's.

²Based on prices at nearby Mobil, Citgo, Sunoco, and Exxon service stations.

Appendix B (Continued)

#2: Spot-Checks of Food and Fuel Prices at Valley Forge Plaza (January 13, 1999)

Food: Valley Forge

<u>Items: Burger King</u>	Prices		% Turnpike Higher (+) Lower (-) Than Off-Turnpike
	At Valley Forge	Off-Turnpike Average ³	
Hamburger - regular	\$.99	\$.94	+5.3%
Cheeseburger - regular.....	1.09	.99	+10.1
Big Mac/ Whopper/Qtr. lb.	2.29	2.19	+4.6
French Fries - regular	1.29	0.99	+30.3
French Fries - large	1.49	1.59	-6.3
Chicken Sandwich	2.79	2.64	+5.7
Fish Sandwich.....	2.09	2.54	-17.7
Chicken - 8 pieces	2.39	2.24	+6.7
Soda - small.....	.99	.97	+2.1
Soda - medium	1.19	1.04	+14.4
Soda - large	1.29	1.44	-10.4
Coffee - regular .....	.99	.82	+20.7
Coffee - large	1.09	.97	+12.4

Fuel: Valley Forge

Gasoline Grade <u>Self Serve</u>	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike
	At Valley Forge	Off-Turnpike Average ⁴	
87	\$.999	\$.974	+ 2.5¢
89	1.099	1.092	+ 0.7¢
93	1.199	1.154	+ 4.5¢

³Based on prices at a nearby McDonald's and Burger King.

⁴Based on prices at nearby Texaco, Mobil, and two Exxon service stations.

Appendix B (Continued)

#3: Spot-Checks of Food and Fuel Prices at North Somerset Plaza (January 11, 1999)

Food: North Somerset

<u>Items: Burger King</u>	Prices		% Turnpike Higher (+) Lower (-) Than Off-Turnpike
	<u>At North Somerset</u>	<u>Off-Turnpike Average⁵</u>	
Hamburger - regular	\$1.05	\$.87	+20.7%
Cheeseburger - regular.....	1.15	.94	+22.3
Big Mac/ Whopper/Qtr. lb.	2.29	2.12	+8.0
Double Cheeseburger	2.19	3.44	-36.3
French Fries - regular	1.29	1.04	+24.0
French Fries - large	1.49	1.35	+10.4
Chicken Sandwich	2.79	2.74	+1.8
Fish Sandwich.....	2.09	1.79	+16.8
Chicken - 8 pieces	2.59	2.59	0.0
Soda - small.....	.99	.89	+11.2
Soda - medium	1.19	.97	+22.7
Soda - large	1.29	1.09	+18.3
Coffee - regular .....	.99	.69	+43.5
Coffee - large	1.09	.72	+51.4
Double Cheeseburger Value Meal	4.19	4.19	0.0
Two Cheeseburgers Value Meal	4.09	3.19	+28.2

Fuel: North Somerset

<u>Gasoline Grade Self Serve</u>	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike
	<u>At North Somerset</u>	<u>Off-Turnpike Average⁶</u>	
87	\$.939	\$.899	+ 4.0¢
89	1.029	.969	+ 6.0¢
93	1.139	1.039	+ 10.0¢

⁵Based on prices at a nearby McDonald's and Wendy's.

⁶Based on prices at nearby Exxon and Sheetz service stations.

Appendix B (Continued)

**#4: Spot-Checks of Food and Fuel Prices at South Somerset Plaza
(January 11, 1999)**

Food: South Somerset

<u>Items: Roy Rogers</u>	<u>Prices</u>		<u>% Turnpike Higher (+) Lower (-) Than Off-Turnpike</u>
	<u>At South Somerset</u>	<u>Off-Turnpike Average⁷</u>	
Big Mac/ Whopper/Qtr. lb.	\$2.19	\$2.11	+3.8%
French Fries - regular	1.09	1.04	+4.8
French Fries - large	1.29	1.35	-4.4
Chicken Sandwich	3.09	2.74	+12.8
Chicken – 6 pieces	1.99	1.42	+40.1
Chicken – 9 pieces	2.99	2.89	+3.5
Soda - small.....	.99	.89	+11.2
Soda - medium	1.19	.97	+22.7
Soda - large	1.21	1.09	+11.0
Coffee - large	1.09	.72	+51.4

Fuel: South Somerset

<u>Gasoline Grade Self Serve</u>	<u>Prices (per gallon)</u>		<u>Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike</u>
	<u>At South Somerset</u>	<u>Off-Turnpike Average⁸</u>	
87	\$.939	\$.899	+ 4.0¢
89	1.029	.969	+ 6.0¢
93	1.129	1.039	+ 9.0¢

⁷Based on prices at a nearby McDonald's and Wendy's.

