



County of Allegheny

Office of the Controller

ALLEGHENY COUNTY AIRPORT AUTHORITY
MHF PIT IV LLC
INVESTMENT REQUIREMENT EXPENDITURES
FOR THE PERIOD
JANUARY 1, 2014 THROUGH JULY 31, 2016

(Non-Audit Service)

January 18, 2017

Chelsa Wagner
Controller

104 County Courthouse
436 Grant Street
Pittsburgh, PA 15219
Phone: (412) 350-4660
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CHELSEA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

104 COURTHOUSE • 436 GRANT STREET
PITTSBURGH, PA 15219-2498
PHONE (412) 350-4660 • FAX (412) 350-3006

December 8, 2016

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

Allegheny County Airport Authority
MHF PIT IV LLC
Investment Requirement Expenditures
For the Period
January 1, 2014 through July 31, 2016

Dear Ms. Cassotis:

At the request of the Allegheny County Airport Authority (Airport Authority), the Allegheny County Controller's Office performed compliance procedures to review the Property Improvement Plan and Capital Expenditures reported to the Airport Authority by MHF PIT IV LLC as a credit against the Investment Requirement for the Hyatt Pittsburgh International Airport. Our procedures covered the period January 1, 2014 to July 31, 2016. These procedures were performed as a non-audit service. Therefore, this engagement is not covered by *Government Auditing Standards*.

The Airport Authority entered into Ground Lease Agreement #3062 with MHF PIT IV LLC (Agreement) on November 21, 2013. The Agreement leases the land adjacent to the landside terminal to MHF PIT IV LLC in connection with the operation and maintenance of the existing Hyatt Hotel. The Agreement also identifies that MHF PIT IV LLC purchased the Hyatt Hotel from Dauphin County General Authority (DCGA). The Primary Term of the Agreement is for a period of 50 years commencing on the date the leased premises was turned over to MHF PIT IV LLC.

Ms. Christina Cassotis
December 8, 2016

The Agreement provides three separate ten year renewal options to extend the lease term (Renewal Term). MHF PIT IV LLC may exercise a Renewal Term so long as it is not in material default of any of the terms and conditions of the Agreement, and provided that it has met the applicable Investment Requirement.

The Investment Requirement includes the following: with respect to the first Renewal Term MHF PIT IV LLC shall have expended at least Twenty Million Dollars (\$20,000,000) on capital and FF&E expenditures during the Primary Term; for the second Renewal Term it shall have expended at least Four Million Dollars (\$4,000,000) on capital and FF&E expenditures during the First Renewal Term; and for the third Renewal Term it shall have expended at least Four Million Dollars (\$4,000,000) on capital and FF&E expenditures during the Second Renewal Term.

For the period January 1, 2014 through July 31, 2016, MHF PIT IV LLC reported the following amounts as a credit against the Investment Requirement for the Hyatt at the Pittsburgh International Airport. The Property Improvement Plan (PIP) includes work identified by the franchisor (Hyatt), such as replacing carpeting, desk, renovations, etc., that is required to be completed by the owner as part of the franchise license agreement. The Capital Expenditures include other capital needs not identified under the PIP.

Capital Expenditures	\$1,167,478
Hyatt Property Improvement Plan	<u>\$6,303,199</u>
Total	<u>\$7,470,677</u>

We reviewed documentation to support the expenditures reported. Although MHF PIT IV LLC was able to provide supporting records for all expenditures, we are questioning whether certain expenditures qualify under the Investment Requirement. These expenditures appear to be operating, rather than capital costs. Due to Magna Hospitality Group being an affiliate of the ownership group, MHF PIT IV LLC, we have questioned this as a qualifying expenditure.

Questioned Costs

<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
Magna Hospitality	Management Fees	\$ 92,500
Magna Hospitality	Travel/Reimbursable Expenses	\$ 17,872
	Total Questioned Costs	<u>\$110,372</u>

Ms. Christina Cassotis
December 8, 2016

Recommendation

We recommend that MHF PIT IV LLC reduce the credit against the Investment Requirement for the Hyatt at the Pittsburgh International Airport by \$110,372.

This report is intended for your office and other appropriate Allegheny County officials that are involved.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Mary C. Soroka, Director, Budget and Finance
Mr. Walter Szymanski, Director of Budget and Administration, County Council
Mr. Dale Cottrill, Interim Senior Vice President, Finance, Airport Authority
Mr. Leonard J. Grecco, Vice President MHF PIT IV LLC

MHF PIT IV LLC
300 Centerville Road, Suite 300E
Warwick, Rhode Island 02886

January 13, 2017

Allegheny County Controller's Office
219 County Courthouse
436 Grant Street
Pittsburgh, PA 15219
Attn: Chelsa Wagner, Controller

Dear Ms. Wagner:

We are in receipt of your letter dated December 8, 2016 and sent to us via email on January 13, 2017. We are in agreement with your proposed recommendation.

Very truly yours,

A handwritten signature in black ink, appearing to read "Leonard J. Grecco". The signature is fluid and cursive, with the first name "Leonard" being more prominent and the last name "Grecco" following in a similar style.

Leonard J Grecco
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