



## Board Report

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**REVISED**  
**EXECUTIVE MANAGEMENT COMMITTEE**  
**FEBRUARY 18, 2021**

**SUBJECT: COMMERCIAL SPONSORSHIP AND ADOPTION POLICY**

**ACTION: ADOPT NEW BOARD POLICY**

**RECOMMENDATION**

CONSIDER:

ADOPT the Commercial Sponsorship and Adoption Policy (Attachment B) in order to create a Commercial Sponsorship and Adoption Program with the goals of generating revenues to support agency programs and initiatives.

**ISSUE**

The financial impact of the COVID-19 pandemic - loss of sales tax funding and loss of ridership fare revenues - has driven the agency into a budget shortfall and financial crisis. Various reports and studies call for exploring alternative revenue sources and expanding revenues programs. Commercial sponsorship is estimated to generate up to \$665M over twenty-five years in long-term revenues for Metro.

The adoption of a Commercial Sponsorship and Adoption Policy (“Sponsorship Policy”) would set the guidance and structure to take advantage of the system’s future commercial revenue opportunities. Metro has the fiscal responsibility to maximize the utilization of available resources effectively and efficiently to create long-term, consistent, agency-generated revenues. Furthermore, diversifying Metro’s revenue sources prepares the agency for future economic shortfalls and unexpected agency impacts.

This report provides the history and conditions leading to the development of a Commercial Sponsorship and Adoption Policy.

**BACKGROUND**

2020 saw unprecedented stress upon Metro and the entire world in coping with the impact of COVID-19 - the snowball effects of pandemic trauma, economic uncertainty, and social unrest pushed the agency to re-evaluate all aspects of service, funding, safety, and operating. As noted below, the call

to diversify and expand Metro's revenue opportunities has never been more appropriate and timely than now.

May 2020 - Metro CEO presents the report, *Call to Action to Control Costs Pertaining to COVID-19*. The Call to Action details 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 calls for strong fiscal discipline along with exploring additional activities the agency may conduct to diversify and grow additional agency-generated revenues.

June 2020 - Office of Inspector General presents the report, *Metro's Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities*. The report was a result of a third party sponsorship and advertising specialist commissioned to audit Metro's transit system and provide a valuation report - the specialist valued Metro's sponsorship opportunity at \$665M over twenty five years. The specialist's valuation included Metro's entire rail system (lines and stations), bus system, parking facilities, and various programs (bike share, rideshare, and freeway service patrol). The specialist employed an impressions-based calculus that accounts for media and other exposure value, qualitative variables and industry benchmarking to generate fair market valuations which may form the opening negotiating position with target companies during a sales process. The forecasted revenue of \$665M is valued over 25 years, and the entire report is attached for reference (ATTACHMENT B).

August 2020 - Metro CEO presents the report, *Fareless System Initiative (Operation FSI)*. The report calls for a task force to explore the feasibility of Metro operating without charging fares for transit service - in response to social swell, economic uncertainty, and dramatic drops in transit ridership. Among costs, impact, racial profiling, homelessness, and implementation, alternative funding sources is called out as a study priority.

November 2020 - Office of Extraordinary Innovation presents the final report, *Coronavirus Recovery Task Force Final Recommendations*. Metro's annual budget for the 2020-2021 fiscal year fell by approximately 16 percent due to lower local sales tax revenues. The report recommends exploring new revenue sources, include expanding commercial and lease opportunities, and federal and state funding for incentives to reduce car ownership. Report calls for future RFIs to determine market support and implementation strategies.

## **DISCUSSION**

A Sponsorship Policy will provide guidance and structure to execute a new revenue-generating sponsorship program. While important points and highlights are called out in this report, the full Sponsorship Policy is subject to Board review and adoption (ATTACHMENT B).

### **Commercial Sponsorship Policy - Highlights**

#### ***Key Points - Interoperability and Eligible Assets***

- The Sponsorship Policy is a stand-alone policy but will work in concert with Metro's Property

Naming Policy (COM 11) and System Advertising Policy (COM 6).

- Agency assets including stations, stops, hubs, facilities, transit services, various programs, agency events, and amenities are eligible for sponsorship opportunities.

*Policy Goals - The Sponsorship Policy Establishes the Following Overarching Principles*

- REVENUE - Generate long-term revenues to support agency programs and initiatives; and seek additional revenue sources to prepare for future economic shortfalls and unexpected agency impacts.
- CUSTOMER EXPERIENCE - Enhance service and/or amenities that improve customer experience by partnering with local business and entities that may offset costs of desired amenities.
- EQUITY OPPORTUNITY - Position corporate social responsibilities towards equity focused communities by creating opportunity to promote small, local business, and providing equity opportunities through this program.

