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Metropolitan Transportation Authority

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**EXECUTIVE MANAGEMENT COMMITTEE  
SEPTEMBER 19, 2013**

**SUBJECT: DEVELOPMENT AGREEMENT FOR DIGITAL ADVERTISING SIGNS**

**ACTION: AUTHORIZE EXECUTION OF DEVELOPMENT AGREEMENT FOR  
DIGITAL ADVERTISING SIGNS AND AMEND EXISTING ALLVISION  
REVENUE CONTRACT**

**RECOMMENDATION**

- A. Authorize the Chief Executive Officer (CEO) to execute a Development Agreement with the City of Downey for the installation of outdoor advertising signs on MTA property.
- B. Authorize the Chief Executive Officer to amend the existing revenue contract with Allvision LLC to:
  - a) Clarify the terms of the revenue sharing arrangements between the parties and;
  - b) Identify an alternative development strategy option at MTA's option that was not specifically included in the original contract.

**ISSUE**

On May 23, 2013, the Board authorized the CEO to negotiate the terms of Development Agreements with local municipalities for the installation of outdoor advertising signs within their respective jurisdictions.

Currently there are 403 outdoor advertising billboards ("Billboards") in place on MTA property and right-of-way in the County of Los Angeles. The Billboards are in place under various ground leases that were assigned to MTA when the railroad rights of way were purchased by MTA in the 1990's. Due primarily to lease terminations for transit projects, annual revenue from these ground leases has declined over the last several years from approximately \$2.6 million to \$1.2 million.

In order to maximize billboard revenue in future years, the Board authorized a revenue service contract between MTA and Allvision. Allvision has completed an in-depth

analysis of all MTA owned property for its potential for generating additional revenue from billboard assets. As part of this review and analysis, Allvision (1) reviewed each existing billboard site; (2) investigated local and state ordinances related to billboards; (3) submitted permit applications to Caltrans for review and approval; (4) conducted meetings with local municipalities and MTA staff; (5) prepared and submitted to MTA staff for approval a Strategic Plan for Billboard Advertising on MTA Property.

The Strategic Plan offers MTA the opportunity to permit state of the art digital billboards on its property that will provide the potential for significant increases in long-term revenue. All potential development sites have been evaluated based on municipal interest; reviewed for conformance with federal and state laws; evaluated for community and public affairs impact; valued for highest and best outdoor advertising revenue opportunity to MTA, and selected for consideration after an initial entitlement assessment and input from the MTA real estate, planning, operations and engineering departments. Proposed locations have been organized into projects by local jurisdiction. Allvision and MTA staff will continue to work with each local jurisdiction that has an MTA project opportunity to obtain the necessary entitlements.

These municipalities have evinced significant interest in participating in this program as it provides them the opportunity to eliminate blighted conditions, where applicable, caused by the existing numerous, low quality, static billboards located in their jurisdiction and also provides the opportunity to generate additional revenue. Allvision and METRO are continuing to meet with additional municipalities to determine if they are interested in opting into this program.

In addition, the placement of digital billboards allows the communities, as well as MTA, to provide real-time public service information, such as amber alerts, traffic information and other public announcements as part of the signage program. Each municipality also is presented with the opportunity to place signage only in locations that meet their individual safety and aesthetic criteria.

Allvision is contracted to work with MTA staff to obtain approvals from local municipalities, on an opt-in basis, to construct and operate digital billboards on MTA property. As part of these projects, certain static billboards, if any, on MTA properties within each jurisdiction will be removed and municipalities will receive a share of revenue generated from the newly developed digital billboards. These entitlements are granted in the form of a Development Agreement between the municipality and MTA.

Allvision LLC (Allvision) and MTA staffs have now negotiated a Development Agreement with the City of Downey to provide for the construction and operation of a digital billboard on MTA property at Division 4.

The Board also authorized the CEO to amend the revenue contract with Allvision to provide management services for outdoor advertising displays on MTA owned property. During subsequent discussions with Allvision regarding the contract amendment, it was

determined that further clarification of the terms of the revenue sharing arrangements was necessary.

