



Board Report

File #: 2016-0236, File Type: Agreement

Agenda Number: 44.

EXECUTIVE MANAGEMENT COMMITTEE AUGUST 18, 2016

SUBJECT: OVERVIEW OF BILLBOARD PROGRAM AND REVENUE SERVICES CONTRACT

ACTION: AMEND EXISTING REVENUE CONTRACT WITH ALL VISION LLC

RECOMMENDATION

AUTHORIZE the Chief Executive Officer or his designee to:

- A. AMEND the **existing revenue services contract with All Vision LLC by entering into a Second Amended and Restated Contract** to clarify the terms of such contract and provide Metro with an additional option to develop new digital billboard signs on Metro property; and
- B. EXERCISE the four remaining one-year options to extend the Contract for four (4) years commencing September 1, 2016 and ending June 30, 2020.

ISSUE

Metro has entered into that certain Revenue Services Contract with All Vision LLC (“All Vision”) issued on April 12, 2010, which was amended and restated on November 18, 2013 (“Contract”) whereby All Vision seeks and implements, at Metro direction, opportunities for new revenue from new digital outdoor advertising displays on Metro owned property. In implementing the work, the parties have discovered an alternative development option which is not currently contemplated under the Contract, but which is proving to be a viable option for more than one local jurisdiction. Further, the Contract expires on August 31, 2016 and staff would like to exercise the four remaining one-year options to extend the term of the Contract to June 30, 2020. Exercising the remaining options is in recognition of the extended time and effort likely to implement a program within the City of Los Angeles. Finally, upon review of the Contract, there are provisions that need clarification as detailed below.

Approval to amend the Contract to clarify the terms of the Contract, to include an additional alternate development option, and to exercise the four remaining one-year options to extend the Contract requires Board approval.

OVERVIEW OF BILLBOARD PROGRAM

The Billboard Removal and Relocation Program offers local municipalities and communities the

opportunity to reduce the number of billboards in their communities and to receive public benefits in exchange for the right to place a limited number of digital billboards in locations approved by the local municipality and community. It is an opt-in program, whereby local municipalities and communities can elect to participate. Some of the public benefits that this program offers include the following:

- a) Improved Rail safety;
- b) Revenue Sharing;
- c) Community messaging;
- d) Transit Messaging;
- e) Amber Alerts;
- f) Removal of billboards at undesirable locations;
- g) Increased non-fare box revenue to Metro; and
- h) No public money is used to pay for the removal of billboards.

Many local municipalities have developed ordinances that provide for the removal of static billboards in communities where the municipality and community have determined billboards are no longer appropriate. In connection with the recently completed Metro project in the City of Long Beach, the City required Clear Channel Outdoor (CCO) to remove eleven (11) billboard structures throughout the City of Long Beach, containing 5,376 square feet of billboard panels. This includes the removal of six (6) of the eight (8) structures on Metro property containing 3,288 sq. ft. of billboard area and five (5) structures on private properties that were designated by the City containing 2,088 sq. ft. of billboard faces. The two remaining static panels on Metro property were converted into a two-sided digital structure containing 1,344 square feet of billboard area. The City and the community placed a high priority on the removal of billboards from residential areas.

In addition, the placement of digital billboards allows communities, as well as Metro, to provide real-time public service announcements as part of the signage program. Each municipality and community is presented the opportunity to place signage only in locations that meet their individual safety and aesthetic criteria.

Allvision and Metro staff are continuing to meet with local municipalities to determine if they are interested in opting into this program. Following is a summary of previous Board actions concerning this program:

On January 28, 2010, the Board authorized a 3-year revenue service contract with two 1-year options (for a total of five years) with All Vision to provide management services for new outdoor advertising displays on Metro owned property. The purpose of the Contract was to increase Metro's revenues by optimizing its billboard assets, at no additional cost to Metro.

On May 23, 2013, the Board authorized the CEO to amend and restate the Contract to add five 1-year options to potentially extend the term of the Contract to a total term of 10 years and provide Metro with two options to develop new billboard signs on Metro property with different compensation rates to All Vision depending on the option selected.