*Program Models - The Two Types of Sponsorship Methods*

- ADOPTION - A partnership between Metro and a 3rd party which provide benefit to Metro riders in the form of sponsored amenities, services, equity opportunities, and customer experience improvements. In an Adoption, 3rd parties may provide resources and/or financing, payment-in-kind, or value-in-kind to develop operating or new facilities, services, programs, or events. Examples: providing free wifi to a particular station, funding additional maintenance to a particular station.
- SPONSORSHIP - A partnership between Metro and a 3rd party which provide benefit to Metro in the form of financial payments - revenues from sponsorships may be directed towards Metro programs and initiatives. In a Sponsorship, 3rd party may provide resources and finance, payment-in-kind, or value-in-kind to develop operating or new facilities, services, programs, or events. Examples: temporary station name take-over, long-term media buyouts of a particular station or facility.

*Terms and Durations - Sponsorships May Take on These Various Time Limits*

Any contract lasting within six months and/or under \$500,000 is within the CEO's authority. Any contract valued over \$500,000 or extending greater than six months requires Board approval; additionally, any Sponsorships/Adoptions affecting facility/station/service names - regardless of contract value - requires Board approval.

- **Temporary Sponsorship** - Partnerships lasting a maximum of six months for assets such as transit services, programs, events, and amenities. or temporary station name take-overs.
- **Short-term Sponsorship** - Partnerships lasting a minimum of six months with a maximum length of two years for agency assets such as facilities, transit services, programs, events, and amenities.

- **Long-term Sponsorship** - Partnerships lasting greater than two years with a maximum length of ten years for agency assets such as facilities, transit services, programs, events, and amenities may be considered for long-term sponsorships.

#### *Sponsor Eligibility - Criteria for Consideration into the Program*

In line with Metro's System Advertising Policy (COM 6), business entities selling products or services in the prohibited categories will not be considered for participation in the sponsorship and adoption program including Alcohol, Tobacco and Electronic Cigarettes, Adult Entertainment and Content, Arms/Guns and Weapons, Political Parties, Political Groups, Political Organizations, and Political Candidates or Campaigns, causes (including Religious Groups and Religious Associations, social advocacy groups, lobbyist, etc).

Businesses must be in good financial standing, conduct ethical business, and demonstrate satisfactory contractual performance for the last 5 years to participate.

#### *Corporate Responsibilities - Financial and Equity Opportunity*

As this is a revenue program, sponsors will bore the cost of all deliverables and activities associated with a sponsor package and no capital costs associated with a sponsorship should be warranted from Metro. Staff will work with each proposal to itemize hard and soft costs such as operational changes, administrative support, and miscellaneous costs associated with each implementation.

Sponsors will participate in Metro's Equity Platform for the duration of their sponsorship by including Equity Opportunity in each proposal. Equity Opportunity will be scored in each proposal evaluation, however, qualitative engagement rather than the quantitative engagement is encouraged. While Metro sponsorships will vary, all sponsorships will advance Metro's mission to increased access to opportunities, removal of barriers to access, and partnership with local communities.

#### *Proposal Process*

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

#### *Proposal Review Committee*

A Proposal Review Committee will be established to review and vet each proposal submitted to the agency. The Proposal Review Committee will be managed by Marketing with concurrence from the Chief Communications Officer and will be composed of stakeholder departments to provide feedback and advisory recommendations for Board review and approval. Panel and Committee members may include, but not limited to:

- **Compliance Panel** - The Compliance Panel ensures interested sponsors are in compliance with Metro policies and do not discriminate nor pose a conflict of interest. The Compliance Panel does not score on a proposal, but provides input into the recommendation, thus, enabling proposals to be reviewed by the Advisory Panel. The Compliance Panel includes:
  - Civil Rights
  - Ethics
  - Legal Counsel
  - Office of Inspector General
  - Vendor/Contract Management
  
- **Advisory Panel** - The Advisory Panel reviews and scores each sponsorship proposal based on the Evaluation Criteria. The Advisory Panel may be composed of scoring and non-scoring members that provide comments but do not participate in scoring. The Advisory Panel provides comments and recommendations for proposals requiring Board review and approval. The Advisory Panel includes:
  - Communications (Art & Design, Community Relations, Marketing, Public Relations)
  - Countywide Planning (Real Estate, Station Wide Design)
  - Customer Experience
  - Equity & Race
  - Respective Asset or Program Owner

### *Evaluation Criteria*

If a business meets all Eligibility and Criteria, Metro will take into consideration the financial offers and implementation proposals. The Review Committee will score proposals based on the following evaluation criteria:

- Financial offer, including total value and duration, payment options, and package offerings
- Alignment with Metro's existing brand and agency mission, themes, and priorities
- Innovative sponsorship and business plan(s) that address value-transfers and potential customer experience enhancements
- Reach of cross promotion between Metro and Sponsor/Adoptee, providing Equity Opportunity activities for Metro communities and riders
- Determination of conflicts of interest based on other business activities with Metro

### Administrative Support

### *Contract Support*

Staff anticipates outsourcing a sponsorship specialist to achieve long-term revenue objectives. The

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specialists will concentrate on long-term and larger revenue sponsorships. Similar to revenue advertising and filming services, sponsorship consultants will operate on a cost neutral financial model - consultants will earn commission from each approved and operational sponsorship contract.

