

The Economics of San Antonio's Digital Billboard Ordinance

March 18, 2008

"All political power is inherent in the people and all free governments are founded in their authority and instituted for their benefit"
First Constitution, State of Texas

"All of the great leaders have had one characteristic in common: it was the willingness to confront unequivocally the major anxiety of their people in their time. This, and not much else, is the essence of leadership"
John Kenneth Galbraith

1. Introduction

On December 6, 2007, San Antonio City Council passed a Digital Billboard ordinance, which allows 15 large, digital, off-premise signs ("digital billboards") to be placed in the city during a one year pilot program. At the end of one year, all pilot billboards remain although more could be approved by future city council vote. The following is my personal analysis of how Clear Channel (CC) and its subsidiary Clear Channel Outdoor (CCO), which owns around 90% of the off-premise billboards in San Antonio, will profit from this vote.

2. Background

City Council was almost unanimous in passing the pilot ordinance, despite solid opposition by citizens and civic groups, at least those who were not aligned with the billboard industry and particularly Clear Channel. [Ref 1c]

During the council meeting and subsequent speeches, council members have stated that they "worked extremely hard on this compromise", people would support their vote "if they only understood the ordinance", and that they had achieved the "best deal we could get." If this ordinance was in fact the "best deal" for the city of San Antonio and its citizens, then consequently it must not have been such a good deal for billboard companies.

As you will see, my research does not bear these representations out. The ordinance will result in an extravagant windfall for billboard companies, yielding up to a 38-to-1 increase in gross revenues, and it is far better, by a factor of 9-to-1, than another offer Clear Channel made to the City of Anaheim, which Anaheim turned down because it did "not demonstrate the level of community benefit necessary to warrant changes to the City's long-standing ban on new freeway-oriented billboards."

3. Scope

In the analysis, I focus on the economics of the billboard industry and neglect the numerous economic and non-economic factors impacting San Antonio government and citizens that were completely ignored by council's Dec. 6 vote:

- Possible loss of life, health and property, due to accidents
- Loss of scenic beauty and urban character
- Neighborhood impacts (light pollution and noise)
- Secondary electrical usage factors:
 - General environmental degradation, due to heating and CO₂ production
 - Increased revenues to the city from power sales by City Public Service (CPS)
- Loss of billboard maintenance jobs
- Loss of lease incomes to private property holders, due to signage consolidation
- Compensation liabilities, if billboards must be moved due to road changes

I will limit the analysis to impacts on company gross revenues. In other words, the basic goal here is to estimate what CCO will lose and gain in sales revenues from conversion ("exchange" or "trade") of old, passive billboards for new, digital billboards. By restricting the analysis in this way, I avoid a labyrinth of corporate accounting for

- One-time costs and investments for tear-down of old signs and installation of new ones
- Operational costs (maintenance, depreciation, power, etc.), and sales and administrative overhead
- Net income and return on investment

A real challenge to the effort is that while CCO and other companies, such as Lamar, make standard rate information available on the web, they attach privacy statements to this information. For my analysis, I am not comfortable from a legal standpoint to explicitly use the information, and will independently develop pricing levels. Company information is available to the reader to verify for themselves whether the calculations are reasonable. [Ref 2 & 3.]

Finally, I will not address a number of tangible and intangible factors that will favorably accrue to CCO with a conversion from passive to digital technologies:

- Enhanced access to lucrative, upscale, high-traffic highways, particularly those that had been closed to new development based on urban and scenic corridor ordinances (e.g., IH-10 N, 281 to downtown, Loop 1604, etc.)
- Marketing flexibility
- Goodwill from providing cost effective (time-share) public service spots
- Competitive advantage, since a 'replacement' ordinance favors a company with a large installed inventory

4. Analysis

Exchange ratios are at the heart of the ordinance and dictate how many old passive billboards must be removed in order to modify existing billboard structures, or erect new ones, to receive new digital billboard faces.

As an example of how the ordinance works, a company is allowed to

- Remove nineteen (19) single-face billboard structures having one (1) 14 ft. x 48 ft. (672 sq. ft.) passive sign each
- Add (or modify) one (1) single-face billboard structure to have one (1) 14 ft. x 48 ft. (672 sq. ft.) digital sign

The example is just one possible trade. The ordinance allows a plethora of options.

For more complete discussions of the San Antonio billboard ordinance, see Appendix A, "Exchange Ratios in the Digital Sign Ordinance" or Ref 1b for a link to the ordinance.

