

Transportation Communication Network (TCN) Projections

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Executive Summary

This presentation delves into the Transportation Communication Network (TCN) proposed by the City of Los Angeles in collaboration with LACMTA. While the city has projected substantial revenue, ranging from \$300 - \$500 million over a twenty-year period, our in-depth analysis reveals a more realistic outlook.

In the "Digital Billboard Analysis" and "Projections" sections, we scrutinize the program's revenue potential, considering factors such as the number of billboards, actual advertising rates from industry leaders Clear Channel and Outfront, occupancy rates, operating costs, and the removal of 125 static billboards on LACMTA properties. Our best estimate suggests that the expected revenue may not align with the city's optimistic projections.

Furthermore, the "Potential Impact of Increased Digital Billboard Inventory on the Advertising Market" section draws insights from previous cases in Chicago and Denver. These cities experienced market disruption due to an influx of digital billboards, resulting in decreased rates, lower occupancy, and reduced revenue for both operators and the cities.

In the context of the proposed digital billboard program, the financial impact on the budgets of both the City of Los Angeles and LACMTA is relatively minimal. Each year, these organizations are expected to receive approximately 0.0559% and 0.0839% of their respective budgets, which for the City equates to approximately \$7,550,000 and for LACMTA approximately \$7,550,000 annually. When extrapolated over 20 years, these percentages remain consistent.

While these figures may seem substantial when viewed in isolation, they represent a small fraction of each organization's overall budget. This suggests that the digital billboards, while contributing positively to revenue, are not the primary drivers of financial health for either the City or LACMTA. Therefore, while the revenue generated from these billboards is noteworthy, it should be considered in the context of the diverse financial needs and resources of these entities, emphasizing the need for careful budgetary management and planning in the face of various financial challenges and obligations.

The impact of dividing \$151 million equally over 15 districts in Los Angeles over a 20-year period is quite minimal, amounting to approximately \$503,333 annually per district. While \$151 million may seem substantial at first glance, when spread out over two decades and distributed across multiple districts, the yearly allocation becomes relatively modest. This amount, while not insignificant, underscores the importance of carefully assessing the potential revenue and financial implications of large-scale projects, such as digital billboard programs, especially when considering the diverse needs and budgets of different districts within a city as expansive as Los Angeles.

In light of these findings, we emphasize the importance of a cautious and balanced approach when introducing a substantial number of digital billboards. Comprehensive assessments and market studies should precede such programs to prevent oversaturation and potential adverse effects on existing advertising assets and market dynamics. Ultimately, the success of any digital billboard program should prioritize the interests of the city and its residents above all else.

Financial Methodology

Background:

The City of Los Angeles, in collaboration with LACTMA, is evaluating the potential revenue generated by installing 54 freeway digital billboard faces and 26 street-level digital billboard faces within the city. Initial projections by the city suggested a revenue range of \$300-\$500 million for LACTMA and the City. However, our comprehensive analysis indicates that the actual revenue is likely to be notably lower.

Methodology:

Our analysis involved a meticulous examination of the program's revenue potential, factoring in several critical variables:

- **Number of Proposed Digital Billboards:** We considered the installation of 54 freeway digital billboards and 26 street-level digital billboards.
- **Time Horizon:** We assessed the program's financial impact over a 20-year period.
- **Advertising Rates:** Actual advertising rates were sourced from industry leaders, Clear Channel and OutFront (as shown pages 14 & 15).
- **Occupancy Rates:** We assumed an industry-standard 70% occupancy rate for the 8 advertising spots per billboard.
- **Cost Considerations:** Comprehensive cost considerations were taken into account, including sales commissions, capital investments, development expenses, power consumption, and annual growth.
- **LACTMA Static Billboard Removal:** We evaluated the financial impact of removing 125 static billboards, which currently generate income for LACTMA.

