



Administrative Report

N.1., File # 25-0583

Meeting Date: 5/6/2025

To: MAYOR AND CITY COUNCIL

From: ELIZABETH HAUSE, COMMUNITY SERVICES DIRECTOR

TITLE

DISCUSSION AND POSSIBLE DIRECTION ON THE POTENTIAL FOR UTILIZING BUS STOP FURNITURE AND BUSES TO GENERATE ADVERTISING REVENUE

EXECUTIVE SUMMARY

As part of the City Council's Strategic Plan, staff was asked to explore potential advertising revenue opportunities utilizing bus stop furniture and structures. This report assesses the feasibility of implementing an advertising program to generate revenue utilizing Beach Cities Transit (BCT) assets, specifically bus stop furniture (shelters, kiosks, benches) and exterior wraps for buses. This assessment considers Federal Transit Administration (FTA) compliance, implementation models, and financial viability.

Key findings of the assessment indicate:

- **FTA Compliance is Mandatory:** As BCT assets are federally funded, FTA regulations (Circular 4220.1G) require competitive procurement for advertising contracts and restrict the use of net revenue solely to eligible transit program costs
- **Implementation Options:** The City could manage the program in-house, requiring significant City resources and expertise, or contract with a third-party vendor, which leverages external expertise but requires revenue sharing and robust City oversight
- **Financial Viability:** Program costs (furniture, installation, maintenance) vary significantly. Revenue potential depends on local market conditions, inventory size, and contract terms. Profitability is possible, but not guaranteed, and any program would require effective management to be successful

A transit advertising program is feasible but should be approached with caution. Its success depends on a detailed local market analysis, accurate cost projections, well-defined policies (including content guidelines and equitable placement priorities), and the selection of an implementation model that ensures strong City oversight. In accordance with FTA requirements, any net revenue generated must be used exclusively to support eligible transit program costs. Due to the City's current transit staffing and resource limitations, staff recommends that Council receive and file this report at this time. Once the Transit Division is fully staffed and able to conduct a market analysis and prepare draft policies associated with a potential program, a more formal proposal for City Council consideration could be provided.

BACKGROUND

The City of Redondo Beach manages and maintains BCT. An advertising program utilizing bus stop furniture and bus exteriors could create supplementary income dedicated to supporting BCT operations and funding improvements to passenger amenities (e.g., shelters, seating, lighting). BCT's funding structure relies on FTA grants for capital asset acquisition (like buses and bus stop furniture), while state and local grants along with passenger fare/pass revenue support program administration and operations. With asset acquisition being funded primarily through federal grants, any program utilizing transit equipment to generate revenue must strictly adhere to FTA guidelines.

FTA Compliance Requirements

The governing document for the use of federally funded assets is FTA Circular 4220.1G, and its key requirements include:

1. Competitive Procurement: Contracts for advertising on FTA-funded assets must be awarded through a full and open competitive process (e.g., Request for Proposals - RFP)
2. Use of Advertising Revenue: Net income generated from advertising on FTA-funded assets must be used exclusively for eligible transit program costs. It cannot be diverted to the City's General Fund

While BCT assets are federally funded, FTA rules exempt assets acquired entirely with non-federal funds from these specific requirements, offering a potential strategic position for the City to consider. Currently, all transit assets are federally funded; however, should the City choose to acquire assets independently, it would not be subject to FTA rules.

Implementation Models

There are two models the City could follow, should it decide to implement an advertising program:

- Option 1 - Third-Party Contractor Management: The City contracts with a specialized advertising firm. Typically, the contractor manages sales, installation, and maintenance, often funding the assets in exchange for exclusive advertising rights and sharing a portion of the revenue (or providing a minimum guarantee) with the City
 - *Pros*: Leverages external expertise, and potentially reduces the City's upfront costs and risk
 - *Cons*: Reduced City control, requires revenue sharing, potential conflicts of interest (placement vs. profit), necessitates significant City oversight
- Option 2 - In-House Management: City staff directly manage all program aspects (sales, operations, maintenance, compliance)
 - *Pros*: Maximum City control (content, placement), and retention of all net revenue for transit use
 - *Cons*: Requires significant City resources/staff expertise, and the City assumes all financial risk, potentially resulting in slower implementation

Implementing either option would be a complex undertaking requiring careful consideration of City capacity to effectively administer, and provide oversight for, an advertising program.

Cost-Benefit Analysis

- Projected Costs - Program implementation involves significant costs:
 - Capital Expenditures: Primarily furniture/asset purchase (costs vary widely based on

- type, features like digital displays) and installation (site prep, labor). Retrofitting existing furniture is also possible (Bus wraps represent a different cost structure related to vehicle application)
- Operational Expenditures: Ongoing costs include maintenance & cleaning, utilities (especially for lit/digital displays), and program administration/ad sales management (either internal staff time or factored into contractor share)
- Potential Revenue - Revenue generation is highly dependent on local market advertising rates, the size and strategic placement of the advertising inventory (furniture locations, bus routes), and the specific terms negotiated (especially revenue share/ minimum annual guarantee if using a third party). A Redondo Beach-specific market study is essential to develop realistic revenue projections
 - According to the City of Torrance's Adopted Fiscal Year 2023-25 Operating Budget and Capital Improvement Plan, the City experienced "revenue shortfalls in bus shelter advertising (that) continue to be a challenge..."
 - Gardena transit staff reported that they elected not to move forward with advertising on their transit assets because they determined the costs outweighed the perceived benefits
 - Santa Monica's Big Blue Bus has a well-established advertising program that generates revenue for its transit system, which may be partly due to the city's significant tourism industry, which provides ample opportunities for advertisers to reach a dynamic market
- Non-Revenue Benefits: If profitable, the program may offer public value by funding improved passenger amenities (shelter, safety, information), enhancing the streetscape, and potentially increasing transit ridership

Financial viability is not guaranteed and would require effective balancing of upfront and maintenance costs against market-dependent revenue. In either scenario, there would be significant staff effort to plan, analyze potential revenues, develop policies, and manage the complexities and risks of an advertising program.

If Council elects to pursue an advertising program, staff recommends a third-party model in which the City could implement stringent contract safeguards (favorable revenue share, City placement authority, strict oversight) without the burden of independently running the program solely with staff resources. Without robust oversight, the risk associated with running this type of advertising program would increase. Any program would require clear direction from Council prior to issuing an RFP or initiating implementation of:

- An Advertising Content Policy (defining acceptable/prohibited content)
- A Placement Prioritization Policy (balancing equity, ridership, safety, revenue)
- A Funding Strategy for acquiring assets without using FTA funding (Omits the need for FTA compliance)

Given current staffing and resource limitations, staff recommends that Council receive and file this report at this time. A future advertising program could provide supplementary revenue and improve passenger amenities; however, its success would depend on thorough policy development, staff capacity, and a realistic understanding of market potential. Once the Transit Division is fully staffed and has the capacity to conduct a detailed feasibility study and develop appropriate oversight policies, staff could return to Council with a more formal proposal.

COORDINATION

The Community Services Department coordinated the preparation of this report.

FISCAL IMPACT

There is no fiscal impact associated with preparation of this item. Cost and revenue estimates associated with a potential BCT advertising program are unknown at this time.

APPROVED BY:

Mike Witzansky, City Manager