RA6

M E M O R A N D U M

To: Economic Development Subcommittee

From: Diana Barnhart, Economic Development Manager

Through: Thomas C. Williams, City Manager

Subject: **Freeway Sign Summary**

Date: March 12, 2009

Background: At the last meeting of the Subcommittee, staff was directed to move forward with CBS Outdoor with Milpitas Automotive Group and McCarthy Ranch and Clear Channel to develop an “apples to apples” comparison and return to the subcommittee within 30 days.

We have attempted to analyze the two proposals using as best comparison as possible. In doing so we have concluded that an exact "apples to apples" comparison is impossible due to the significant differences in the two approaches of advertising in the Milpitas market. The capital investment as well as revenue generated to the City was evaluated using the fairest approach possible.

Over the last several weeks, City staff has met with representatives from both the Piercey Automotive Group and McCarthy Ranch. They, too, have also concluded that an “apples to apples” comparison is not feasible and neither operator, CBS Outdoor nor Clear Channel, is willing to share the market place. Both agree that splitting the market would result in a weakened marketing position. This all or nothing approach given to staff by the proposers has forced us to look at only one constant – revenue generation - to the City as a result of implementation of the two proposals short listed.

The following list provides the program elements and value to the City:

1. CBS Outdoor with Milpitas Auto Properties and Foster Media: The original CBS proposal showed revenues using 100% occupancy and 100% of rate card, or the highest possible fees that an advertiser would pay. To try and develop a more realistic City revenue projection, the current analysis uses the 70% occupancy and 70% rate card values also provided by CBS in their original proposal.

After an additional conversation with Milpitas Automotive Group, the current analysis shows a reduced value of the logo signs, which is a significant driver of projected annual City revenue. The proposal shows 100% of the logo value as revenue to the City, which we believe is overly optimistic.

The CBS proposal included the logo signs to illustrate a possible response to the concerns expressed by the Great Mall in the early stages of the freeway sign public discussions. Great Mall ownership indicated that they have lease responsibilities to their four main tenants (Kohl's, Century Cinemas, Home Depot and Dave & Busters) and questioned how this could be addressed as part of a new freeway sign program. If the value of these Great Mall tenant logo signs is factored in the lease negotiations between the Mall owner and tenants, it is unlikely that additional revenue from these logos will be generated for the City.

CBS Outdoor continues to propose:

- 5 total freeway signs – 4 w/one side backlit & one side electronic; 1 with both sides backlit; three within landscaped freeway designations (the City site on I-880 at Montague Expressway and two on private property along I-680). Two signs are recommended along non-landscaped freeway designations including one at Piercey Toyota dealership and one on public property along I-880, south of Highway 237.
- 6 double-faced wayfinder signs with electronic advertising on each side;
- 20 double-faced logo signs on 4 freeway sign poles
- **Occupancy/Card Rate: 70% applied to freeway, wayfinder and logo signs**

Estimated 1 Year Project Revenue to City: $**608,720**
City receives 10% of annual gross revenue from all signs
City receives 20% advertising time on Freeway signs

2. McCarthy Ranch with Clear Channel Outdoor:

- 5 total freeway signs – 2 signs, both sides electronic, located on the existing freeway sign sites that are in landscaped freeway areas; 3 signs on McCarthy property: 2 with one electronic side and one backlit side each; and one sign with 2 backlit sides. All backlit sides would be convertible to electronic messaging in the future.
- 8 wayfinder signs without advertising
- **Occupancy/Card Rate: 62.5% for electronic; 80% for backlit**

Estimated 1 Year Projected Revenue to City: **$409,236 average annual revenue**
City receives $1,000,000 advance on future gross sales revenues
City guaranteed $100,000 minimum annual revenue
City receives 10% of future gross sales from commercial signs over $1.2M and 70% of gross sales from the two existing sign sites

Implementation: Both proposers have indicated a desire to begin work as quickly as possible and to construct as many of the signs as possible. Once a proposal selection is made, staff will commence with drafting the development agreement and proceed with final design and final City Council approval.

Recommendation: Staff recommends the following:

1. That the City contracts with CBS Outdoor to provide marketing services for all freeway signs within the City limits.
2. That the Milpitas Automotive Group be granted the right to develop four freeway signs.
3. That the McCarthy Ranch be allowed to develop three freeway signs.

4. That the City allows up to 7 freeway electronic message board signs spread along I-680, I-880 and Highway 237.
5. That as many signs as possible be located on public property.
6. That the selected sign developer agrees to guaranteed annual revenue payments in addition to an annual percentage revenue share.
7. That the sign developer bears all costs associated with design, permit approval, lease negotiations, environmental review, sign fabrication, installation, maintenance and marketing.