Financial Assumptions

Projections and Assumptions:

In our analysis, we established the following key assumptions:

- **Digital Billboard Sales:** TCN digital billboards would be sold at a rate of 8 spots per month.
- **Billing Rates:** Freeway billboard rates were set at \$10,000 per spot, and street-level billboards were priced at \$8,500 per spot.
- **Occupancy:** We anticipated an industry-standard 70% occupancy rate for the 8 advertising spots per billboard.
- **Rate Discount:** Clients were considered to benefit from a 25% discount off full published rate card pricing over a 20-year period. (Note: The industry typically offers media rate discounts ranging from 10% to 50% off published ad rates.)
- **Revenue Split:** We factored in a revenue split where the Billboard Operator would receive 50%, LACMTA 25%, and the City 25%.
- **Equipment Investment:** An initial equipment investment of \$25,245,000 was accounted for.
- **LACMTA Static Billboards Removal:** We evaluated the financial impact of removing 125 static billboards, each generating \$4,000 per month.

Projections Include Two Scenarios:

Scenario 1: Assumes that LACMTA removes 125 static billboards and anticipates 100% of the loss.

Scenario 2: In this scenario, LACMTA removes 125 static billboards, and the city assumes 50% of LACMTA's loss, reflecting a shared financial responsibility.

Financial Projections

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7-20	20 YEAR TOTAL	
TCN PROGRAM - PROJECTION MODEL										
TCN Program		Collections - TCN Program								
Scenario #1		\$ 28,236,693	\$ 42,496,223	\$ 42,708,705	\$ 42,922,248	\$ 43,136,859	\$ 43,352,544	\$ 630,196,311	\$ 873,049,583	
Total Net Revenue to City/Metro		\$ -	\$ 12,706,512	\$ 19,123,301	\$ 19,218,917	\$ 19,315,012	\$ 19,411,587	\$ 282,177,453	\$ 371,952,781	
Capital Investment Recovery (e.g Digital Billboards)		(6,215,278)	(6,215,278)	(6,215,278)	(6,215,278)	(6,215,278)	0	0	(31,076,390)	
TCN Shared Revenues		\$ (6,215,278)	\$ 6,491,234	\$ 12,908,023	\$ 13,003,639	\$ 13,099,734	\$ 19,411,587	\$ 282,177,453	\$ 340,876,391	
New Sign Occupancy	70%								50 % to City	\$ 170,438,195
Freeway Sign Rate	\$ 7,500									
Non-Freeway Sign Rate	\$ 6,800									
(average after discounting)										
Selling Expense Rate	10%								50 % to Metro	\$ 170,438,195
BillBoard Co. Share	50%								Less Revenue from 125 LACMTA Static Billboards Removed	(39,957,114)
(after selling costs)										\$ 130,481,082

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7-20	20 YEAR TOTAL	
TCN Program										
Scenario #2		Collections - TCN Program								
Total Net Revenue to City/Metro		\$ 28,236,693	\$ 42,496,223	\$ 42,708,705	\$ 42,922,248	\$ 43,136,859	\$ 43,352,544	\$ 630,196,311	\$ 873,049,583	
Capital Investment Recovery		(6,215,278)	(6,215,278)	(6,215,278)	(6,215,278)	(6,215,278)	0	0	(31,076,390)	
TCN Shared Revenues		\$ (6,215,278)	\$ 6,491,234	\$ 12,908,023	\$ 13,003,639	\$ 13,099,734	\$ 19,411,587	\$ 282,177,453	\$ 340,876,391	
Less Revenue from 125 LACMTA Static Billboards Removed		-	-	-	-	-	-	-	(39,957,114)	
									50 % to City	\$ 150,459,638
									50 % to Metro	\$ 150,459,638

Impact of the TCN Program on City and LACMTA Budgets

In this comprehensive assessment, we delve into the potential impact of the Transportation Communication Network (TCN) program on the budgets of both the City of Los Angeles and the Los Angeles County Metropolitan Transportation Authority (LACMTA). It's essential to recognize that annual budgets for these entities are dynamic, and any revenue generated by the TCN program should be evaluated within the context of these fluctuations.

FY 2023-2024

PROPOSED BUDGET



CITY OF LOS ANGELES

MAYOR KAREN BASS



Impact of the TCN Program on City and LACMTA Budgets (Continued)

City of Los Angeles Budget Dynamics

The City of Los Angeles operates with an annual budget that varies from year to year. For the fiscal year 2023-24, the city's budget stands at \$13.5 billion. However, this figure is not static and is subject to adjustments annually, influenced by numerous factors, including economic conditions, infrastructure projects, and public service demands.

