

**Board Report**

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**EXECUTIVE MANAGEMENT COMMITTEE  
AUGUST 20, 2020**

**SUBJECT: ADVERTISING, COMMERCIAL SPONSORSHIPS, AND OTHER REVENUE OPPORTUNITIES**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE staff update on commercial sponsorship efforts and expanded advertising options for the purpose of generating additional revenues. This is intended to be informational and will not require a Board Action. However, staff are seeking feedback in order to present actionable items for the Board at a later date.

**ISSUE**

This report serves as Marketing's response to the Office of Inspector General's report on *Metro's Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities* and CEO's *COVID 19 Call to Action to Control Costs*.

In order to explore further revenue generating opportunities, Marketing staff have been coordinating internally to:

- compose the agency asset / program list for sponsorship opportunities;
- develop a new policy to responsibly execute sponsorship opportunities;
- develop a program to support and manage sponsorship opportunities;
- and identify additional advertising techniques to employ.

**BACKGROUND**

In the June 2020 Executive Management Committee, the Office of Inspector General presented the informational report, *Metro's Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities*. The report provided an estimated valuation of \$665M revenue opportunity if Metro wishes to explore commercial sponsorship as a business model to generate additional revenues. Activities include assigning title sponsorship to rail and bus lines, rail stations, parking facilities, and programs such as Freeway Service Patrol, Bike Share, and Dodgers Express.

In the May 2020 Board meeting, Metro CEO presented the *Call to Action to Control Costs Pertaining*

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to COVID-19. The Call to Action detailed the agency's financial crisis due to COVID-19 pandemic and loss of critical agency funding from state and local sales tax, transit ridership, fare revenues, tolls, advertising and other system generated revenues. The Call to Action called for strong fiscal discipline along with exploring additional activities the agency may conduct to diversify and grow additional agency-generated revenues.

## **DISCUSSION**

### Agency Assets to Consider (Asset List)

Based on OIG's report, *Metro's Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities*, staff have compiled a list of agency assets for sponsorship opportunities. Essentially, all Metro assets / programs are eligible for sponsorship, however, each sponsorship proposal will be reviewed individually for appropriateness of the asset and agency costs. Marketing staff are soliciting comments from Asset owners, and stakeholder departments and staff.

An overall summary of assets includes:

- All rail and bus lines are eligible
  - Including Dodger Stadium Express and future stadium shuttle(s)
- All rail stations, transit hubs, bus stops are eligible
  - Union Station will execute sponsorship and expanded revenue program through Morlin Management due to historic landmark designation
  - Top tier stations include:
    - 7<sup>th</sup> Street / Metro Center
    - Union Station
    - Wilshire / Vermont
    - Pershing Square
    - Downtown Santa Monica
    - Pico
    - Hollywood / Highland
    - Civic Center / Grand Park
    - Universal / Studio City
    - Hollywood / Vine
- Freeway Service Patrol (will need careful coordination with program partners CHP and Caltrans due to existing program restriction).
- Bike Share (Intersection will also apply standard advertising to Bike Share assets where applicable).

### Commercial Sponsorship Policy

Staff have drafted a new Commercial Sponsorship Policy providing guidelines and structure to manage a responsible sponsorship program. It will be a separate policy but work in concert with Metro's Property Naming Policy and System Advertising Policy.

The draft policy is receiving comments and revisions through a collaborative effort by stakeholder departments including Civil Rights, Communications, Countywide Planning, Customer Experience, Equity & Race, Highway Programs, Operations, Vendor/Contract Management, and Office of Finance & Budget. Key aspects of the policy include:

- defining eligible agency assets (facilities, transit service, programs, and events) eligible for sponsorship;
- defining sponsorship terms (temporary, short-term, and long-term);
- eligibility and criteria (business and financial standings);
- proposal evaluation criteria (proposals, agency alignments, missions and values);
- responsibilities (financial costs and social/community inclusion);
- guidelines for system integration (system legibility and customer ease of use);
- and business/contract process.