⁸Based on prices at nearby Exxon and Sheetz service stations.

Appendix B (Continued)

#5: Spot-Checks of Food and Fuel Prices at Bowmansville Plaza (January 13, 1999)

Food: Bowmansville

<u>Items: Bob's Big Boy</u>	Prices		% Turnpike Higher (+) Lower (-) <u>Than Off-Turnpike</u>
	<u>At Bowmansville</u>	<u>Off-Turnpike Average</u>	
Cheeseburger - regular.....	The data on the prices of food items checked by LB&FC staff at this service plaza were deleted from the final report because the off-Turnpike businesses surveyed were not comparable to the service plaza food concept.		
Double Cheeseburger.....			
French Fries - regular.....			
Chicken Sandwich.....			
Fish Sandwich.....			
Soda - medium.....			
Soda - large.....			
Coffee - regular.....			

Fuel: Bowmansville

Gasoline Grade <u>Self Serve</u>	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) <u>Than Off-Turnpike</u>
	<u>At Bowmansville</u>	<u>Off-Turnpike Average⁹</u>	
87	\$.969	\$.949	+ 2.0¢
89	1.059	1.037	+ 2.2¢
93	1.159	1.115	+ 4.4¢

⁹Based on prices at nearby Amoco, Citgo, Texaco, and two Exxon service stations.

Appendix B (Continued)

#6 Spot-Checks of Food and Fuel Prices at King of Prussia Plaza (January 13, 1999)

Food: King of Prussia

Items: <u>McDonald's</u>	Prices		% Turnpike Higher (+) Lower (-) Than Off-Turnpike
	At <u>King of Prussia</u>	Off-Turnpike <u>Average</u> ¹⁰	
Hamburger - regular.....	\$ 0.99	\$.94	+5.3%
Cheeseburger - regular.....	1.18	.99	+19.2
Big Mac/Whopper/Qtr. lb.....	2.45	2.19	+11.9
French Fries - regular.....	.99	0.99	0.0
French Fries - large.....	1.45	1.59	-8.8
Chicken Sandwich.....	2.99	2.64	+13.3
Fish Sandwich.....	2.69	2.54	+5.9
Chicken - 6 pieces.....	2.30	2.19	+5.0
Chicken - 8 pieces.....	2.99	2.24	+33.5
Soda - small.....	1.05	.97	+8.2
Soda - medium.....	1.15	1.04	+10.6
Soda - large.....	1.39	1.44	-3.5
Coffee- regular.....	.99	.82	+20.7
Coffee - large.....	1.15	.97	+18.6
Big Mac Value Meal.....	4.29	3.99	+7.5
Two Cheeseburgers Value Meal.....	4.29	3.79	+13.2
Quarter Pounder Value Meal.....	4.29	3.94	+8.9

Fuel: King of Prussia

Gasoline Grade <u>Self Serve</u>	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike
	At <u>King of Prussia</u>	Off-Turnpike <u>Average</u> ¹¹	
87.....	\$.999	\$.974	+ 2.5¢
89.....	1.099	1.092	+ 0.7¢
93.....	1.199	1.154	+ 4.5¢

¹⁰Based on prices at a nearby McDonald's and Burger King.

¹¹Based on prices at nearby Texaco, Mobil, and two Exxon service stations.