To assess the impact of the TCN program on the city's budget, we initially consider the program's projected annual revenue. According to our analysis, the program is expected to yield approximately \$7,550,000 annually for the City. When we express this revenue as a percentage of the budget, it equates to around 0.0559% of the city's total annual budget.

It's crucial to highlight that this percentage does not remain constant over the twenty-year duration of the TCN program. Budgets typically experience inflation, and while revenue from the program may increase due to contractual agreements or a growing advertising market, the percentage it represents relative to the budget may remain relatively stable or fluctuate marginally.

LACMTA Budget Dynamics

LACMTA operates with a substantial annual budget, which for the fiscal year 2023-24 stands at \$9 billion. Similar to the City's budget, this figure is also dynamic and can vary from year to year based on various factors, including transit projects, ridership trends, and infrastructure maintenance.

In the context of the TCN program, LACMTA anticipates an annual revenue of approximately \$7,550,000. When expressed as a percentage of the agency's annual budget, this revenue constitutes roughly 0.0839%. Again, it's important to acknowledge that this percentage is not static. Changes in LACMTA's budget over the twenty-year period may result from factors such as cost adjustments, funding allocations, or unforeseen circumstances affecting public transportation.

Impact of the TCN Program on City and LACMTA Budgets (Continued)

Interpreting the Impact

While the projected revenue from the TCN program may appear substantial when considered in isolation, these percentages underscore a key point: the TCN program's revenue plays a relatively modest role in the budgets of both the City and LACMTA. It is a supplemental source of income rather than a primary driver of financial health.

As these entities manage diverse financial needs and obligations, careful budgetary planning is essential. The dynamic nature of budgets necessitates prudent fiscal management, taking into account inflation, shifting priorities, and various financial challenges. The TCN program can provide a valuable revenue stream, but its impact should be assessed within the broader context of the City and LACMTA's budgetary dynamics.

In conclusion, while the TCN program is expected to contribute positively to revenue, its role in the overall financial landscape of the City and LACMTA is relatively modest. To ensure that the program aligns with the broader fiscal objectives of these entities, ongoing financial assessments and adaptability to budgetary changes are crucial. This nuanced perspective underscores the need for careful consideration and management of the program's revenue within the context of dynamic annual budgets.

Potential Impact of Increased Digital Billboard Inventory on the Advertising Market

Background:

The addition of a significant number of new digital billboards, such as the proposed program in Los Angeles, can potentially have a substantial impact on the advertising market. To illustrate this impact, we can draw insights from past scenarios in other cities, namely Chicago and Denver.

JCDecaux/Interstate Outdoor Partnership with City of Chicago:

- **Summary:** In 2013, the City of Chicago entered into an agreement with a joint venture between JCDecaux and Interstate Outdoor Advertising to develop up to 60 large-scale digital advertising panels along expressways. The City received rent payments and a share of advertising revenue.
- **Correlation:** Chicago was considered a mature outdoor advertising market at the time, with a balance of traditional outdoor advertising assets and successful transit agreements.
- **Effect:** The introduction of additional digital billboards created market saturation, leading to decreased occupancy, lower rates for existing inventory, and reduced revenue shares for the City's transit agreements. Rates under existing contracts dropped by 40-50%, and occupancy declined significantly.

Denver Transit Shelter and Digital Kiosk Agreement:

- **Summary:** Denver expanded its traditional Transit Shelter Agreements to include Digital Kiosks in the downtown area in 2015.
- **Correlation:** Similar to Chicago, Denver had a healthy transit shelter program with strong demand, rates, and occupancy.
- **Effect:** The introduction of Digital Kiosks had a negative impact, cannibalizing advertisers and revenue from transit shelters. Advertising rates and occupancy dropped significantly, with a client experiencing a 40% reduction in shelter revenue.

Conclusion:

These examples demonstrate that the rapid influx of new digital advertising assets can disrupt a previously stable market. Oversaturation can lead to decreased rates, lower occupancy, and a decline in revenue for both billboard operators and the City. Advertisers may become confused by the proliferation of operators and advertising programs. In the context of the proposed digital billboard program in Los Angeles, it's essential to carefully consider the potential consequences of oversaturation and ensure that the market can effectively absorb the new inventory. Monitoring and strategic planning are crucial to mitigate adverse effects on existing advertising assets and revenue streams. These examples serve as cautionary tales, emphasizing the importance of a balanced approach when introducing new digital billboards into a market.

