

LOUISIANA STADIUM AND EXPOSITION DISTRICT  
MANAGEMENT FEE COMPUTATION SCHEDULES

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
ISSUED DECEMBER 12, 2018

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

November 29, 2018

## Independent Auditor's Report

**BOARD OF COMMISSIONERS OF THE  
LOUISIANA STADIUM AND EXPOSITION DISTRICT  
STATE OF LOUISIANA**  
New Orleans, Louisiana

We have audited the accompanying schedules of management fee computations under the provisions of Article 4.1 of the Management Agreement between the state of Louisiana and SMG, Inc., dated June 13, 1977, as amended, for the years ended June 30, 2018, and June 30, 2017, and the related note.

### **Management's Responsibility for the Schedule**

Management is responsible for the preparation and fair presentation of the schedules in accordance with Article V, Section 5.1 of the Management Agreement between the State of Louisiana and SMG, Inc., dated June 13, 1977, as amended, which governs the contents of the schedules referred to in the first paragraph. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the schedules based on our audits. We conducted our audits of the schedules in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the schedules referred to above present fairly, in all material respects, the management fee computation of the Louisiana Stadium and Exposition District for the years ended June 30, 2018, and June 30, 2017, as defined in the Management Agreement referred to in the first paragraph.

### **Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Louisiana Stadium and Exposition District as of and for the year ended June 30, 2018, and our report thereon, dated November 29, 2018, expressed an unmodified opinion on those financial statements.

### **Restriction on Use**

This report is intended solely for the information and use of the Board of Commissioners and management of SMG and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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**LOUISIANA STADIUM AND EXPOSITION DISTRICT  
STATE OF LOUISIANA**

**Schedules of Management Fee Computation  
For the Years Ended June 30, 2018 and June 30, 2017**

|   | <u>2018</u>        | <u>2017</u>        |
|---|--------------------|--------------------|
| BASE FEE:   |                    |                    |
| Base Fee per Section 5.1.b of the Amended Agreement   | \$636,943          | \$1,000,000        |
| Adjustment for increase in consumer price index   | 10,404             | 300,044            |
| Fee Increment Adjustment - Section 5.1.g of the Sixth Amendment   |                    | (363,101)          |
| ADJUSTED BASE MANAGEMENT FEE  | <u>\$647,347</u>   | <u>\$936,943</u>   |
| INCENTIVE FEE:  |                    |                    |
| Adjusted Net Income, as defined by the Management Agreement   | 39,312,924         | 34,231,607         |
| Adjustments required by the Management Agreement:   |                    |                    |
| Revenue adjustment for Saints event revenue   | (10,410,996)       | (9,154,289)        |
| Revenue adjustments for Saints suite revenue  | (7,372,634)        | (7,540,943)        |
| Revenue adjustment for Pelicans event revenue   | (6,362,862)        | (4,555,621)        |
| Net Income as adjusted per Management Agreement   | <u>15,166,432</u>  | <u>12,980,754</u>  |
| INCENTIVE FEE - 10% of first \$10,000,000 and 5% of any additional Adjusted Net Income per Management Agreement, Section 5.1.b.3                | 1,258,322          | 1,149,038          |
| BONUS:  |                    |                    |
| Percentage of Adjusted Base Fee per Management Agreement calculated in accordance with the provisions of Section 5.1.b.4 of the Sixth Amendment |                    | <u>187,389</u>     |
| TOTAL MANAGEMENT FEE COMPUTATION, BEFORE CAP  | <u>\$1,905,669</u> | <u>\$2,273,370</u> |
| MANAGEMENT FEE CAP CALCULATION:   |                    |                    |
| Management Fee Cap per Section 5.1.c of the Amended Agreement   | \$1,287,469        | \$1,500,000        |
| Adjustments required by the Management Agreement:   |                    |                    |
| Adjustment for increase in consumer price index   | 21,031             | 450,570            |
| Fee Increment Adjustment - Section 5.1.g of the Sixth Amendment   |                    | (363,101)          |
| ADJUSTED MANAGEMENT FEE CAP   | <u>1,308,500</u>   | <u>1,587,469</u>   |
| MANAGEMENT FEE - SMG  | <u>\$1,308,500</u> | <u>\$1,587,469</u> |

The accompanying note is an integral part of this schedule.



