



Board Report

File #: 2017-0670, File Type: Agreement

Agenda Number: 8.

FINANCE, BUDGET AND AUDIT COMMITTEE SEPTEMBER 19, 2018

SUBJECT: LICENSE AGREEMENT WITH CLEAR CHANNEL OUTDOOR FOR CONSTRUCTION AND OPERATION OF A DIGITAL BILLBOARD ON METRO PROPERTY

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the CEO to execute a license agreement with Clear Channel Outdoor for a digital billboard on Metro Parcel 7406-026-915 for a term of thirty years upon commencement with guaranteed revenue of \$4,365,000.

ISSUE

The digital billboard will replace a Clear Channel Outdoor static board on a Metro property adjacent to the northbound side of the Harbor 110 Freeway (see Exhibit A) in the City of Carson. The proposed license agreement will grant a fixed 30-year term to Clear Channel Outdoor after which time Metro can cancel the license and instruct Clear Channel Outdoor to remove infrastructure without cost to Metro.

BACKGROUND

The existing static billboard predates the agency's acquisition of the land in the early 1990s from the Atchison-Topeka Santa Fe Railroad. At the time, billboards existing on railroad land were assigned to the Los Angeles County Transportation Commission. The assignment includes the associated revenue for licenses but also obligates Metro as landowner to terms and conditions contained within the license agreement at the time of assignment. These terms and conditions include:

- Undefined period for license holder
- Potential for payment of any lost revenue from cancellation of the licenses
- Potential for costs to relocate the billboard to a site of equivalent revenue earnings
- No definition of acceptable content for advertisements.

The license agreement before the Board today will provide a definite time horizon for the license with a term of 30 years and will allow Metro to terminate without significant outlay of capital.

DISCUSSION

This billboard will continue Metro’s efforts to remove and replace static billboards with digital signage in conjunction with industry partners like Clear Channel Outdoor as well as ensuring local government approvals through the entitlement process. In addition, this license will obligate Clear Channel Outdoor to ensure all advertising content fully conforms to the Metro content standards defined in Communications Department’s *System Advertising Policy*.

This project was fully entitled by the Carson City Council at its July 3, 2018 meeting. Upon expiration, Metro may cancel without incurring additional financial cost.

DETERMINATION OF SAFETY IMPACT

There is no identifiable safety impact to Metro from the approval of this action.

FINANCIAL IMPACT

The static billboard generates approximately \$38,000 annually. Under the proposed agreement, Metro will see a \$70,000 net increase beginning year one with a guaranteed revenue of \$108,000 per year and escalations of \$15,000 at every fifth year. The table below outlines guaranteed revenue for the entire term.

Years	Digital Billboard	Static Billboard	Net Increase
1-5	540,000	190,000	350,000
6-10	615,000	190,000	425,000
11-15	690,000	190,000	500,000
16-20	765,000	190,000	575,000
21-25	840,000	190,000	650,000
26-30	915,000	190,000	725,000
Total	4,365,000	1,140,000	3,225,000

Additionally, Metro has the potential to earn 25% of the asset’s gross advertising sales minus the annual guarantee for years 1-10 and 30% for years 11 through 30. The table below numerically demonstrates share of gross advertising sales for the first year.

Term Year 1

A. Estimated Gross Revenue ¹	\$800,000
B. Guaranteed Revenue (fixed amount)	\$108,000
C. Revenue Share Rate (years 1-10)	25%
D. Metro’s Potential Share of Gross Advertising Sales [A x C] - B]	<u>\$ 92,000</u>

¹ Based on the 3-year gross sales average of a Metro advertising billboard located in the City of Downey.

All costs to construct, operate, and maintain the asset will be borne by Clear Channel.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This license supports the Strategic Plan Goal: *5.2 Metro will exercise good public policy judgment and sound fiscal stewardship.*

This license will provide Metro additional revenue for programs and services in the immediate term while also creating a long-term avenue for the agency to exit the billboard market if it should ever choose. Although this is one site of many on Metro land, staff expects to increase the replacement static boards with digital boards to achieve a cost-effective management and control of all real estate assets.

ALTERNATIVES CONSIDERED

The Board could decide not to approve the license agreement with Clear Channel Outdoor. This alternative would maintain the status quo; the static billboard would continue to operate and Metro would be required to pay future lost earnings to the license holder in the event of a future cancellation.

NEXT STEPS

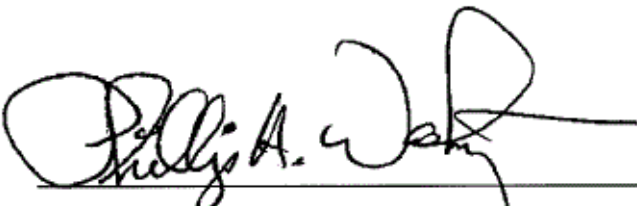
Upon approval by the Board of Directors, staff will finalize the terms and conditions of the license agreement with County Counsel and Clear Channel Outdoor for final approval by the CEO.

ATTACHMENTS

Attachment A - Proposed Location for Digital Billboard
Attachment B - Key Terms

Prepared by: Nick Szamet, Sr. Administrative Analyst, Countywide Planning and Development, (213) 922-2441
John Potts, Interim Executive Officer, Countywide Planning & Development, (213) 922-2435

Reviewed by: Therese W. McMillan, Chief Planning Officer, (213) 922-7077



Phillip A. Washington
Chief Executive Officer