Appendix B (Continued)

**#7 Spot-Checks of Food and Fuel Prices at South Neshaminy Plaza
(January 13, 1999)**

Food: South Neshaminy

Items: <u>McDonald's</u>	Prices		% Turnpike Higher (+) Lower (-) Than Off-Turnpike
	At South <u>Neshaminy</u>	Off-Turnpike <u>Average</u> ¹²	
Hamburger - regular.....	\$ 0.99	\$.94	+5.3%
Cheeseburger - regular.....	1.19	.99	+20.2
Big Mac/Whopper/Qtr. lb.....	2.45	2.22	+10.4
Double Cheeseburger.....	3.29	1.99	+65.3
French Fries - regular.....	.99	0.99	0.0
French Fries - large.....	1.45	1.54	-5.8
Chicken Sandwich.....	2.99	2.64	+13.3
Fish Sandwich.....	2.49	1.89	+31.7
Chicken - 6 pieces.....	2.39	2.19	+9.1
Chicken - 9 pieces.....	2.99	1.59	+88.1
Soda - small.....	1.05	.97	+8.3
Soda - medium.....	1.15	1.04	+10.6
Soda - large.....	1.39	1.19	+16.8
Coffee- regular.....	.89	.82	+8.5
Coffee - large.....	1.09	.97	+12.4
Big Mac Value Meal.....	4.29	3.99	+7.5
Two Cheeseburgers Value Meal.....	4.29	3.79	+13.2
Quarter Pounder Value Meal.....	4.29	3.69	+16.3

Fuel: South Neshaminy

Gasoline Grade <u>Self Serve</u>	Prices (per gallon)		Cents Turnpike Price Higher (+) Lower (-) Than Off-Turnpike
	At South <u>Neshaminy</u>	Off-Turnpike <u>Average</u> ¹³	
87.....	\$.999	\$.946	+ 5.3¢
89.....	1.099	1.059	+ 4.0¢
93.....	1.199	1.106	+ 9.3¢

¹²Based on prices at nearby McDonald's and a Burger King.

¹³Based on fuel prices at nearby Getty, Sunoco, and Mobil service stations.

Source: Developed by LB&FC staff based on price data collected at the service plazas and the specified off-Turnpike locations on January 11-13, 1999.

APPENDIX C

Pending Legislation Relating to the Pennsylvania Turnpike Commission's Service Plazas (As of April 15, 1999)

1999-2000

Senate Bill 81: Providing for the assumption by PennDOT of the operation, maintenance, construction, and reconstruction functions of the Turnpike Commission; providing for the assumption by the Commonwealth of the financing functions of the Turnpike Commission and for the transfer of land, buildings, personal property and Turnpike Commission employees to PennDOT; abolishing the Pennsylvania Turnpike Commission.

Senate Bill 115: Requiring service station convenience stores along the Turnpike to offer for sale certain items, e.g., first aid items and basic food items such as bread, milk, and lunch meats.

APPENDIX D

Pennsylvania Turnpike Commission Responses to This Report



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA TURNPIKE COMMISSION
HARRISBURG PA 17106-7676

JOHN T. DURBIN
EXECUTIVE DIRECTOR

May 10, 1999

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance Committee
P.O. Box 8737
Harrisburg, PA 17105-8737

Dear Mr. Durgin:

The Commissioners and members of the staff of the Pennsylvania Turnpike Commission (Commission) have received copies of the Legislative Budget and Finance Committee (LB&FC) Confidential Draft Report, "A Report on Operations and Pricing at Pennsylvania Turnpike Service Plazas." The Commission appreciates the opportunity to review and submit comments on the draft report.

I would like to commend the LB&FC staff for the professional manner in which the audit was conducted. The audit report prepared by the LB&FC staff provides us with valuable advice which we can use to improve our service plaza operations and provide the highest level of service to our customers. Overall, we found the report to be positive, and, as you can see from our written comments, progress is already being made on a number of the recommendations in the draft report. Probably the most significant initiative is the development of a long-range, strategic plan for our service plaza operations. The Commission will soon be selecting a consultant to perform customer and market research and conduct traffic studies in order to make recommendations regarding the number, location, design and conceptual nature of service plazas in the future and how the Commission can best serve the needs of its customers.

I have discussed the details of the draft report with staff and have the following comments on selected findings and on each of the six (6) recommendations presented:

Finding No. D from the draft report stated, "Turnpike Commission Oversight of Service Plaza Operations. The Commission has an active program to manage and monitor contractor compliance with the service plaza lease agreements, including periodic on-site inspections, regular financial audits, and annual facility assessments. Primary responsibility for service plaza oversight rests with the Commission's Marketing Department. We found that:"

4. "The Commission's monitoring and inspection program at the service plazas has not been automated. The current management review process involves the manual tabulation of the individual inspector's reports into a monthly summary sheet. No automated process is in place to review the inspection results, identify trends or patterns, or track the status of corrective actions."