Approval of the Development Agreement and amendments to the Allvision contract require board approval to proceed.

## **DISCUSSION**

### **Development Agreement**

In order to construct and operate digital billboards on MTA property, it will be necessary to obtain entitlements from local municipalities. These entitlements are included in a Development Agreement(s) which will enable MTA to grant licenses to billboard companies to construct and operate digital billboards. Allvision and MTA staffs have been working with local municipalities interested in participating in the digital billboard program to obtain the necessary entitlements.

In the instant case, the proposed digital billboard program ("Program") has been reviewed and approved by various City of Downey agencies, including the Downey City Planning Commission and Downey City Council. On June 19, 2013, the City of Downey Planning Commission approved a variance and Conditional Use Permit (CUP) for this project. Following Planning Commission approval, on August 27, 2013 the City of Downey City Council unanimously approved a the development agreement granting MTA entitlements for the construction and operation of a digital billboard at Division 4 located at 7878 Telegraph Road, Downey, California. The CUP addresses the location and long-term operating conditions of the sign. The variance is allows the proposed sign to deviate from the maximum allowable 35 foot height for billboards to the proposed height of 55 feet and the maximum allowable 300 square foot display area to 672 square feet. The Development Agreement allows the City and the MTA to mutually agree on the installation and operation of the sign.

The proposed sign at Division 4 would be installed on a structure in the northwestern area of the 9-acre project site adjacent to Interstate 5. The sign displays are 48 feet wide by 14 feet tall mounted on a 48 foot tall pole with the overall height being 55 feet-above the adjacent grade.

The proposed Development Agreement entitles MTA with vested rights that will then enable MTA to generate revenue from a digital billboard on MTA property at Division 4. The term of the Development Agreement is for twenty (20) years, which may be extended by MTA for another ten (10) years.

The billboard project in Downey is expected to generate a minimum of \$9 million in new general fund revenue over the twenty-year term of the Development Agreement. The Development Agreement also provides that the City will receive development fees based on the revenue generated from the digital billboards. A summary of the proposed terms of the Development Agreement is included in Attachment "A".

## Contract Amendment

The existing contract with Allvision is being amended to clarify the terms of the revenue sharing arrangement between Allvision and MTA and to identify an alternate strategy for the development and operation of digital billboards which will enhance MTA's ability to provide transportation-related messaging.

Allvision and MTA agree that incremental revenue generated from new billboard structures (digital billboards) put in place by Allvision will be split between Allvision and MTA. Incremental revenue consists of the annual payments received from billboard companies for new billboard structures located in a particular local jurisdiction, including, if applicable, any development fees paid to local municipalities. The fee is determined after subtracting the following: (a) Base Annual Payment Revenue (current on-going license/lease fees paid to MTA for existing billboard structures); and (b) approved expenses paid by Allvision. MTA will receive its Base Annual Payment Revenue prior to Allvision obtaining any reimbursement for expenses advanced.

Allvision is also proposing an alternative development strategy whereby MTA may, at its sole option, ultimately own the digital billboards and thus receive a larger share of the total revenues generated from the billboards. Currently, the contract provides only a single development strategy in which the billboard company finances, constructs, and owns and operates the digital billboards. If MTA elects, in its sole discretion, to proceed with the alternative strategy option, Allvision will finance, construct, and operate the digital billboards and will amortize the costs of the digital billboards from incremental revenues generated over a five-year term. The contract will be amended to include this strategy as an alternative option for MTA and will be evaluated by MTA on a case by case basis.

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

## DETERMINATION OF SAFETY IMPACT

This Project will have no impact on safety.

## FINANCIAL IMPACT

The billboard project in Downey is expected to generate a minimum of \$9 million in new general fund revenue over the twenty-year term of the Development Agreement.

The Allvision contract is a revenue contract and is expected to generate a minimum of \$1,000,000 in new general fund revenue over the ten-year term of the contract (\$500,000 in 2015 plus \$100,000 annually for five years). Further increases are predicted to begin in FY14 when developments of the new billboard structures are anticipated. These additional revenues could range from \$2 million to \$10 million annually over the life of the contract, however, only the minimum payment is guaranteed.