## NOTE TO THE SCHEDULES OF MANAGEMENT FEE COMPUTATION

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### **Amended Management Agreement**

Effective July 1, 1977, the State of Louisiana entered into a management agreement with HMC Management Corporation (which later changed its name to Facility Management of Louisiana, Inc.) (the Management Agreement) to manage the Louisiana Superdome. Effective June 19, 1998, the Management Agreement was amended to authorize the substitution of SMG Corporation for Facility Management of Louisiana, Inc., as manager under the agreement and to include the Smoothie King Center among the properties to be managed under the Management Agreement. Effective July 1, 2003, the Management Agreement was amended and the term of the Agreement was extended until June 30, 2012. By the terms of this amendment, the State was required to notify SMG by June 30, 2011, if it elected not to extend the Management Agreement for an additional five years. SMG was not notified by the State, and the Management Agreement was further extended for an additional five-year period ending June 30, 2017. On March 12, 2015, the seventh amendment to the Management Agreement extended the term of the agreement for an additional five years, ending June 30, 2022. Effective July 1, 2017, the Management Agreement was amended to further extend the term for an additional five year period ending June 30, 2027.

The management fee for SMG's services for the fiscal year ended June 30, 2017, was calculated pursuant to the sixth amendment to the Management Agreement on July 1, 2003. The formula for compensation was comprised of a combination of a base fee, incentive fee, and bonus fee, capped at \$1,500,000 subject to adjustments per the terms of the Management Agreement. The annual "base fee" was \$700,000 for the Mercedes-Benz Superdome and \$300,000 for the Smoothie King Center. The base fee was adjusted for the increase in the Consumer Price Index and by a fee increment adjustment, as provided by sections 5.1.d and 5.1.g, respectively. The "incentive fee," as provided by Section 5.1.b.3, consisted of 10% of the first \$10,000,000 and 5% of any additional adjusted net income as defined by the Management Agreement for the Mercedes-Benz Superdome and Smoothie King Center, subject to limits established in the agreement. The "bonus fee" was computed using a percentage of the combined base fees derived from comparing the actual financial performance of the two buildings to budgeted performance. For the year ended June 30, 2017, the bonus fee was 20% of the base fee in accordance with Section 5.1.b.4 of the agreement. The combined fee paid to SMG for the year may not exceed \$1,500,000 as adjusted for the Consumer Price Index (Section 5.1.d) and a fee increment determined by comparing actual fees earned for fiscal years ended June 30, 2004, 2005, and 2006, to those that would have been earned for those years had the revised fee structure been in effect for those years (Section 5.1.g). For the year ended June 30, 2017, the total management fee was \$1,587,469.

Effective July 1, 2017, the seventh amendment to the Management Agreement revised Section 5.1 to reduce the Management Fee, update the benchmark for Consumer Price Index adjustments, and eliminate required amortized repayments of manager capital contributions. Pursuant to the seventh amendment, the formula for compensation to SMG for its services

includes a combination of a base fee and incentive fee, subject to an aggregate cap per the terms of the Management Agreement. The annual “base fee” for the Mercedes-Benz Superdome (Section 5.1.b.1) and Smoothie King Center (Section 5.1.b.2) is \$210,000 and \$90,000, respectively, less than the amount of the adjusted base fee for each as of June 30, 2017. The base fee for fiscal year 2018 is adjusted for the increase in the Consumer Price Index published for June 2017 over that published for June 2016, provided that no such increase shall exceed 4%. The “incentive fee,” as provided by Section 5.1.b.3, was not amended and remains as 10% of the first \$10,000,000 and 5% of any additional adjusted net income as defined by the Management Agreement for the Mercedes-Benz Superdome and Smoothie King Center, subject to limits established in the agreement. Section 5.1.b.4 related to the computation of a “bonus fee” was deleted in its entirety. The combined fee paid to SMG for the year may not exceed the amount that is \$300,000 less than the Aggregate Cap as of June 30, 2017, as adjusted for the Consumer Price Index (Section 5.1.c). For the year ended June 30, 2018, the total management fee was \$1,308,500.