This finding is not entirely accurate. Some aspects of the inspection program have been automated and all related reports are computerized, i.e. restaurant and service station inspection reports, maintenance work order reports, off-Turnpike gas price survey reports, and annual service plaza physical inspection forms.

Each Service Review Analyst has been provided a laptop computer and is currently experimenting with data entry of daily service plaza inspection information. We have experienced some software problems, the most significant of which is our ability to provide the service plaza managers with a hard copy of the inspection report while at the service plaza. Fax modems were purchased for each laptop computer that permitted connection to the telephone lines at the service plazas for the purpose of faxing a hard copy of the automated report to the manager's fax machine. However, the service plaza managers objected to this procedure because it tied-up their telephone lines for up to 10 minutes at a time.

We agree that until we have completely automated the inspection program we will continue to manually tabulate the individual inspection reports in order to produce a monthly summary report.

6. "The Commission has not formally attempted to gauge the overall satisfaction of Turnpike travelers with the service plazas since 1995. At that time customer satisfaction was measured through a contracted statewide telephone survey."

The Commission's Marketing Department has developed and is currently testing two (2) separate surveys. One (1) survey is designed to gauge customer satisfaction with the specific services offered by each individual service plaza. The second survey is designed to determine the type of travel information our customers desire and how they would prefer to receive such information, e.g. via static displays, interactive kiosks, manned information centers, etc.

A copy of each survey is enclosed. Both surveys are being tested at the Butler and Zelienople Service Plazas by Marketing Department staff. We intend to expand our test to additional service plazas and eventually utilize these survey forms at all 22 service plazas.

Finding I from the draft report stated that, "LB & FC Testing of Service Plaza Food Pricing. The LB&FC staff's January 1999 surveys included comparisons of food prices at a sample of Turnpike service plazas to the prices of similar items at comparable off-Turnpike food establishments. From these surveys we determined that, in most cases, the

service plaza prices of the individual items we sampled were higher than the prices for the same items at comparable off-Turnpike establishments. While this may indicate noncompliance with the lease agreement in some cases, it is not possible to make this determination at facilities operated by Host Marriott or Arby's unless all items on the menu are checked."

The Commission disagrees with this finding because it was based on sampling methods that are inconsistent with those set forth in the lease agreements with our restaurant operators and currently being used to establish the average off-Turnpike prices for each restaurant concept which is the basis for establishing allowable Turnpike restaurant prices. The LB&FC staff sampled only selected menu items at a single geographic location, using an inadequate number of restaurants which, in some instances, were dissimilar, i.e. comparing Turnpike Burger King prices with off-Turnpike Wendy's or McDonald's. In contrast, the Commission compares prices of only like restaurant concepts, i.e. Turnpike Burger King to off-Turnpike Burger King, across a broad geographic region, for all like menu items. In one case, the LB&FC compared prices at a Turnpike Bob's Big Boy restaurant with prices at an off-Turnpike McDonald's and Burger King. It is clearly unfair to compare a full service restaurant with fast food establishments.¹

It appears that the LB&FC's approach was designed to prove only that there are food prices for some items at off-Turnpike restaurants that are lower than prices at selected Turnpike restaurants, rather than testing vendor compliance with pricing provisions or commenting on the merits of the specific approach used to set Turnpike food prices.

Finding J from the draft report stated, "LB&FC Testing of Service Plaza Fuel Pricing. In January 1999, LB&FC staff compared fuel prices at a sample of nine Turnpike service plazas to prices at 23 off-Turnpike establishments. From these surveys we found that, although prices were lower at one service plaza, most of the service plaza prices sampled were higher than off-Turnpike averages, frequently by more than would be allowed in the lease provision. It is important to recognize, however, that this finding is based on prices at off-Turnpike stations selected by LB&FC staff in the proximity of the respective service plazas. We did not attempt to replicate the vendor surveys and the resulting analysis may be based on a sample of stations which is different than the one used by the vendor and Turnpike Commission in their weekly price surveys."