For public, independent records on billboard revenues, I look to the City of Anaheim. Anaheim has studied industry propositions to exchange billboards on secondary roads for a smaller number of billboards on large highway signs for over two years. Under the leadership of its mayor and council, the city sent out a request for proposals and hired an independent consultant firm to analyze the proposals. For the purposes of this paper, the critical findings are with regard to Anaheim revenue rates. [Ref 4]

For street-oriented passive billboards, the average annual rates were:

- \$3,600 for a 8-sheet (approximately 72 square foot) billboard
- \$32,400 for a 30-sheet (approximately 300 square foot) billboard
- \$120,000 for a bulletin (approximately 700-1200 square foot) billboard

For a freeway-oriented passive billboards, the average annual rates were:

- \$342,000 to \$360,000

For a more complete discussion of Anaheim's economic and political processes, see Appendix B, "City of Anaheim Case Study".

In order to extrapolate billboard revenues from Anaheim to San Antonio, I adjust Anaheim revenues for Traffic Density, Demographics, and Competition Factors. Without belaboring the details of the process, I compute comparable San Antonio rates as

For street-oriented passive billboards, the average annual rates were:

- \$2,662 for a 8-sheet (approximately 72 square foot) billboard
- \$23,961 for a 30-sheet (approximately 300 square foot) billboard
- \$88,744 for a bulletin (approximately 700-1200 square foot) billboard

For a freeway-oriented passive billboard, the average annual rates were:

- \$205,821 for 700-1200 Sq Ft billboards

The next big adjustment to take into account is billboard design, digital vs. passive. Digital billboards provide powerful technical, business and marketing features: displaying multiple advertisements; and rapid, same-day updating for message currency. Industry references quote revenue factors of 5x to 15x for the conversion from passive to digital design. For the purposes of this paper, a factor of 8 seems reasonable and conservative. Hence, in San Antonio

For a freeway-oriented digital billboard, the average annual rates is estimated as

- \$1,600,000 for a 700-1200 Sq Ft billboard

For a more complete discussion of how San Antonio billboard revenues are estimated and a list of references used for the derivation, see Appendix C, "Billboard Revenues".

The final step in the analysis is to bounce the billboard trades allowed under the ordinance, described in Appendix A, against the per-face revenues, computed in Appendix C. There is an extensive set of allowed trades but for exposition, reconsider the trade previously cited:

- Remove 19 single-face billboard structures with one 14 ft. x 48 ft. (672 sq. ft.) passive sign each

$$\begin{aligned} \rightarrow \text{Annual Revenue Loss} &= [\text{Number of Signs}] \times [\text{Annual Revenue per Sign}] \\ &= 19 \times \$2,662 \\ &= \underline{\$50,578} \end{aligned}$$

- Add (or modify) 1 single-face billboard structure with a 14 ft. x 48 ft. (672 sq. ft.) digital sign.

$$\begin{aligned} \rightarrow \text{Annual Revenue Gain} &= [\text{Number of Signs}] \times [\text{Annual Revenue per Sign}] \\ &= 1 \times \$1,600,000 \\ &= \underline{\$1,600,000} \end{aligned}$$

$$\begin{aligned} \rightarrow \text{Revenue Impact} &= \{ [\text{Annual Revenue Gain}] / [\text{Annual Revenue Loss}] \} \times 100\% \\ &= \{ \$1,600,000 / \$50,578 \} \times 100\% \\ &= \underline{3163\%} \end{aligned}$$

So for a 19-to-1 decrease in number of billboards, a company enjoys a 32-to-1 increase in gross revenues! Across all the trades allowed by the San Antonio billboard ordinance, my calculations yield improvement factors ranging from 5-to-1 to 38-to-1.

Under the ordinance, a company is free to decide what specific old signs to remove, and with some restrictions, where to put new digital ones. Assuming these decisions are economically driven, a reasonable expectation is that low profit passive billboards will be removed from secondary streets and replaced by high profit digital billboards on heavy traffic highways.

For a complete list of revenue impacts for exchanges, see Appendix D, "Revenue Impacts of the San Antonio Digital Sign Ordinance".

5. Discussion

This analysis of billboard economics shows that conversion of old passive signs to the new digital ones should be highly lucrative for companies. While the specifics of this analysis can be argued, its ultimate truth appears unquestionable, since companies themselves confirm it.

Express-News on February 15, 2008 carried an article on its business page, "Clear Channel profits rise 36%". CCO's fourth-quarter net income was \$106.6 million, which represented a 64 percent increase from \$65.1million in the prior year. The Express-News credited a "Strong outdoor ad business" as a major factor for CC performance. In a Business Wire article, Mark P. Mays, Chief Executive Officer of CCO is quoted as saying that CCO results in 2007 were outstanding. [Ref 5] CCO surpassed its forecast for installing digital billboards and expected to accelerate this roll-out in 2008 by capitalizing on market opportunities.

