

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING OF NOVEMBER 29, 2016
FROM:	GEORGE KOTSIFAS MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL AND MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES & CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	ALTERNATIVES FOR BILLBOARDS ADVERTISING

RECOMMENDATION

That on the recommendation of the Managing Director, Development and Compliance Services & Chief Building Official and the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer, with the concurrence of the City Manager, the following actions be taken:

- 1) This staff report regarding alternatives for billboard advertising **BE RECEIVED** for information;
- 2) Civic Administration **BE DIRECTED** to undertake a Request for Proposal (RFP) process that will:
 - a. maximize the amount of revenue generated by billboard advertising (in comparison to the existing lease); and,
 - b. provide billboard advertising opportunities for City and community groups (coordinated by the City) for no charge, noting that this will impact the amount of revenue that will be generated from the advertising alternatives.

IT BEING NOTED THAT a new contract must be in place by October 2017 and that the RFP will be in part affected by the Sign By-law process currently underway.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

"Proposed New Sign By-law & Amendments to Current Sign & Canopy By-law," Planning and Environment Committee, October 17, 2016.

"Extension of Lease of City Owned Lands Outdoor Advertising Billboards Outfront Media Canada LP," Corporate Services Committee (in camera), September 20, 2016

"Proposed New Sign By-law & Amendments to Current Sign & Canopy By-law," Planning and Environment Committee, August 22, 2016

"Extension of a Lease of City Owned Lands for Outdoor Advertising to Outfront Media Canada LP," Corporate Services Committee, October 20, 2015

BACKGROUND

On January 27, 2015, Council resolved the following:

That the communication dated January 2, 2015, from Councillor van Holst, regarding billboards and City-owned lands on which billboards sit, BE REFERRED to the Civic Administration for review and report back to the appropriate Standing Committee; it being noted that the City's current policy and by-law pertaining to billboards are presently under review and are expected to be reported upon during 2015.

Staff understand Councillor van Holst’s proposal to be the following:

- the City would construct LED-screen digital billboards (signs and associated infrastructure) and would lease the components from a supplier;
- the equipment lease would expire at the end of three (3) years with City ownership of all leased hardware and infrastructure without an end-of-term payment;
- the City would sell advertising space for the digital billboards to the public;
- the City would not provide the administration and marketing for the digital billboards, but would engage a firm to provide those services for a percentage of advertising revenue earned; and,
- the City would evaluate whether to continue with direct billboard advertising for the subsequent Multi-Year Budget (including a review of lifecycle renewal costs).

Alternatively, it has been proposed that the City seek to maximize the number of locations for digital billboards (based on what will be approved with the new Sign By-law), with expanded lease options for private sector proponents. The new lease agreement would also contain provisions for City and community group advertising with no additional charge.

ANALYSIS

Sign and Canopy By-law

At present, the Sign and Canopy By-law does not permit digital billboards within the City. On August 22, 2016, the Managing Director, Development & Compliance Services and Chief Building Official submitted a draft Sign By-law that would include, amongst other things, provisions related to digital signage.

The draft by-law permits digital sign graphics to change a maximum of 1 image per 10 seconds (6 images/minute).

It is expected that the final version of the by-law will be considered by Council early in 2017. Until such time, however, the City would not be able to construct and operate digital billboards, nor would a private entity be permitted to do so.

Survey of Billboard Advertising in Other Municipalities

As part of the Sign By-law review, Staff conducted a survey of large and mid-sized urban municipalities across Ontario regarding City involvement in billboard advertising. Of the nineteen (19) responses received, only three (3) municipalities (Windsor, Ottawa and Hamilton) lease property for billboard purposes. None of the municipalities were directly providing billboard advertising to the public, nor were they selling space to third parties.

In a 2012 billboard survey conducted by Realty Services, two (2) municipalities (Ottawa and Edmonton) reported arrangements with their lessees for a minor amount of billboard advertising time/space to promote municipal campaigns. Ottawa also has an arrangement with their lessees that digital billboards will broadcast emergency messages and amber alerts.

Comparison of Alternatives

A number of assumptions will be used to evaluate the billboards alternatives from a financial and administrative perspective. Staff have been supplied with information from Councillor van Holst, however a number of the revenue and cost assumptions have not been verified due to time constraints and lack of internal expertise on this topic.

Table 1 provides a high-level examination of the factors associated with the two alternatives for digital billboard advertising, as described in the “Background” section above. Commentary is provided regarding both revenue and cost implications.