The Commission disagrees with this finding because, as with the food pricing, it was based on sampling methods that are inconsistent with those set forth in the lease agreements with our service station operators and currently being used to establish the average off-Turnpike fuel prices for each of the five (5) contract groups, which is the basis for establishing allowable Turnpike fuel prices. The LB&FC staff sampled service stations at a single geographic location, and, by their own admission, elected not to use any of the off-Turnpike stations used in the Commission's surveys. Also, in some

¹ LBFC Note: The LB&FC's spot checks of food and fuel prices were not intended to replicate the vendor's price surveys. LB&FC staff agree with the Turnpike Commission's response related to price comparisons involving a Bob's Big Boy restaurant, and deleted them from this final report.

instances, they failed to use comparable stations in their survey, e.g. using prices at a Sheetz convenience store as opposed to a major oil company station. Again, this is in contrast to the Commission's practice of comparing prices of comparable service stations in five (5) specific geographic regions.²

The surveys conducted by Sun Oil Company and the Commission include approximately 55 major oil company service stations located off 19 different exits across the length of the Turnpike.

The draft report acknowledges that this finding is based on a sample of off-Turnpike stations which is different than those used by Sunoco and the Commission.

Finding K from the draft report stated that, "Service Plaza Hours of Operation. While all service plazas provide fuel and basic food services on a 24-hour basis, there is a considerable degree of variability in the hours which the "subconcepts" (i.e., food vendors other than the 24-hour operator) operate from one plaza to another. Hours of operation are not posted at the plazas and this situation can provide a degree of uncertainty and inconvenience for Turnpike customers. Turnpike officials acknowledge that this has, in some cases, been a problem, and report that they are working with the plaza operators and concessionaires to reach a consensus on the schedule."

This finding accurately states that there is a considerable degree of variability in the hours of operation of various food concepts from one service plaza to another. It also confirms that the Commission regularly addresses this issue with our service plaza operators. The finding that the hours of operation are not posted, at the plazas is incorrect. Hours are posted for all individual food concepts in every service plaza.³

Finding L from the draft report stated that, "Service Plaza Infrastructure and Configuration. Despite the ongoing upgrades and improvements, the basic infrastructure and configuration of the Turnpike's service plazas is becoming outmoded. The Commission recognizes this and has issued an RFP for a consultant study and planning process to develop a long-range plan for the Commission's service plazas. The ultimate purpose of this contract is to provide the Commission with recommendations to modernize and streamline the delivery of customer services."

The Commission disagrees with this finding in general. The infrastructure of many of our service plazas has been modernized and remains functional. And while the subject of the appropriate configuration of service plazas can be debated, it is sufficient to meet demand. We do not argue, however, that despite substantial renovations over the past 13 years, most of our service plaza buildings require modernization.

² LB&FC Note: As with the food price spot checks, the LB&FC checks of fuel prices were intended only to gauge what a Turnpike traveler might expect to pay for fuel at stations located near Turnpike exits. Because of the difficulty in locating full service stations operated by major oil companies off-Turnpike, LB&FC staff focused only on a comparison of self-serve prices.

³ See footnote on page 67.

Recommendation No. 1 *“Future Design and Operation of Service Plazas.* The Turnpike Commission should develop a concept or vision for the design and operation of Turnpike service plazas in the 21st century. The Commission should use the planned consultant study of its service plaza system as a means of developing a concept or vision for Turnpike service plazas as strategically located and, perhaps, specialized “travel centers” which will better meet the needs of a diverse traveling public. This concept should be compatible with the Commission’s recently enacted *Strategic Plan-A Road to the Future*, and should be incorporated into the Turnpike’s 10 Year Capital Plan.”

The Commission concurs with this recommendation and is, in fact, pursuing the goal of developing a long-range, strategic plan for Turnpike service plaza operations. A Request for Proposal (RFP) was recently issued for the purpose of retaining a consultant who will conduct customer and market research and conduct traffic studies and make specific recommendations regarding the number, size, location and nature of service plazas and how the Commission can best serve the needs of its customers in the future.

Proposals will be received on May 11, 1999 and the Commission will select a fully qualified firm sometime in June 1999. [See page 72 for the Turnpike Commission's revised response to this recommendation.]