At the Board meeting held in December 2015, the Board authorized further changes to the Contract which will be incorporated as part of the Second Amended and Restated Contract contemplated herein to the extent not further modified by the changes requested in this report. These changes

include, without limitation:

- a) Metro will waive the requirement for Allvision to pay \$500,000 in accrued Guaranteed Annual Revenue Payment that was due June 30, 2015;
- b) All Vision will waive reimbursement of \$769,000 in Contractor Expenses;
- c) All Vision will reduce its share of Net Incremental Payment Revenue from 30% to 25% for billboard signs developed under Option 1;
- d) If new billboard signs in the Cities of Long Beach and Carson are successfully completed and generating revenue, as compensation All Vision will receive 25% of Net Incremental Payment Revenue generated from those billboard signs over the next 30 years;
- e) Require All Vision to submit a work plan and budget, subject to Metro staff approval, prior to initiating any entitlement actions for new billboard signs on Metro property; and
- f) if Metro approves a work plan for the City of Los Angeles, New Payment Revenue generated from new billboard signs in the Cities of Downey, Long Beach and Carson shall not be used to reimburse All Vision for its Contractor Expenses associated with the new billboard signs project in the City of Los Angeles unless and until the Guaranteed Annual Payment Revenue which is then owing to Metro has been paid.

After further negotiations, the following additional amendments to the Contract are being requested under this report:

1. Clarify and update certain contract provisions, including, without limitation, integrating the Strategic Plan within the Statement of Work;
2. Add an alternative development option (Option 3) that was not included in the Contract that provides that All Vision will assist Metro staff in negotiating with billboard companies who will obtain entitlements from local municipalities, finance, construct, and operate the digital billboards, at the billboard company's sole cost and expense. All Vision will be required to provide a work plan and budget for any new billboard assets to be developed under Option 3 for Metro staff review and approval. In the event that Metro staff does not approve the work plan and budget for Option 3, Metro staff will direct All Vision not to proceed. This alternative is an option for Metro and will be evaluated on a case-by-case basis. All Vision's compensation for services under Option 3 will also be determined on a case-by-case basis but in no event shall All Vision's compensation exceed 25% of net incremental revenue generated from these projects over the next 30 years if the projects are successfully completed and generating revenue;
3. Exercise the four remaining one-year options thereby extending the term of the Contract to June 30, 2020;
4. Provide that All Vision will submit to Metro staff a proposed work plan and budget for Metro's

review and approval for any potential projects located in the City of Los Angeles within 60 days after execution of the proposed amended contract. All Vision will submit a work plan and budget for sites in other jurisdictions within six (6) months after execution of the proposed amended contract.

5. If Metro staff approves the work plan and budget for the City of Los Angeles, and the City of Los Angeles adopts a Billboard Ordinance, that provides for development of digital billboards on Metro property, any time before June 30, 2020, then All Vision, provided that they are not in default beyond any applicable cure and notice period, will have an additional three years to manage implementation, entitlement, construction and commencement of operations of such New Digital Billboard Sign(s) in the City of Los Angeles and related sales contracts, leases, and/or license agreements;
6. Provide that if Metro approves the City of Los Angeles work plan and budget and the City of Los Angeles project is developed under the new Option 3, All Vision will receive as compensation 25% of the Net Incremental Revenue over the next 30 years plus its share of the Lump Sum Monetization Payment, if any. Further, All Vision's Contractor Expenses, as defined in the agreement, associated with or incurred in connection with the City of Los Angeles project will only be reimbursed from revenue generated from the City of Los Angeles project;
7. Provide All Vision with rights to manage implementation, entitlement, construction and commencement of billboard operations of any New Digital Billboard Signs during the term of the Contract for any billboard location that Metro staff has approved a Work Plan and budget subject to the terms of the approved work plan. If Metro does not approve a particular work plan and budget, then All Vision shall not be authorized to commence work on such project and Metro shall not proceed to implement any billboard projects covered by the unapproved work plan and budget until after June 30, 2020 (or June 30, 2023, with respect to the City of Los Angeles, should an Ordinance be adopted);
8. Provide that All Vision will provide technical assistance with the inspection, review and audit of billboard companies' books and records for each billboard asset put in place under the Contract to affirm that the parties have received their appropriate share of revenue from those billboard companies during the 30 year term of the revenue sharing arrangement;
9. Require that All Vision provide all of the following services, including providing an onsite supervisor of all work, for each new billboard sign constructed on Metro property:
 - Coordinate and schedule each aspect of the development process with Metro real estate, engineering and operation departments
 - Coordinate contractor safety training with SCRRRA and other required agencies
 - Supervise contractors for each site and stage of development work
 - Coordinate boring samples
 - Coordinate site preparation
 - Oversee structure and sign installation
 - Coordinate utility connections

10. Provide that after the expiration of the Option 2 billboard warranty contract, the parties will jointly determine whether the Option 2 billboard needs to be replaced. The cost for the replacement of the Option 2 billboard shall be initially paid by All Vision and reimbursed from New Payment Revenue but only after payment in full of Base Annual Payment Revenue to Metro and payment of the Local Jurisdiction Fee.

