



Board Report

File #: 2015-1629, **File Type:** Agreement

Agenda Number: 46.

**EXECUTIVE MANAGEMENT COMMITTEE
NOVEMBER 19, 2015**

SUBJECT: OUTDOOR ADVERTISING REVENUE CONTRACT

ACTION: AMEND EXISTING REVENUE CONTRACT WITH ALLVISION LLC

RECOMMENDATION

AUTHORIZING the Chief Executive Officer to **amend the existing revenue contract with Allvision LLC (Allvision)** to provide for the following terms:

- 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. Allvision will waive and not recapture \$769,000 in incurred Contractor Expenses that were reimbursable costs under the revenue contract resulting in an increase in future net incremental revenue payments to Metro;
- C. Allvision will reduce its revenue share from 30% to 25% of the Net Incremental Revenue payable for billboard project structured under Option 1 of the Board-approved Strategic Plan;
- D. Allvision will receive 25% of net incremental revenue generated from the proposed City-approved digital billboard project in Long Beach and the proposed digital billboard project in Carson, if those projects are successfully completed and generating revenue;
- E. Allvision will develop, for Metro staff approval, a proposed work plan and budget prior to commencing any new billboard projects; and
- F. Allvision Contractor Expenses incurred from any future billboard projects in the City of Los Angeles will not be subject to reimbursement from net incremental revenue being generated from the existing billboard project in Downey, the proposed City-approved digital billboard project in Long Beach and proposed digital billboard project in Carson until Metro has received the Minimum Annual Guaranteed Payment (MAGP) owed under the Amended and Restated Contract as of such date.

ISSUE

In January 2010 the Board approved a five-year (5-year) revenue contract with Allvision to manage billboards on Metro property. The Allvision Contract provided that Metro would receive a MAGP of \$100,000 per year for five (5) years. In May of 2013 the Allvision Contract was amended (Amended and Restated Contract) to provide that Allvision could defer the MAGP and make a lump sum payment of \$500,000 on or before June 30, 2015. The Amended and Restated Contract also added five (5) one year options that could extend the Allvision Contract to 2020 and provided for MAGPs of \$100,000 per year.

May 23, 2015, the Board approved the exercise of the option to extend the Allvision Contract to June 30, 2016 requiring an additional \$100,000 due. Allvision intended for the MAGP to be generated from new billboards assets put in place by Allvision during the term of the contract. Because of the length of time needed to develop new digital billboards, Allvision has not yet generated enough income to make the lump sum payment of \$500,000 from the expected revenues. In lieu of the MAGP owed Metro, the above amendments are recommended in order to make Metro financially whole, compensate Metro for this concession through increased percentage of future net revenues and extend the working relationship with Allvision.

The existing contract is being amended to clarify the terms of the revenue sharing arrangement between Allvision and Metro for the proposed City-approved digital billboard project in Long Beach and proposed digital billboard project in Carson. Allvision will receive 25% of net incremental revenue generated from these projects if the projects are successfully completed.

Approval of the amendment to the Allvision contract requires Board approval.

DISCUSSION

Since the 2013, Allvision has expended most of its efforts to develop new signs in the City of Santa Clarita, Downey, Long Beach and Carson. The Downey digital signboard was completed and the digital billboard has been in operation since January 2015. The Santa Clarita billboard project was never developed due to local opposition.

The City of Long Beach has approved a Conditional Use Permit to allow for a digital billboard on Metro property at Division 11. If the Board approves the proposed billboard license with Clear Channel Outdoor in December 2015, construction of this billboard should commence by January 2016. Clear Channel Outdoor has also submitted a development agreement application for a digital billboard in the City of Carson.

The new revenue to Metro that will be generated from the billboard projects in Downey and Long Beach is expected to exceed the cumulative MAGP due to Metro by the year 2018 if the Board approves the proposed Allvision Contract amendment.

In most cases the income streams generated by the new digital billboards 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 jurisdiction to reduce the number of static billboards within their municipalities and it allows them to participate in the revenue generated by the billboard project.

The greatest potential for new revenue and for conversion of static billboards to digital billboards is within the City of Los Angeles. Allvision's staff has extensive experience in billboard management, operations, sales, and representing the interest of property owners making it prudent to continue the current contract to ensure Metro receives an optimal return on its assets.

Under the amended agreement the Board retains the right to approve or disapprove the option to extend the Allvision Contract each year through 2020.

A summary of the new contract provisions is included in Attachment "A".

DETERMINATION OF SAFETY IMPACT

This Project will have no impact on safety.

FINANCIAL IMPACT

This is a revenue contract and under the contract and the five one year options is expected to generate at a minimum \$1,000,000 in new general fund revenues (over existing signboard license revenues) by June 2020. Further increases are predicted to begin in FY16 when development of new billboard structures in Long Beach and Carson are anticipated. These additional revenues could range from \$2 million to \$10 million over the life of the contract. In addition, the amendments will result in an additional 5% of revenues reallocated from Allvision to Metro for certain future billboard installations, as described above.

