- Board of Directors
  Real Property and Asset Management Committee

12/14/2010 Board Meeting

9-1

Subject

Telecommunications Revenue Generation Strategy

Description

Metropolitan will employ a new strategy to enhance revenue generation through leasing Metropolitan's real property for telecommunications sites, as described in this letter.

Background

Metropolitan currently leases 53 telecommunications sites throughout Southern California and generates about $455,000 in annual revenue. **Attachment 1** compares Metropolitan's telecommunications lease revenues to other public agencies. Historically, Metropolitan has negotiated leases on a site-by-site basis as they are requested, with each transaction being processed individually.

Revenue Expectations

Location of land is key when determining revenue expectations. Average commercial telecommunications leases range from $1,200 to $2,500 per month, with terms typically ranging from 10 to 20 years. Cell towers are generally located in populated areas since more people requires more towers. Remote locations have fewer opportunities. Benchmarking Metropolitan against other similar agencies with similar types of land holdings, such as the Los Angeles Department of Water and Power, (see **Attachment 1)** Metropolitan could potentially double its telecommunications lease revenue to $1 million within the next few years.

Telecommunications Industry

The main factors that attract the telecommunications industry to a site are its ability to increase coverage in a particular area and the speed of negotiating a lease with the property owner. Metropolitan cannot control the first factor, but it can control the second.

Telecommunications carriers review their needs on an annual basis by determining coverage rings. Once the need is identified, they move quickly to lease the site. Assuming Metropolitan can meet the carrier's needs, the second component becomes to quickly complete site negotiations. The ability to act quickly often leads a telecommunications company to choose private property. There are strategies, however, that Metropolitan can employ to make its sites more attractive to the telecommunications industry and increase current leasing revenues.

Once the telecommunications company determines an operational need in a given area, they look to see if a master lease agreement (MLA) has been established in the site area. An MLA sets out the fundamental business and legal terms of a lease and avoids site specific negotiations for owners who have large property holdings, such as Metropolitan. If no MLA exists, they turn to private sector property owners, and then to government land owners. Carriers will choose property with an MLA first because it is a pre-negotiated business deal so the transaction is completed faster ("speed to the market").

<u>Metropolitan's Strategy</u>

Metropolitan has an opportunity to increase its telecommunications revenue by employing a new strategy to retain and enhance existing telecommunications leases, as well as generate new leases. Steps to implement the strategy include:

1. Identify Metropolitan-owned properties where telecommunications sites can be located without interfering with operations and maintenance activities. In the past, telecommunications equipment has been placed on key operational assets that then became burdens that inhibited routine maintenance.

   Status: Staff from Real Property Development and Management, Water System Operations (treatment plants, conveyance, and security), and Corporate Resources (substructures, title engineering, and environmental) are developing maps showing where telecommunications sites can be located without interfering with operations. The maps should be completed in two months.

2. Retain a consultant that has strategic insight, key carrier contacts, vast telecommunications experience, is well known in the industry, and has a strong history of lease success. This consultant will assist Metropolitan in developing a master lease process and provide access to the major telecommunications companies.

   Status: Agreement will be in place by November 30, 2010.

3. Establish a Master Lease Agreement (MLA). Establishing an MLA will provide Metropolitan with a competitive edge. Once a site is chosen, a site specific lease can be executed quickly with pre-negotiated terms, giving both the carriers and Metropolitan certainty of outcomes.

   Status: RPDM staff and Legal will draft an MLA, which should be completed by early 2011.

4. Enter into negotiations for MLAs with AT&T and Verizon, who have a combined market share of approximately 70 percent.

   Status: Negotiations to occur in early to mid 2011.

5. Enter into negotiations for MLAs with other telecommunications companies.

   Status: Negotiations to occur in mid to late 2011.

6. Streamline Metropolitan's processes for quicker reactions.

   Status: New processes will be implemented by early 2011.

7. Develop a continuous communication feedback loop between the telecommunications industry, including periodic telecommunications market briefings, and Metropolitan.

   Status: Ongoing.

RPDM staff looks forward to implementing the telecommunications revenue generation strategy and will provide quarterly status reports to the Real Property and Asset Management Committee.

Policy

Metropolitan Water District Administrative Code Section 8230: Grants of Real Property Interest

Metropolitan Water District Administrative Code Division VIII, Article 4, Sections 8240-58: Disposal of Real Property

Fiscal Impact

Employing the telecommunications revenue generation strategy described above could potentially double telecommunications lease revenue to $1 million within the next few years.

11/15/2010

Ralph T. Hicks *Date*
Manager, Real Property Development and Management

11/17/2010

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Telecommunications Revenue Generation Comparison

Ref# rpdm12606680

Telecommunications Revenue Generation Comparison

Agency	**Annual Revenue**
Metropolitan Water District of Southern California	$455,000
Fallbrook Public Utility District	$186,000
Eastern Municipal Water District	$224,000
Otay Water District	$900,000
San Diego Gas & Electric	$886,000
Los Angeles Department of Water & Power	$1,473,000
Metropolitan Transit Authority	$1,500,000