A summary of the changes already approved in December, 2015 and the changes requested under this report is included in Attachment "A".

Summary of Status of Billboard Program

All Vision has completed a comprehensive review of existing billboards on Metro property. This review included an in-depth analysis of all Metro-owned property and its potential for generating additional revenue from billboard assets. As part of this review and analysis, All Vision (1) reviewed each existing billboard site; (2) investigated local and state ordinances related to billboards; (3) conducted meetings with local municipalities and Metro staff; and (4) prepared a Strategic Plan ("Strategic Plan") for Billboard Advertising on Metro Property.

The Strategic Plan, which was approved by the Board on May 23, 2013, offers Metro the opportunity to permit new digital billboards on its property that will provide the potential for significant increases in long-term revenue. All potential development sites have been reviewed for conformance with federal and state laws, valued for highest and best outdoor advertising revenue opportunity to Metro, and selected for consideration after an initial CEQA assessment and input from the Metro real estate, planning, operations and engineering departments. Proposed locations have been organized into projects by local jurisdiction. All Vision, Metro staff, and, if applicable, the billboard companies, will work with each local jurisdiction that has a Metro project opportunity to obtain the necessary entitlements.

Currently there are 263 outdoor advertising billboard structures ("Billboards") in place on Metro property and rights-of-way in the County of Los Angeles. The locations of the existing billboards on Metro property are shown on Attachment "B". These Billboards were assigned to Metro when the railroad right-of-way was purchased in the early 1990's. Due to lease terminations for transit projects, annual revenue from these Billboard leases has declined over the last several years from approximately \$2.6 million to \$1.2 million.

Meeting with Local Municipalities

All Vision, Metro, and where appropriate, the billboard companies met with the following local municipalities to discuss the proposed digital billboard program: Santa Clarita, Downey, Inglewood, Long Beach, Carson and Los Angeles. All of the municipalities were interested in participating in the digital billboard program because it provides the municipalities the opportunity to eliminate blighted conditions by converting the existing static billboards located in their jurisdiction into fewer new digital billboards that will generate additional revenue to the municipalities.

Following is a summary of the outcomes of each meeting with those municipalities:

1. Downey: Metro and the City of Downey entered into a Development Agreement on August 27, 2013, that provided for the construction and operation of a digital billboard at Metro's Division 4 located at 7878 Telegraph Road in Downey. The billboard was constructed and began operation on January 1, 2015. Metro received \$144,000 for the first year and staff anticipates that the project will generate \$9 million in new revenue to Metro over the thirty-year term of the Development Agreement, including the 10-year extension.
2. Long Beach: The City of Long Beach approved a Conditional Use Permit to Clear Channel Outdoor, Inc. (CCO) that provided for the removal of eight (8) existing static billboards at Division 11 located at 1011 Carson Street in Long Beach and the construction and operation of one two-sided digital billboard. CCO removed the existing billboards on March 13, 2016 and installed the digital billboard. The new digital billboard became operational on July 1, 2016 and that the project will generate \$4.1 million in new general fund revenue to Metro over the thirty-year term of the license agreement with CCO.
3. Carson: CCO is negotiating a development agreement with the City of Carson to provide for the construction and operation of a digital billboard on the Harbor Subdivision and anticipates obtaining City approval during the third quarter of 2016. If the City approves the project, staff will return to the Board for approval of the license agreement with CCO. Staff anticipates that this billboard project will be completed by the end of the fourth quarter of 2016 and will generate \$4.6 million in new general fund revenue to Metro over the thirty-year term of the license agreement with CCO.
4. Santa Clarita: On February 25, 2014, the Santa Clarita City Council approved a General Plan Amendment, Zone Change, Zone Amendment, Development Agreement and three Lease Agreements granting Metro entitlements and the right to use the three proposed billboard development sites for the construction and operation of three digital billboards in exchange for the removal of 118 billboards on Metro property. The Santa Clarita billboard project was never developed due to local opposition.
5. Inglewood: The proposed location in the City of Inglewood is located on the portion of the Harbor Subdivision right-of-way that is being used for the LAX Crenshaw Corridor Project. Metro staff is working with Project staff to develop a timeline for the completion of Project improvements in the vicinity of the proposed location before working with All Vision to initiate contact with City officials to discuss a development agreement.
6. Los Angeles: All Vision and Metro staff have had preliminary discussions with the City of Los Angeles. The City is considering various options for the adoption of a new billboard ordinance. The City of Los Angeles Project offers Metro the greatest potential for new revenue from the conversion of static billboards to digital billboards.