Staff are collecting issues and conflicts in the areas of policy, implementation, and administration - staff is seeking to resolve all open issues before presenting a policy recommendation to the Board for review. At such time, a full overview of the new policy will be provided.

### Commercial Sponsorship Program

Staff envision the sponsorship program to operate similar to the filming liaison services where a specialist acts as an agent or liaison on behalf of Metro. The specialist will *hand-hold* the "sponsoring party" throughout the process of working with Metro to accomplish an approved sponsorship contract.

### *Proposal Process*

Sponsorship specialist may create and prepare long-term and larger value proposals (\$500,000 and greater) on behalf of interested parties. The proposals will be submitted to the *Review Committee* for vetting, at which time the Committee may respond with inquiries, concerns, and recommendations. After the proposal has been finalized and approved by the *Review Committee*, the proposal will be presented to Metro Board for final review and consideration. Board approvals equate to new license / sponsorship contract with Metro and sponsor.

### *Proposal Review Committee*

A commercial sponsorship proposal Review Committee will be established to review and vet each proposal submitted to the agency - a similar committee reviews all commercial advertising content as part of the advertising process. The Committee will be managed by Marketing and will be composed of stakeholder departments to provide feedback on proposal concerns, and recommend pass-through for Board review and approval.

All long-term sponsorships and/or sponsorships valuing greater than \$500,000 must be reviewed and approved by the Board. All sponsorships affecting facility/station names - regardless of contract value

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- must be reviewed and approved by the Board. Temporary, short-term, and sponsorships valuing \$500,000 or less will be recommended to and approved by the Chief Executive Officer and may be considered advertising packages. However, staff will inform the Board of all sponsorship activity using routine board box memos.

Committee members may include:

- Civil Rights
- Communications (Arts & Design, Community Relations, Marketing, Public Relations)
- Countywide Planning
- Customer Experience
- Equity & Race
- Ethics
- Office of Management and Budget
- Operations / Respective Program / Asset Owner
- Vendor & Contract Management
- *3<sup>rd</sup> Party (consider a non-Metro entity)*

#### *Contract Support*

Staff anticipates outsourcing sponsorship specialist to achieve long-term revenue objectives. Specialists will concentrate on long-term and larger revenue sponsorships. Staff have been coordinating with Vendor/Contract Management for contract options - vetting whether current contracts may be modified or whether new contract services may need to be procured.

Similar to revenue advertising and filming services, sponsorship consultants will operate on a cost neutral financial model - consultants will earn commission with each approved and operational sponsorship contract.

#### *Labor Support*

The commercial sponsorship program will be managed by the Revenue Generation group within Marketing, this group currently manages Communications' other revenue programs including revenue advertising and commercial filming.

Two additional FTEs will be necessary to begin a sponsorship program, the FTEs will coordinate internally to vet concerns and approvals; and will shepherd the proposal process to completion. Staff will also finalize licenses and contracts with Legal Counsel for each sponsorship, manage the contracts, and continue to manage relationships as sponsorships are formed. Additionally, staff will also create and execute smaller sponsorship packages (\$250,000 and less) to offset current departmental and event costs. Anticipated FTEs needed to support program are:

- Communications Manager
- Senior Communications and Marketing Officer

#### Additional Advertising Options

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*Alcohol and Cannabis*

Staff reached out to the agency's current advertising contractors, Outfront and Intersection, to explore additional techniques to increase revenues. Both contractors are employing all advertising techniques feasible within our system (exterior ads, vehicle wraps, take-overs, activations, going digital). However, the allowance of prohibited content such as alcohol and cannabis may provide additional revenues to the current advertising program.