Recommendation No. 2 *“Service Plaza Pricing.* The Turnpike Commission’s Marketing Department should improve its efforts to monitor vendor compliance with the pricing provisions of the service plaza lease agreements. The Marketing Department should seek explanation from the concessionaires of any identified pricing variances that exceed the contract limits (for example, of the type found in this study) and order pricing adjustments as warranted.” [See page 73 for the Turnpike Commission's revised response to this recommendation.]

The Commission agrees that it should continuously strive to improve its efforts to monitor vendor compliance with pricing provisions of the service plaza lease agreements. The Commission has always sought explanation from the concessionaires of identified pricing variances, even in cases where the concessionaire was within the contract limits. It is not unusual for us to direct the concessionaires to adjust prices (lower) when it is warranted. Our staff spends considerable time analyzing the price survey data submitted by the concessionaires to support their requests for pricing adjustments.

The draft report did not cite any instances of non-compliance on the part of our concessionaires with pricing provisions of the service plaza lease agreements. In fact, the audit found that the prices charged by Host Marriott on the Pennsylvania Turnpike were well below what is permitted in their lease agreement.

Recommendation No. 3 *“Hours of Operation.* The Turnpike Commission’s Marketing Department should work with the service plaza operators to arrive at a consensus on standard hours of operation for the various food concessions and develop a current and complete operating schedule. The Commission should also consider the feasibility of

posting the hours of operation for all plaza vendors at the entrances to the plaza building and possibly on Turnpike signs which alert motorists to service plaza facility locations.”

The Commission agrees that it should work with the service plaza operators to establish minimum hours of operation for the various food concessions. As we advised the LB&FC staff during their audit, the Commission regularly addresses this issue with our service plaza operators to ensure that the agreed upon hours of operation are being maintained. Contrary to what is stated in the draft report, minimum hours of operation have been established and are posted inside each service plaza.³

The Commission is currently discussing the hours of operation with Host Marriott and McDonald’s and will be requesting expanded minimum hours of operation at their facilities. We are also requesting improved signing of the hours of operation inside each service plaza. Also, those food concepts that are operated 24 hours will be identified on our service plaza signs along the Turnpike.

Recommendation No. 4 “Monitoring of Service Plaza Operations. The Turnpike Commission’s Marketing Department should take the following actions to enhance service plaza monitoring activities:”

- a. “Fully automate the service plaza inspection and reporting process, both at the central office and in the field. Establish a master inspection database at Commission headquarters and equip Service Review Analysts with electronic inspection forms residing on laptop computers.”

The Commission concurs with this recommendation and has taken steps to automate the service plaza inspection and reporting process. Service Review Analysts are equipped with laptop computers and are currently testing the data entry of daily service plaza inspection results. All related reports – restaurant and service station inspection reports, maintenance work order reports, gasoline price survey reports, and annual physical inspection reports – have been computerized. A master database has been established for the annual physical inspection results. Gas surveys are being completed electronically and forwarded to Commission headquarters by e-mail.

We expect to have the daily service plaza inspection fully automated within three (3) months and begin to create a master daily inspection database immediately thereafter.

- b. “Increase the number of service plaza inspections which are conducted during the evening and overnight hours. (About 98 percent of all inspections currently occur between 6:00 a.m. and 6:00 p.m.)”

The Commission agrees that it should increase the number of service plaza inspections during evening and overnight hours. As the draft report indicated, 98% of all service plaza inspections occur between the hours of 6:00 a.m. and 6:00 p.m.; which we consider

³ LB&FC Note: The LB&FC staff found that service plaza operating hours are not "conspicuously" posted. Turnpike officials have acknowledged that signage needs to be improved.

to be the prime business hours at our service plazas and when a majority of sales volumes occur.

We do acknowledge the importance of inspecting our service plazas at “off” hours to assess the quality of operations at various times, including weekends.

The Commission’s ability to expand its inspection coverage of service plazas is limited because there are only three (3) Service Review Analysts available to cover these 24 hour, 7 day a week operations. Consideration is being given to cross-training other Marketing Department employees so they can supplement the efforts of our Service Review Analysts and expand the frequency and hours of our service plaza inspections.

- c. “Reestablish a means of periodically measuring “customer satisfaction” with service plaza operations, including the possible resumption of an annual customer satisfaction survey (to be conducted by the Turnpike’s planned Customer Assistance Center) supplemented by periodic surveys of customer satisfaction conducted by Turnpike Service Review Analysts during the course of their regular service plaza inspection.”

