



Board Report

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**EXECUTIVE MANAGEMENT COMMITTEE
JUNE 18, 2020**

SUBJECT: OFFICE OF THE INSPECTOR GENERAL REPORT ON ASSET VALUATION FOR ADVERTISING, SPONSORSHIP, AND OTHER REVENUE OPPORTUNITIES

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Report by the Office of Inspector General of Metro's Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities

ISSUE

The LACTMA (Metro) Office of the Inspector General (OIG) prepared through its consultant the Superlative Group, an assessment 1) of the potential use of Metro resources to obtain revenue through sponsorship and advertising, on fare media TAP cards; and 2) an asset inventory and valuation of LACTMA-controlled lines, facilities and other assets that could be made available to generate revenue through naming rights, corporate sponsorships or other methods for the Board's consideration. The Study is attached to this report. The estimated values in the Study are based on pre-Covid 19 era circumstances.

BACKGROUND

The OIG conducted an Opportunity Assessment / Audit Universe Program in FY 2019. This is a Program where we consider "opportunities" to carry out Board objectives and positive, pro-active, creative methods to carry out our duties to identify fraud, waste or abuse. This includes identification of any waste by nonuse of a resource at its highest and best use for the public benefit. During that Program we identified a review of our assets for advertising, station sponsorship, and other potential revenue opportunities as a Project.

Metro is unique among the nation's transportation agencies. It serves as transportation planner, coordinator, designer, builder and operator for one of the country's largest, most populous counties, Los Angeles. More than 10 million people - nearly one-third of California's residents - live, work, and play within its 1,433-square-mile service area. This diversity and Metro's extraordinary real estate holdings and other assets presents a wealth of alternative opportunities for naming rights and advertising methods. Metro does have an advertising program already for its bus and rail system but it is limited in scope and might benefit from having a current assessment of the value of each

segment of the system, or consideration of the value of unexploited segments that don't currently exist like public restrooms if placed on our property along our system.

TAP CARDS

Metro uses a plastic Transit Access Pass (TAP) card for patrons/riders to ride its transit system as fare media. Patrons pay \$2 for a new TAP card and the card can be reloaded/reused. Each TAP card is uniquely identified by a serial number.

Metro has broached advertising on its cards, such as in a partnership with the Los Angeles Football Club (LAFC, a professional soccer team), when it issued a limited-edition LAFC-branded TAP card. Metro also periodically issues commemorative and special event TAP cards on a limited basis, in addition to regular TAP cards. Currently Metro does not have an ongoing program to sell advertisements on the TAP cards or its card vending machines.

The OIG engaged in discussions and received assistance from the Metro TAP and Communications Departments to receive their input and conduct preliminary research. We found that the New York City Metropolitan Transportation Authority sells advertising on their Metro Cards. They first sold space on the back of the cards and then began offering space on both sides of the cards in 2012. Companies can purchase advertising on the back only or on both sides, printed in a 4-color process. The advertisers may target up to 10 stations for sale at station booths, vending machines and retail outlets, either by location or by lines. The OIG consultant also conducted research and found that the advertisers may advertise on 50,000 up to 2 million cards on each run for the back only, and up to 5 million cards for both sides; the larger the run, the lower the cost per card. The rates are \$.21 to \$.51 per card for the back, and \$.25 to \$.45 per card for both sides.

The useful life of a TAP card is generally a maximum of 10 years, so advertising a short term product (like a coupon only good for 90 days on a card) is not the most viable option, however an option like a discount from a county wide retail chain continuing until the program ends at participating stores, is a common parameter that could be more viable.

STATIONS AND OTHER ASSETS

With the construction and opening of new service lines anticipated in the future, now appeared to be an appropriate time to re-review and re-strategize concerning advertising and sponsorship opportunities, with an eye towards consistency, modernization, effective information distribution, and equitable monetization across the system as it is evolving and as warranted by the specifics of the location and its circumstances. To ensure there is no waste of an agency asset we determined to assemble for the Board's consideration an assessment of the Metro system for potential advertising, sponsorship and other options for revenue from a holistic agency wide perspective. We think the Covid 19 circumstances makes this analysis even more critical and relevant to Metro needs, though the estimated values are likely affected in the short term.

We recognize that some advertising can undermine our branding, be unattractive in appearance, or be off-putting to riders and that Board Members are concerned about these and other factors. However, the Board has consistently instructed staff not to fail to bring forward information and ideas for its consideration based on an assumption that the Board will not be interested in a

particular proposal. That deprives the Board of the opportunity to discuss matters in changing times and make those decisions.

DISCUSSION

The OIG hired the Superlative Group, a company with experience in advertising and branding, to perform a study of the potential value of Metro assets for advertising, sponsorship, and other revenue and document the results in the attached report, in two parts: advertising on and sponsorship of (1) TAP cards, and (2) Metro's facilities and other assets.

Part I

Part I of the Study presents the feasibility and potential revenue from selling advertisements and sponsorships on LA Metro TAP cards and/or personalization on the TAP card for a fee to generate revenue for Metro.

The results of the Study indicate that sponsorship of Metro assets can provide additional revenue and in-kind support for Metro. If TAP card sponsorship is sold at the high end of the possible ranges, it is estimated to generate more than \$22.5 million over the a long term (10 years for Primary Sponsors, four weeks for advertisers), assuming a 2.6% Consumer Price Index (CPI) escalator. The consultant believes that Primary Sponsorship of the TAP Card program, rather than short term advertising, is a simpler and more valuable approach to monetization of the asset. The OIG believes that both options can be used with exclusive advertising for a sponsorship possibly selling at a higher rate than sponsorship with shared advertising.

Part II

Part II of the Study, is an evaluation of the feasibility and potential revenue from corporate sponsorships on Metro's expansive transit system. The consultant identified the likely revenue from sponsorships from specific Metro assets. The Study focuses on naming rights potential revenue for Metro rail system, Metro bus system, rail and bus stations, Freeway Service Patrol, Metro Bike Share, the passageways at Union Station, and Metro parking structures.

The Study shows that if rights are sold at the high end of the ranges, naming rights and corporate sponsorships for Metro assets could generate more than \$665 million over the long term, assuming inclusion of a 2.6% CPI escalator for each deal. Long terms are 25 years for rail and bus lines, and 10 years for rail/bus stations, and other assets. These estimates may be impacted in the short term based on the magnitude of Covid 19 circumstances that were unanticipated at the time of the Study.

FINANCIAL IMPACT

Receipt and file this report will have no financial impact. Adoption of the programs as suggested by the Study could generate significant revenue for the agency after recovery from the Covid 19 era.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The information in this Report supports Metro's strategic goals of good governance and fiscal responsibility (goal # 5)

NEXT STEPS

The OIG recommends that Metro management:

- Review the OIG Report;
- Listen to the comments and concerns of the Board relative to any advertising or sponsorship programs that might be adopted in response to the Report: and
- Consider moving forward to implement new robust and innovative advertising programs that maximize revenue opportunities tempered by the Board's concerns and direction to staff.

ATTACHMENTS

Attachment A - OIG Asset Valuation for Advertising, Sponsorship, and Other Revenue Opportunities

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