Now let us return to our original question. Is the San Antonio Digital Billboard ordinance a good deal for the city? The answer is no. Clear Channel offered Anaheim a deal of "5.3 30-sheet billboard faces for 1 freeway billboard" with "9 bulletin billboard faces including 1 digital billboard" whereas San Antonio gave Clear Channel a deal of 5 30-sheet billboard faces for each digital billboard. [Ref 1b & 6] Given the greater intrusiveness of the digital design (signified by higher revenue rates), San Antonio got a 9x worse deal and settled too cheap.

6. Conclusion

Making a profit is not a bad thing in and of itself, and government should play a role in encouraging business success and economic development. But government must always balance these goals with a concern for the public good. When a profit accrues with undue social costs, in terms of public safety, quality of life, and scenic beauty, then government must carefully weigh public welfare.

I encourage the mayor and city council members to show good faith and new leadership on this issue. Order the City Manager to commission an independent group to

- Monitor the pilot ordinance. Calculate the specific economic impacts and return on investment, on an exchange by exchange basis, of the pilot program.
- Develop, assess and compare courses of actions (COAs), such as:
 - Pilot Ordinance. Assess future trends under the event that the pilot program is renewed or made permanent. This is required to prevent the industry from skewing/gaming results during the pilot period. Independent studies, such as the one Anaheim commissioned, would give San Antonio a stronger negotiating stance.
 - Previous Ordinances: What would happen if San Antonio rolled back to the prior Sign, Scenic and Urban Corridor Ordinances? What will the impact be? (Over 21 years, San Antonio saw a 30% reduction in billboards with its 2-for-1 ordinance.)
 - Total Ban: What would happen if San Antonio strengthened its ordinance to ban all new billboards? (Over 27 years, Houston saw a 60% reduction in billboards with its zero-tolerance for new billboards.)
 - Rolling Exchange Rates: Leverage the time value of money. Increment old-vs-new exchange rates over time to progressively flush the most marginal billboards from industry inventory and San Antonio urban landscape.
 - Other?

For all these COAs, projections of billboard inventories over time should be made.

Citizens need to become active on this issue, by contacting the mayor and council members [Ref 7], and joining public interest groups such as the Scenic Texas – San Antonio [Ref 8], and the San Antonio Conservation Society [Ref 9].

Ted Trakas, President
Vance Jackson Neighborhood, Inc.
10004 Wurzbach Rd Ste 192
San Antonio, TX 78230-2214

Acknowledgements

I would like to express special thanks and congratulations to Mayor Pringle and the city council of Anaheim for setting the gold standard for employing economic principles and analysis in support of the legislative process for billboards. [Ref 10] Thanks to Jacob Dell of San Antonio for suggesting the course of action for rolling exchange rates. And finally thanks to June Kachtik of Scenic San Antonio for her editorial and critical inputs, some of which I even used.

References

For safety, cut and paste addresses into your navigation bar.

1. San Antonio Council Meeting Date 12/6/2007, Agenda Item # 5, RFCA Tracking No R-1935:
 - 1a. Request for Council Action:
<http://epay.sanantonio.gov/agendabuilder/RFCAMemo.aspx?RId=1935>
 - 1b. "Amending Chapter 28 of the City Code of San Antonio, Texas, by adding Provisions for Digital Signs . . .":
http://epay.sanantonio.gov/rfcdocs/R_1935_20080111093802.pdf
 - 1c. Voting Results:
<http://epay.sanantonio.gov/agendabuilder/votingresults.aspx?ItemId=1935&Src=RFCA>
2. Clear Channel Billboard Rates: <http://www.clearchanneloutdoor.com/rates/index.htm>
3. Lamar Texas Billboard Rates: <http://www.lamaroutdoor.com/StateRates.aspx?State=TX>
4. Responses to a Request for Information (RFI) for a Billboard Exchange Program, Planning Director, City of Anaheim, November 6, 2007:
http://www.anaheim.net/docs_agend/questys_pub/MG18947/AS18986/AS18990/AI19170/DO19171/DO_19171.PDF
5. Clear Channel 4th Quarter Earnings:
http://www.businesswire.com/portal/site/home/index.jsp?epi_menuItemID=887566059a3aedb6efaaa9e27a808a0c&ndmViewId=news_view&ndmConfigId=1000008&newsId=20080214006014&newsLang=en
6. "Billboard Exchange Program, Summary of Proposals", City of Anaheim:
http://www.anaheim.net/docs_agend/questys_pub/MG18947/AS18986/AS18990/AI19170/DO19184/DO_19184.PDF
7. Mayor and City Council, San Antonio, TX: <http://www.sanantonio.gov/council/?res=1280&ver=true>
8. Scenic Texas: <http://www.scenictexas.org/>
9. San Antonio Conservation Society: <http://www.saconservation.org/>
10. Anaheim City Council Home Page: <http://www.anaheim.net/section.asp?id=41>