The Commission concurs with this recommendation and is considering a number of different approaches to measure customer satisfaction. As previously stated in the response to Finding D.6, the Commission’s Marketing Department is currently testing two (2) separate survey forms at selected service plazas. The surveys are designed to gauge customer satisfaction with the specific services offered at each service plaza and determine the type of travel information our customers are seeking at our service plazas.

Consideration is also being given to utilizing the Commission’s web site to conduct regular on-line customer satisfaction surveys regarding all aspects of Turnpike operations, including service plazas. This effort would include the placement of interactive kiosks at our service plazas through which customers can provide direct feedback about our services.

Additionally, once the Commission’s Customer Assistance Center is established and staffed, additional toll-free telephone services will be provided so our customers can contact us more easily to obtain information or seek assistance.

Our current toll-free Customer Information telephone number is posted at all service plazas and on the Travel Boards displays located in the lobby of each service plaza restaurant and provides direct access to our Marketing Department during normal business hours, Monday through Friday, between the hours of 7:30 a.m. to 4:30 p.m.

Recommendation No. 5 “Customer Complaint Handling System.” In conjunction with its planned establishment of a Customer Assistance Center, the Turnpike Commission should design and implement a formal system to handle customer input and complaints. This system should be capable of providing Turnpike managers with comprehensive and current information on the number and nature of customer comments, complaints, and

inquiries received, and the nature and status of follow-up actions taken by Commission staff.”

The Commission agrees with the recommendation to develop a system that is capable of providing Turnpike managers with comprehensive and current information on customer comments, complaints, and inquiries. The system currently in use can log, track and monitor action taken in response to customer complaints, but it can not generate the kind of reports suggested by the LB&FC.

The Commission plans to implement a more formal system to handle customer interactions in conjunction with the development of a Customer Assistance Center.

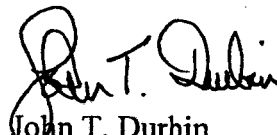
Recommendation No. 6 *“Unresolved Service Plaza Rental Adjustment.* The Turnpike Commission should resolve the \$84,000 rental adjustment which, based on the Commission’s internal audits, has been due the Commission from one of its service plaza vendors since 1993.

The Commission concurs that it should resolve its dispute with Sun Oil over the annual minimum rental payment in question from the 1993-94 audit. The dispute resulted from Sun’s interpretation of the lease agreement with respect to the calculation of the minimum annual rent, which is different than the Commission’s interpretation. However, this matter was put on hold pending the resolution of other major contractual disputes with Sun Oil over the operation of Sewage Treatment Plants (STP’s) at seven (7) service plazas and liability for fuel tank replacements resulting from sinkhole activity at one (1) service plaza. The STP’s dispute has resulted in significant litigation in Commonwealth Court.

The Commission plans to resolve the minimum rental issue with Sun Oil before the end of the calendar year. If we are unable to resolve the matter, it will be submitted to arbitration in accordance with the lease agreement.

The Commission appreciates this opportunity to respond to the draft report and provide details on its efforts to improve service plaza operations. You can be assured that the Commission is committed to the continuous improvement of Turnpike operations to achieve customer satisfaction. If you have any questions concerning this response, please do not hesitate to contact me.

Sincerely,


John T. Durbin
Executive Director

JTD:WJC/ljg
Enclosures

BUTLER SERVICE PLAZA SURVEY

What is your purpose for travel today Business
 Leisure

How often do you travel the Turnpike Daily
 Weekly
 Monthly
 Several times a year

How often do you stop at the plazas when on the Turnpike? _____

Where did you enter and plan to exit the Turnpike today? _____

Please rate the following services: 1 = Important
 2 = Useful
 3 = Not Needed

SERVICE	N/A	IMPORTANCE (Rate 1, 2, or 3)	GOOD	FAIR	POOR
Burger King					
Popeye's					
Hershey's Ice Cream					
TCBY Yogurt					
Rest Room					
Fuel Service					
Telephone					
Fax Service					
TravelBoard Info					
Gift Shop Facilities					
Vender Food					
Vender Games					

What other services would you like to see at this Plaza? _____

County and State of residence: _____

Are you Male Female?