However, staff will also explore the feasibility of expanding current commercial advertising contracts to expedite services and prevent overlap and/or conflict of authorized Metro media assets.

### *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. The bulk of the sales, labor, and production services is outsourced to the two advertising contractors, Outfront and Intersection. There are currently two FTEs directly assigned to manage the revenue advertising and filming program - Director of Communications, who provides program management, contract and business management, financial administration, and internal coordination; and Project Manager (Project FTE), who provides installation management of digital equipment rollout, and internal coordination among departments.

As this is a new program, there are no designated FTEs, temporary employees, interns, or trainees for commercial sponsorship. Three additional full-time employees (FTEs) will be necessary to begin a sponsorship program. FTE responsibilities include shepherding the proposal process, internal coordination and collaboration, troubleshooting and resolving concerns, finalizing licenses and contracts with Legal Counsel for each sponsorship, managing various partner contracts, and continuing to manage relationships as sponsorships are formed.

Additionally, staff may also create and execute smaller sponsorship packages and provide support to expand all revenue projects and programs. Anticipated FTEs needed to support the program include:

- 1 FTE Communications Manager (FY21)
- 2 FTE Senior Communications and Marketing Officer (FY22)

### **FINANCIAL IMPACT**

APPROVAL of this policy will have no direct financial impact other than the additional FTE requests.

The forecasted revenue of \$665M is valuated over 25 years. There are no anticipated revenues for FY22 as the year would be used to start-up the program, establish administrative processes, and procure service contracts needed to support implementation.

### Impact to Budget

Commercial sponsorship revenues are eligible for bus and rail operating and capital expenditures.

Funding for the 3 FTEs will be provided by revenues generated from existing commercial advertising and future commercial sponsorship contracts to fully deliver this initiative.

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- 1 FTE, Communications Managers, will be pursued through the mid-year 2021 budget process
  - 2 FTEs, Senior Communications and Marketing Officer, will be pursued in fiscal year 2022 budget process

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

The commercial sponsorship policy and program will support the Strategic Plan by fulfilling:

Goal 5.2 Exercising good public policy judgement and sound fiscal stewardship by monetizing Metro's capital assets and services to generate revenues and explore private investment in Metro's system improvement.

### **ALTERNATIVES CONSIDERED**

The Board may choose not to approve the commercial sponsorship policy, however, this is not recommended. By delaying or not adopting a commercial sponsorship policy, the agency is turning away up to \$665M in revenue opportunity.

Metro's current transit system is generating significant revenues from commercial advertising, and as the system expands, the commercial opportunities will also grow. The agency should place the guidance and structure to take advantage of the system's future commercial revenue opportunities.

Metro has the fiscal responsibility to maximize the utilization of available resources effectively and efficiently to create long-term, consistent, agency-generated revenues. Furthermore, diversifying Metro's revenue sources prepares the agency for future economic shortfalls and unexpected agency impacts.

### **NEXT STEPS**

With the adoption of the Sponsorship Policy and approval of FTEs:

- Staff will work with HC&D to begin the hiring process to fully deliver this initiative;
- Develop a commercial revenue strategy that encompasses recommendations by the Coronavirus Recovery Task Force, Operations FSI, OIG Asset Valuation Report, and COVID-19 Call to Action;
- Explore contract and procurement options to attain an experienced sponsorship agent or broker;
- and will report back to the Board of program progress.

### **ATTACHMENTS**

Attachment A - LACMTA Asset Valuation Study ([Legistar File # 2020-0387](#))

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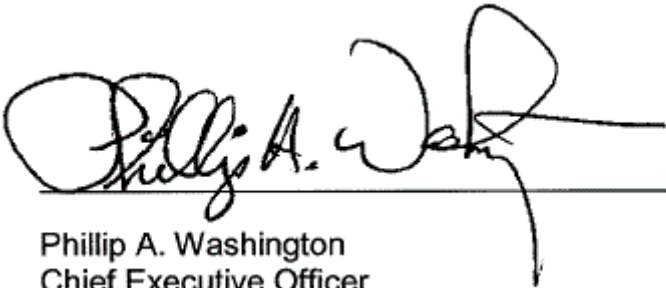
<http://metro.legistar1.com/metro/attachments/978c41a7-a5df-46c3-91a8-e4a6cf41202a.pdf>)

Attachment B - Metro Commercial Sponsorship and Adoption Policy

Attachment C - Amendment by Director Butts

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