All Vision, Metro, and, if appropriate, the billboard companies will work with each local jurisdiction that has a Metro project opportunity to determine if the municipality is interested in opting into the program.

Even though static billboards will be removed, the potential revenue from the new digital billboard

signs on Metro property that could be generated to Metro ranges from \$89 million to \$111 million over thirty years depending on the number of new sites and the development option selected by Metro for these locations.

Summary

In most cases the income streams generated by the new digital billboard assets are expected to continue for thirty (30) years providing a long-term stable revenue stream. The program will continue to provide productive partnerships with local jurisdictions by converting static billboards within their municipalities with fewer new digital billboards and will allow them, in certain cases to participate in the revenue generated by the new billboard.

In addition, the placement of digital billboards allows communities, as well as Metro, to provide real-time public service information, such as amber alerts, traffic information and other public announcements. Each community is also presented with the opportunity to place signage only in locations that meet their individual safety and aesthetic criteria. Metro is also provided with the right to place Metro ads at no cost on the new billboard.

All Vision has performed significant work and has completed a comprehensive review of all Metro-owned property for the potential for generating additional revenue from billboard assets. All Vision's staff has extensive experience nationally in billboard management, operations, sales, and representing the interest of property owners, making it prudent to continue the All Vision Contract to ensure Metro receives an optimal return on its assets.

DETERMINATION OF SAFETY IMPACT

This Project will enhance rail safety and alleviate a major safety concern. Static paper and/or vinyl billboards have created safety problems during the high wind season as large numbers of these signs have been blown off the billboards and have fallen onto the adjacent railroad tracks, creating significant safety concerns.

FINANCIAL IMPACT

This is a revenue contract and is expected to generate a minimum of \$500,000 in new general fund revenue by June 30, 2020. The Contract has generated approximately \$144,000 in new revenue to Metro through December 31, 2015. Further increases are predicted to begin when development of the new billboard structures are completed. These additional revenues could range from \$2 million to \$10 million over the life of the Contract; however, only the minimum payment is guaranteed.

ALTERNATIVES CONSIDERED

The alternative is to allow the Contract to expire and to revert to negotiating and managing existing billboard leases directly with outdoor advertising companies. This is not recommended as the contractor's experience is particularly valuable in negotiating complex reduction and replacement billboard contracts. The agreement involves no out-of-pocket cost by Metro, relies upon local jurisdictions to voluntarily participate and is expected to produce revenues in excess of those that could be obtained by managing the existing billboard inventory.

Furthermore, All Vision has demonstrated a strong commitment to the billboard program by investing substantial time and resources toward moving the program forward.

NEXT STEPS

The Parties will enter into a Second Amended and Restated Contract which will include the terms and conditions set forth in this report.

All Vision will develop, subject to Metro staff approval, a work plan and budget for potential billboard opportunities. After Metro staff has approved the work plan and budget and selected which Option development of the new billboard will proceed under, All Vision and Metro staff, and, if applicable, the billboard companies will begin working with local municipalities interested in participating in the digital billboard program to obtain the necessary entitlements or identify the next steps for moving forward.

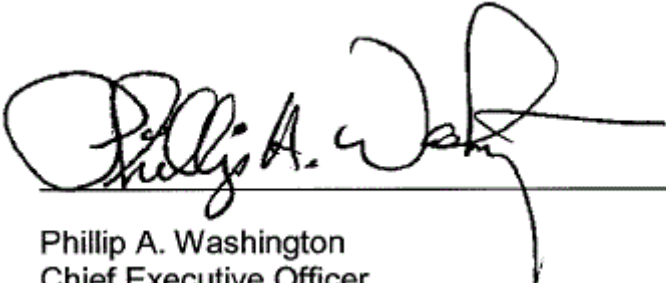
ATTACHMENTS

Attachment A - Summary of Contract Amendment Key Terms

Attachment B - Table of Existing Billboard Locations on Metro Property

Prepared by: Thurman Hodges, Director of Real Property Management and Development,
(213) 922-2435
Velma C. Marshall, Deputy Executive Officer Real Estate,
(213) 922-2415

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



Phillip A. Washington
Chief Executive Officer