Age Grouping: 21-35 36-50 51-65 65+

Annual household income Less than \$30,000
 Between \$30,000 and \$60,000
 \$60,000+

Comments/Suggestions:

TRAVELER INFORMATION SURVEY

Did you stop for Traveler Information today? ___ Yes ___ No

What type of Traveler Information do/would you require and in what order of importance would you rate that information?

Information	Important	Useful	Not Needed
Turnpike Display Map			
Mileage Chart			
Hotel Information			
Hotel Reservations			

What, if any additional information would you like to receive at this Plaza?

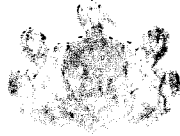
Check the following information that you would like to see at Butler Service Plaza.

- | | | |
|---|--|--|
| <input type="checkbox"/> Historical Attractions | <input type="checkbox"/> PA Shopping | <input type="checkbox"/> PA Amusements |
| <input type="checkbox"/> State Park Facilities | <input type="checkbox"/> Antiques/Crafts | <input type="checkbox"/> Seasonal Sports |

How best would you like to receive this information?

___ Displays ___ Electronic Interactive Kiosk ___ Person to Person

Comments/Suggestions:



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA TURNPIKE COMMISSION
HARRISBURG PA 17106-7676

JOHN T. DURBIN
EXECUTIVE DIRECTOR

May 27, 1999

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance Committee
P.O. Box 8737
Harrisburg, PA 17105-8737

Dear Mr. Durgin:

We have reviewed the revisions you have made to the draft report on service plaza operations and pricing and found them to be appropriate.

We have revised our response to Recommendation No. 1 to provide more current information and to Recommendation No. 2, which was significantly modified in your revised report.

Recommendation No. 1 *"Future Design and Operation of Service Plazas.* The Turnpike Commission should develop a concept or vision for the design and operation of Turnpike service plazas in the 21st century. The Commission should use the planned consultant study of its service plaza system as a means of developing a concept or vision for Turnpike service plazas as strategically located and, perhaps, specialized "travel centers" which will better meet the needs of a diverse traveling public. This concept should be compatible with the Commission's recently enacted *Strategic Plan-A Road to the Future*, and should be incorporated into the Turnpike's 10 Year Capital Plan."

The Commission concurs with this recommendation and is, in fact, pursuing the goal of developing a long-range, strategic plan for Turnpike service plaza operations. A Request for Proposal (RFP) was recently issued for the purpose of retaining a consultant who will conduct customer and market research and conduct traffic studies and make specific recommendations regarding the number, size, location and nature of service plazas and how the Commission can best serve the needs of its customers in the future.

Twelve proposals were received on May 11, 1999 and are currently being reviewed. The Commission anticipates the selection of a qualified firm by July 1999. We hope to complete the study within two years.

Recommendation No. 2 *“Service Plaza Pricing.* The Turnpike Commission’s Marketing Department should improve its efforts to monitor vendor compliance with the pricing provisions of the service plaza lease agreements. The Marketing Department should seek explanation from the concessionaires of any identified pricing variances that exceed the contract limits (for example, of the type found in this study) and order pricing adjustments as warranted.”

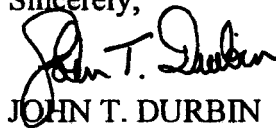
The Commission agrees that it should continuously strive to improve its efforts to monitor vendor compliance with pricing provisions of the service plaza lease agreements. The Commission has always sought explanation from the concessionaires of identified pricing variances, even in cases where the concessionaire was within the contract limits. It is not unusual for us to direct the concessionaires to adjust prices (lower) when it is warranted. Our staff spends considerable time analyzing the price survey data submitted by the concessionaires to support their requests for pricing adjustments.

The draft report did not cite any instances of non-compliance on the part of our concessionaires with pricing provisions of the service plaza lease agreements. In fact, the audit found that the prices charged by Host Marriott on the Pennsylvania Turnpike were well below what is permitted in their lease agreement.

The Commission agrees that future leases should require that percentage increases allowed on food prices be calculated on a per item basis rather than in the aggregate. We also support the idea of allowing only the 24-hour food concepts at Turnpike restaurants to charge prices that exceed those at comparable off-Turnpike restaurants.

Please do not hesitate to contact me should you have any questions concerning this response.

Sincerely,



JOHN T. DURBIN
Executive Director

JTD:WJC:nab