Metro Board approved Board Motion 48.1 on September 26, 2013 (Attachment B), directing the CEO to preserve all revenues generated by digital billboard contracts for use by Metro Operations. As a first priority, this revenue is to be used for service improvements and enhancements within the corridor (sub region) where the billboard is located.

ALTERNATIVES CONSIDERED

The alternative is to not approve the recommended changes to the All Vision Amended and Restated Contract. This could mean Metro would terminate its contract with Allvision and pursue payment of the \$500,000 lump sum payment through more aggressive and possibly legal measures. This is not recommended as the negotiated amendment, provides a priority to Metro from revenues generated by the billboards until the contractual commitments are met and provides an increase in the percentage of revenues retained by Metro in consideration for these amendments.

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

NEXT STEPS

CEO finalizes and executes amendment to the Allvision Contract.

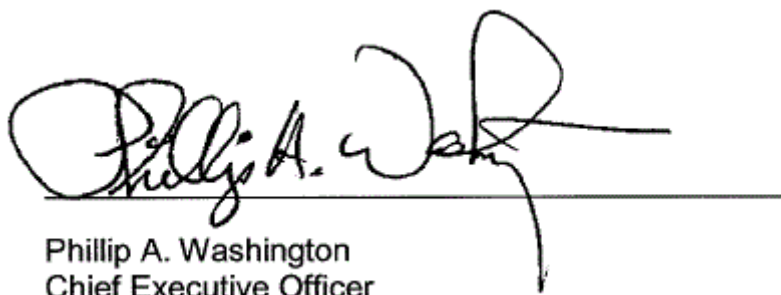
ATTACHMENTS

Attachment A - Summary of Contract Amendment Key Terms

Attachment B - Board Motion 48.1

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Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

SUMMARY OF CONTRACT AMENDMENT KEY TERMS

Provisions	Existing Contract	Amendment
Guaranteed Lease Payment Minimum from Allvision	500,000 payable by June 30, 2015 for the period July 1, 2010 through June 30, 2015 and \$100,000 per year (after June 30, 2015) for five years (\$1,000,000 total	Metro will waive the requirement for Allvision to pay \$500,000 in accrued Guaranteed Annual Revenue Payment that was due June 30, 2015. Allvision will pay Metro \$100,000 per year from July 1, 2010 to June 30, 2020 from incremental revenues or a lump sum payment of the difference if sufficient revenues are not generated by June 30, 2020.
Net Incremental Payment Revenues (Amount Exceeding Base Annual Payment Revenue and expense reimbursements to Allvision)	70% payable to MTA	75% payable to MTA
Revenue share to Allvision if incremental revenue is realized from billboard assets not developed under Option 1 or Option 2.	AV receives 30% of the net incremental revenue	Allvision will receive 25% of net incremental revenue generated from the proposed City-approved digital billboard project in Long Beach and the proposed digital billboard project in Carson, if those projects are successfully completed and generating revenue.
Length of Term of Revenue Sharing	30 Years	Same
Contract Term		Same

Contractor Expenses	All approved Contractor Expenses are reimbursable costs from incremental revenue.	<p>Allvision will waive and not recapture from future revenues \$769,000 in incurred Contractor Expenses that were reimbursable costs under the revenue.(Net benefit to Metro \$500,000)</p> <p>Allvision will waive and defer all Contractor Expenses from that will be incurred from any future billboard projects in the City of Los Angeles from reimbursement out of net incremental revenue being generated from the existing billboard project in Downey, the proposed City-approved digital billboard project in Long Beach and proposed digital billboard project in Carson until Metro has received the Minimum Annual Guaranteed</p>
Work Plan and Budget	N/A	Allvision will develop, subject to Metro staff approval, a proposed work plan and budget prior to commencing any new billboard projects
Option 1	Allvision receives 30% of the net incremental revenue	Allvision receives 25% of the net incremental revenues
Alternative Development Strategy (Option 2)	No Change	Same

AMENDING MOTION TO ITEM #48:

MOTION

DIRECTORS ANTONOVICH AND DUBOIS

AS AMENDED BY KNABE

The revenue stream to be generated by the contract with Allvision LLC for digital advertising billboards has been recommended by staff to go into the general fund. Given the nexus between this contract and Metro Operations and the need for expanded and enhanced bus and rail operations, it is vital that the revenue generated by digital billboards be dedicated for use by Metro Operations, with a priority to be provided to service improvements and enhancements for the more than 41 million bus and rail riders that use the Metro system monthly.

WE THEREFORE MOVE that the Board direct the CEO to preserve all revenues generated by this digital billboard contract for use by Metro Operations. As a first priority, this revenue is to be used for service improvements and enhancements ~~throughout the system~~ within the corridor (subregion) where the billboard is located.