Conclusion

In conclusion, our comprehensive analysis of the proposed Transportation Communication Network (TCN) in collaboration with the City of Los Angeles and LACMTA suggests a more realistic perspective on its revenue potential. While the city has projected substantial revenue figures ranging from \$300 million to \$500 million over a twenty-year period, our in-depth examination brings to light several critical factors that temper these expectations.

The "Digital Billboard Analysis" and "Projections" sections of our study scrutinized the revenue potential of the program meticulously. This included considering key variables such as the number of billboards, actual advertising rates from industry leaders Clear Channel and OutFront, occupancy rates, operating costs, and the removal of 125 static billboards on LACMTA properties. Our best estimate indicates that the anticipated revenue may not align with the city's optimistic projections.

Furthermore, the "Potential Impact of Increased Digital Billboard Inventory on the Advertising Market" section underscored the potential repercussions by drawing insights from similar cases in Chicago and Denver. These cities experienced market disruptions due to the rapid influx of digital billboards, resulting in decreased advertising rates, lower occupancy, and reduced revenue for both operators and the cities.

Over a twenty-year horizon, these percentages remain consistent. While these figures may appear substantial when viewed individually, they constitute a relatively small portion of each entity's overall budget, emphasizing that digital billboard revenue is not the primary driver of their financial health.

When dividing \$151 million equally over 15 districts in Los Angeles over a 20-year period, the yearly allocation per district is approximately \$503,333. Although \$151 million seems significant, this allocation, when distributed over two decades and multiple districts, is relatively modest.

In light of these findings, our analysis strongly underscores the importance of a cautious and balanced approach when considering a substantial introduction of digital billboards. Conducting comprehensive assessments and market studies before such programs are implemented is essential to prevent oversaturation and the potential adverse effects on existing advertising assets and market dynamics.

Ultimately, the success of any digital billboard program should prioritize the interests of the city and its residents above all else. This entails a measured approach that takes into account the unique dynamics of Los Angeles' diverse districts and the careful management of financial resources, ensuring that the introduction of digital

Glossary

- **Revenue Split:** This term refers to the allocation of revenue generated from digital billboards among different stakeholders. It specifies how the revenue is divided among parties such as the Billboard Operator, Metro (likely the Los Angeles County Metropolitan Transportation Authority), and the City.
- **Occupancy:** Occupancy is a measure of how frequently advertising spots on digital billboards are utilized or filled by advertisers. It is usually expressed as a percentage and reflects the level of demand for billboard space.
- **Rate:** Rate refers to the cost or price associated with advertising on digital billboards. It encompasses the fees charged for displaying advertisements on these billboards.
- **54 Freeway Faces:** This term likely refers to a specific type or location of digital billboards, situated along freeways. The number 54 indicates the quantity of billboards of this type.
- **26 Street Faces:** Similar to "54 Freeway Faces," this term likely represents a different type or location of digital billboards, located on city streets. The number 26 indicates the quantity of billboards of this type.
- **Rate Discount:** Rate discount signifies a reduction in the standard advertising rates. It implies that advertisers may receive a discount or reduced price when purchasing billboard advertising space, typically expressed as a percentage.
- **Equipment Investment:** This refers to the initial capital expenditure required for the installation and maintenance of digital billboard equipment. It may include costs associated with purchasing, setting up, and maintaining the hardware and software for these billboards.
- **LACMTA Static Billboards Removed:** This term refers to the removal of static billboards owned by the Los Angeles County Metropolitan Transportation Authority (LACMTA). It relates to the impact of replacing these static billboards with digital ones on revenue and other factors.