TABLE 1: COMPARISON OF DIGITAL BILLBOARD ALTERNATIVES

Factor	City Provision of Billboards	Expanded Lease
Revenue	<ul style="list-style-type: none">- Impacted by:<ul style="list-style-type: none">▪ number of locations permissible under the new Sign By-law;▪ desirability of billboard locations; and,▪ number of graphics per minute.	<ul style="list-style-type: none">- Impacted by:<ul style="list-style-type: none">▪ number of locations permissible under the new Sign By-law;▪ desirability of billboard locations; and,▪ number of graphics per minute.
Cost – Sales and marketing	<ul style="list-style-type: none">- An agent would be hired to market the billboard space, based on a percentage of revenues collected (could be 10% of revenues).- Staff does not recommend providing this service in-house.	<ul style="list-style-type: none">- No direct costs related to marketing space (cost of the lessee).
Cost – Content management	<ul style="list-style-type: none">- An agent would be hired to administer the content for the billboard space, based on a percentage of revenues collected (could be 5% of revenues).- Staff does not recommend providing this service in-house.	<ul style="list-style-type: none">- No direct costs related to content management (cost of the lessee).
Cost – Electricity and insurance	<ul style="list-style-type: none">- The City would directly pay ongoing costs associated with electricity and insurance for the digital billboards.	<ul style="list-style-type: none">- No direct costs related to electricity and insurance (cost of the lessee).
Cost – Security	<ul style="list-style-type: none">- The City would incur ongoing costs to protect the billboards from theft and vandalism.	<ul style="list-style-type: none">- No direct costs related to security (cost of the lessee).
Cost – Coordination	<ul style="list-style-type: none">- Depending on the arrangement with the City’s agent, there may be staff time required to coordinate advertising requests from community groups. These costs are not presently accounted for in the Multi-year Budget.	<ul style="list-style-type: none">- Staff will need to develop protocols for community group advertising and coordinate the advertising requests. These costs are not presently accounted for in the Multi-year Budget.
Cost – Capital investment (signs, poles, hydro connection, etc.)	<ul style="list-style-type: none">- Capital costs for signs and equipment would be financed through debt or a lease arrangement.- There are likely to be capital renewal costs within 3-5 years, due to changes in technology and/or screen longevity.- Capital costs would be heavily influenced by number of locations (each digital sign/pole could cost between \$300,000 and \$700,000).- Significant up-front investment would be required for “start-up” costs (e.g., engineering, permits, electrical hook-ups, etc.).	<ul style="list-style-type: none">- No direct costs related to capital investment (cost of the lessee).

DISCUSSION

It is the opinion of Staff that alternatives for billboard advertising require further exploration and analysis:

- **Revenue and cost assumptions:** Presently, too many assumptions have not been sufficiently verified for Staff to recommend pursuing the City-owned billboard proposal at this time. Further discussions with internal Service Areas are required as well as research of industry norms.
- **Sign By-law challenges:** Since the new Sign By-law has not yet been adopted, the City is unable to construct and provide digital billboards. It is anticipated that this opportunity will become available with the approval of the Sign By-law in early 2017.
- **Tax revenue implications:** Staff have been informed by the Municipal Property Assessment Corporation that changes are occurring for billboards assessment, providing opportunities to collect taxes (previously unavailable). Future tax revenues are anticipated to be approximately \$300/year per location for static billboards. Tax revenues would not be applicable if the City was directly providing a billboard advertising service.
- **Agent for marketing and administration:** The City does not have staff resources with experience in marketing billboard advertising space; as a result, an agent would be required if billboards were to be directly owned/operated by the City. The parameters of this arrangement are presently unclear and require further exploration. Staff do not recommend that the City develop in-house personnel and systems infrastructure for billboards advertising due to cost implications.
- **Further discussions with City Service Areas:** The direct provision of billboard advertising may have staffing and advertising impacts on a number of Service Areas throughout the Corporation. Limited discussions have been held to date and further discussion is required to develop a holistic strategy and business plan.
- **Risk/reward:** It may be possible for the City to realize additional net contributions from the direct provision of billboard advertising on City-owned property in comparison to an expanded lease arrangement. However, the City would need to rely heavily on its agent to provide industry expertise, sales and marketing capacity, and administrative support to ensure the performance of this new service area. Additionally, the City would be responsible for significant investment and liabilities associated with the required infrastructure. The potential rewards must also be weighed against the certainty of a contractually-obligated revenue stream.

Staff support the goals of increasing revenues from billboard advertising and investigating new opportunities to provide low-cost advertising space for community groups and municipal campaigns. These goals may be achieved through direct City entry into billboard advertising or through an enhanced lease arrangement providing additional sites and opportunities for City/community advertising.

Over the coming months, Staff will further review and explore options for billboard advertising and will provide a report to Corporate Services Committee in the second quarter of 2017 (following Council approval of the new Sign By-law) with a Request for Proposal (RFP). The RFP will be informed by the desire to generate increased revenues related to billboard advertising and to secure opportunities for low-cost advertising space for community groups and municipal campaigns.

CONCLUSION

Staff will undertake a Request for Proposal (RFP) regarding billboard advertising. Additional analysis and research will be conducted to review the billboard advertising alternatives and to select the preferred alternative for the RFP. The RFP will seek to maximize revenues that can be generated as well as provide low-cost and easily implementable opportunities to the City and community groups to advertise to the public.

The outcomes of the Sign By-law process will impact the RFP, both in terms of completion timelines and the permitted scope of billboard advertising.

The RFP process will be completed prior to the expiration of the present lease with OUTFRONT Media (October 2017).

PREPARED BY:	RECOMMENDED BY:
PAUL YEOMAN BUSINESS PLANNING PROCESS MANAGER FINANCE AND CORPORATE SERVICES	GEORGE KOTSIFAS MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL
RECOMMENDED BY:	CONCURRED IN BY:
MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	ART ZUIDEMA CITY MANAGER

- cc. Bill Warner, Manager, Realty Services
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