Allowing alcohol advertising may generate an additional \$1,450,000 - \$2,100,000 on both bus and rail, allowing cannabis advertising may generate an additional \$600,000 - 700,000 on both bus and rail, for a grand total of \$2,050,000 - \$2,500,000 annually (total annual sales before revenue share). Metro may potentially see additional payments of \$1,127,500 - \$1,375,000 annually by allowing these contents on our system.

Estimated annual earns:

	<b>Alcohol</b>
Bus	\$1,000,000 - \$1,500,000
Rail	\$450,000 - \$600,000
	<b>Cannabis</b>
Bus	\$300,000
Rail	\$300,000 - \$400,000
Grand Total	\$2,050,000 - \$2,500,000

**Metro Payments \$1,127,500 - \$1,375,000**  
*55% revenue share*

Nationally, these transit agencies already permit alcohol advertising - NY MTA, CTA, DART, NJT, MARTA, MBTA, Metro Transit Minneapolis, Miami-Dade, SEPTA, and WMATA; SFMTA allows drink responsible messaging only. MARTA also permits cannabis advertising.

Both of these items are prohibited under the current System Advertising Policy (COM 6) and would require revisions for this allowance. Marketing staff are seeking the Board's feedback on the allowance of alcohol and cannabis. Staff will return with industry regulation, restrictions, and Metro policy information if so directed.

*Digital Exterior King Ads on Buses*

Outfront, Metro's bus advertising partner would like to perform a pilot, testing 1 king-size digital screen on a Metro bus. The pilot will demonstrate equipment feasibility and serve as proof of concept for the advertising market. Upon conclusion of the pilot, Outfront and Metro may consider installing 100 large-format digital screens on 100 buses for digital exterior king sales. In coordination with Bus Operations, Outfront will bare the cost of installation, maintenance, and management of the digital equipment.

Metro buses currently carry static advertising (exterior king ads, vehicle wraps, and interior posters)

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where each bus earns Metro approximately \$15,000 annually. Migrating to digital advertising may generate an additional 6x-9x per bus, thus, one digital bus may generate \$90,000 - \$135,000 annually. 100 digital buses may generate an additional \$9,000,000 - \$13,500,000 annually for Metro (revenue payments).

Estimated annual earns:

	Static	Digital
Bus x 1	\$15,000	\$90,000 - \$135,000 (6x - 9x of static earn)
Bus x 100	\$1,500,000	<b>\$9,000,000 - \$13,500,000</b>

**Metro Payments \$9,000,000 - \$13,500,000**  
(55% revenue share)

Marketing staff are seeking the Board's feedback on this pilot option. It is not necessary to revise Metro policies or contracts to implement this and the current advertising contract(s) already provide affordance of digital and other exploratory techniques. However, staff will return with state regulation, restrictions, and policy if so directed.

### **FINANCIAL IMPACT**

Receipt and file of this report will have no financial impact.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

Implementation of revenue programs support Metro's strategic goals of good governance and fiscal responsibility - Goal 5.2.

### **NEXT STEPS**

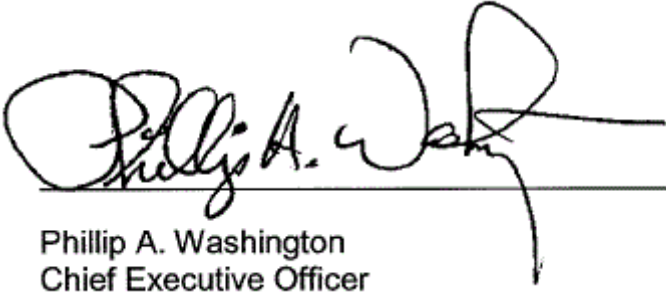
Upon Board feedback, staff will return with necessary programs, policies, and contract modifications for Board review and consideration.

### **ATTACHMENTS**

Attachment A - LACMTA Asset Valuation Study (Legistar File # 2020-0387)  
Attachment B - Asset List for Commercial Sponsorship Consideration  
Attachment C - Revenue Generation Presentation

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