Appendix

Clear Channel Outdoor Rate Card



Flight Name:

Market Name: Los Angeles, CA

Market Type: DMA

Duration: 4 Weeks

Map Loc.#	Media Type	Panel ID	Location Description	Facing	Display Size (h x w)	Illum (Y/N)	4-Wk Proposed Rate	Add'l Costs	Tax Amount	Total Price
1	Digital	002068	Santa Ana Frwy NS 1390ft W/O Slauson F/S - 1	S	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
2	Digital	003012	Artesia Frwy SS 0.03mi E/O Long Beach Frwy F/E - 1	E	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
3	Digital	003023	Harbor Frwy ES 0.03mi S/O Sepulveda F/N - 1	N	14' x 48'	Yes	\$9,000	\$0	\$0.00	\$9,000
4	Digital	003051	Long Beach Frwy WS 450ft S/O Pac Cst Hwy F/S - 1	S	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
5	Digital	003096	San Diego Frwy (405 Frwy) SS 350ft W/O Alameda F/W - 2	W	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
6	Digital	007153	Pomona Frwy SS 0.02mi E/O Fairway F/W - 1	W	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
7	Digital	007181	San Berdo Frwy SS 500ft W/O San Gabriel Frwy F/E - 1	E	14' x 48'	Yes	\$9,000	\$0	\$0.00	\$9,000
8	Digital	007248	San Gabriel Frwy WS 700ft N/O Valley F/S - 2	S	14' x 48'	Yes	\$9,000	\$0	\$0.00	\$9,000
9	Digital	007406	Artesia Frwy NS 0.3mi E/O Knott F/E - 2	E	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000
10	Digital	007551	Garden Grove Frwy SS 1700ft W/O Harbor F/E - 2	E	14' x 48'	Yes	\$10,000	\$0	\$0.00	\$10,000

OutFront Rate Card



Market	Media	Showing Level	Num of Units	Period	Duration	Showing Type	Inventory #	Location Description	Copy Size	Latitude	Longitude	Initial Install	IMP 18+ Weekly	Rate Card Value	Net Amount per Period	Spot Length	Loop Length	IMP 18+ 4 Week	Illumination (Y/N)	TAB Panel ID	Facing
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1222C	San Gabriel Fwy E/L N/O Lower Azusa% F/N	14'x48'	34.094811	-117.986921	\$0.00	258,632	\$11,300.00	\$8,000.00	8 sec	64 sec	1,034,528	Yes	30682798	N
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1227C	Pomona Fwy N/L W/O Fairway% F/W	14'x48'	33.996705	-117.871579	\$0.00	436,276	\$11,300.00	\$8,000.00	8 sec	64 sec	1,745,104	Yes	30682830	W
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1264G	Garden Grove Fwy N/L E/O Newhope F/W	14'x48'	33.765699	-117.926108	\$0.00	467,996	\$10,800.00	\$7,900.00	8 sec	64 sec	1,871,984	Yes	30832119	W
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1267D	Santa Ana Fwy W/L N/O Valley View F/S	14'x48'	33.888299	-118.037508	\$0.00	304,793	\$10,200.00	\$10,200.00	8 sec	72 sec	1,219,172	Yes	30857295	S
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1268C	Artesia Fwy S/L .1 mi E/O Walker % F/E	14'x48'	33.859302	-118.036562	\$0.00	529,808	\$8,500.00	\$7,500.00	8 sec	64 sec	2,119,232	Yes	30865708	E
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1270C	Artesia Fwy N/L W/O Orangethorpe% F/W	14'x48'	33.85964	-118.034572	\$0.00	540,780	\$8,500.00	\$7,500.00	8 sec	64 sec	2,163,120	Yes	30865754	W
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1271D	Artesia Fwy N/L W/O Orangethorpe % F/E	14'x48'	33.859608	-118.03461	\$0.00	677,151	\$8,500.00	\$7,500.00	8 sec	64 sec	2,708,604	Yes	30865763	E
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1273B	Long Beach Fwy E/L S/O Del Amo F/N	14'x48'	33.844028	-118.205582	\$0.00	195,681	\$12,750.00	\$12,750.00	8 sec	64 sec	782,724	Yes	30890287	N
Los Angeles	Digital Bulletins	UNIT	1	4 Week	4 Weeks	Regular	1274C	Long Beach Fwy E/L S/O Del Amo F/S	14'x48'	33.844028	-118.205582	\$0.00	230,365	\$12,750.00	\$12,750.00	8 sec	64 sec	921,460	Yes	30890295	S