CITY OF MILPITAS
ECONOMIC DEVELOPMENT SUBCOMMITTEE
MILPITAS CITY HALL COMMITTEE MEETING ROOM
UNAPPROVED MINUTES
March 16, 2009

I. Call to Order

Mayor Robert Livengood called the meeting to order at 5:30 p.m. Present were Councilmember Althea Polanski, City Manager Tom Williams, City Attorney Mike Ogaz, Deputy City Attorney Bronwen Lacey and Economic Development Manager Diana Barnhart

II. Approval of the Agenda

MOTION to approve the agenda.

M/S: Polanski/Livengood Ayes: 2

III. Public Forum

There were no requests to speak.

IV. Freeway Signage

Ms. Barnhart distributed copies of staff's memo and recommendation to the audience, Mayor and Councilmember Polanski. Ms. Barnhart noted staff's recommendations as follows:

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3. That the McCarthy Ranch be allowed to develop three freeway signs.
4. That the City allows up to 7 freeway electronic message board signs spread along I-680, I-880 and Highway 237.
5. That as many signs as possible be located on public property.
6. That the selected sign developer agrees to guaranteed annual revenue payments in addition to an annual percentage revenue share.
7. That the sign developer bears all costs associated with design, permit approval, lease negotiations, environmental review, sign fabrication, installation, maintenance and marketing.

Councilmember Polanski asked if staff is recommending a total of seven signs within Milpitas and Ms. Barnart said yes and staff believed, after meeting with the advertisers, that having just one advertiser would generate the most revenue for the City.

Mayor Livengood invited the applicant's to speak.

Kai Giffin, representing CBS Outdoor with Milpitas Automotive Group, said Piercey Toyota spent $21 million dollars to build a Milpitas site and left San Jose because they wanted additional revenue, and now they felt the City is taking that away from them.

Bob Harbin with CBS Outdoor said he is concerned about the health of the dealership and felt that Piercey Toyota would do an excellent job carrying out the City's recommendations.

Mayor Livengood asked what would happen if the Council pursues staff's recommendation and CBS Outdoor has to work with McCarthy Ranch. Mr. Harbin said they will work with everyone fairly. Mr. Harbin also agreed that a single source provider is the best way to maximize revenue as long as a good agreement is reached.

Bill Hooper, President of Clear Channel and representing McCarthy Ranch, said they were able to double Oakland's revenue and that they have significant experience relative to freeway signage near residential neighborhoods.

Joe McCarthy, representing McCarthy Ranch, said they prefer to work with Clear Channel and want to work with Piercey Toyota as well and said they have no problem advertising for Piercey Toyota.

Councilmember Polanski asked if environmental review is complete and Ms. Barnhart said additional study must be completed.

Mayor Livengood asked when will this go to Council and Ms. Barnhart said April 21st.

Motion for CBS Outdoor to work with Milpitas Automotive Group with 3 signs (1 will be on their property and the other 2 will be on RDA sites) and for McCarthy Ranch to work with Clear Channel Outdoor with 3 signs on their property.

M/S: Livengood/Polanski Ayes: 2 Noes: 0

Councilmember Polanski concurred with six signs and said she is not a big fan of freeway signage because Milpitas is only 13.7 square miles. She

said she sees passion on both sides and said competition is good and she wants to see both groups work together.

V. Local Preference Purchasing Policy Bronwen Lacey, Deputy City Attorney, presented the Local Preference Purchasing Policy and recommended that the City consider a policy that would allow the local bidder, if not the lowest bidder but is within 10% of the low bid, to match the low bid for the award. Council Member Polanski asked if the recommendation would continue to reflect the lowest and most responsible bid and staff concurred that the "most responsible" aspect of bid analysis would continue.

Staff indicated that the Local Preference ordinance changes would be incorporated into a comprehensive update to the Purchasing Ordinance and would be presented to the City Council in May.

Motion to approve the recommended Local Preference Purchasing Policy.

M/S: Livengood/Polanski Ayes: 2 Noes: 0

Councilmember Polanski pointed out that the Lucky's shopping center and the Mervyn's shopper center are looking very empty and tired and asked if it could be discussed as a future agenda item and Ms. Barnhart said yes.

VI. Adjournment Chair/Mayor Robert Livengood adjourned the meeting at 6:00 p.m. to the April 20, 2009 meeting.

Respectfully submitted,

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Veronica Bejines, Recording Secretary