## **ALTERNATIVES CONSIDERED**

A) Development Agreement: The alternative is to not approve the Development Agreement. This alternative is not recommended because the Downey billboard project is expected to produce \$9 million in additional revenues over the term of the Development Agreement.

B) Contract Amendment: The alternative is to not approve the Allvision contract amendment and continue the current practice of managing existing static billboard leases directly with billboard companies. This is not recommended because the agreement with Allvision involves no out-of-pocket cost and is expected to produce a minimum of \$10 million and potentially in excess of \$30 million in additional annual revenues over the term of the contract. Most of the existing leases were negotiated more than 20 years ago by the railroad companies that previously owned the right of way. Allvision's staff has extensive experience in billboard management, operations, sales, and representing the interest of property owners making it prudent to continue to explore this alternative. Furthermore, Allvision has demonstrated a strong commitment to the billboard program by investing substantial time and resources toward moving the program forward.

## **NEXT STEPS**

Within this fiscal year, pursuant to the terms of the referenced contract, Allvision and/or METRO will enter into agreements under Option 1 and/or Option 2 to generate revenue related to the new signs, as approved by the CEO or his designee.

## **ATTACHMENTS**

- A. Summary of Development Agreement Key Terms
- B. Summary of Contract Amendment Key Terms

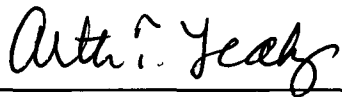
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Chief Executive Officer

**ATTACHMENT A**

**SUMMARY OF DEVELOPMENT AGREEMENT KEY TERMS**

<b>Project</b>	The Project is the development, installation, management and operation of the digital display billboards on MTA property located at 7878 Telegraph Road, Downey, California.
<b>Conditions for Approval</b>	Those conditions approved by the City Planning Commission and by the City Council, at a public hearing to be held on the Project, for addressing among other things, the permitting approval process of all designs and plans and all necessary ministerial permits and approvals, and the construction, design, operation, and maintenance of, and control of illumination and light from, the digital display sign and property.
<b>Term</b>	The term of the Development Agreement is twenty (20) years commencing on execution of the agreement by City and MTA. MTA has the option to extend the term of the Development Agreement for another ten (10) years.
<b>Development Fees</b>	City receives an amount equal to the greater of the Alternative Development Fee or Eighty Thousand (\$80,000) Dollars per year.
<b>Alternative Development Fee</b>	City receives an amount equal to Twenty-Five Percent (25%) of total annual net advertising revenue received by MTA minus the Development Fee.
<b>Community Benefit</b>	As part of the consideration for this Development Agreement, the City shall be provided, on a space available basis, one advertising slot on one face of the digital display sign useable by the City for one month per year

**SUMMARY OF CONTRACT AMENDMENT KEY TERMS**

<b>Provisions</b>	<b>Existing Contract</b>	<b>Amendment</b>
Guaranteed Lease Payment Minimum from Allvision	\$100,000 per year for five years (\$500,000 total)	\$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)
Net Incremental Payment Revenues (Amount Exceeding Base Annual Payment Revenue and expense reimbursements to Allvision) up to \$4,400,000	20% payable to Allvision	30% payable to Allvision
Net Incremental Payment Revenues over \$4,400,000	25% payable to Allvision	30% payable to Allvision
Length of Term of Revenue Sharing	50 Years	30 Years
Contract Term	5 Years (including options)	5 Years plus an option to extend Contract for five (5) additional 1-year periods
Alternative Development Strategy Option	Not Applicable	At MTA's sole option, Allvision proposes to finance, construct, and operate the digital billboards and to amortize the costs of the digital billboards from incremental revenues generated over a five-year term. This alternative is an option for MTA and is expected to generate a larger share to MTA of the total revenues generated from the billboards. 40% of Net Incremental payment revenues are payable to Allvision under this option.



