Naming Rights, Sponsorship and Advertising

ISSUE

Several Canadian cities, including Saskatoon, use naming rights, sponsorships and advertising to generate revenues that help pay for facilities, programs and services. These cities have enacted policies and/or procedures that list eligible types of assets or programs that can be sold for naming rights and sponsorships. What are the common practices in Canada regarding naming rights, sponsorships, and advertising? What types of assets or programs are permitted for sale and what types of assets are ineligible? How could these findings be applied to the City of Saskatoon (City)?

BACKGROUND

City Council, at its meeting held on January 25, 2016, considered a report called Bridge Naming Options and Process, and resolved, in part:

> "3. That the matter of selling naming rights for bridges and any municipal facilities as well as potential for advertising or sponsorship opportunities be referred back to the Administration to further explore options."

As outlined in Appendix 1 (Naming Rights, Sponsorships, Advertising, and Donations Review Interim Report), City Council approved Capital Project #2524 in November 2016 as part of the 2017 budget. The purpose of the project was to obtain external advice and expertise related to naming rights, sponsorship and advertising upon which Administration would report back to City Council for further direction.

To help address the Council resolution, Administration created a cross-departmental committee to manage the process and review findings. In late 2017, a request for proposals (RFP) was issued to explore options related to selling naming rights, sponsorships and advertising. The project was awarded in February 2018 to the Centre of Excellence for Public Sector Marketing (CEPSM). The consultant's work included two phases:

- Phase one included conducting an asset inventory and valuation to assess the full scope of assets the City has and a valuation to quantify what could potentially be received in naming rights, sponsorship and advertising revenue; and
- Phase two included a more detailed cost/benefit analysis that identified projected revenue, delivery costs and net revenue over a five year period.

In addition, the Administration investigated the policy framework and implementation approaches used in other Canadian jurisdictions.

CURRENT STATUS

The City currently has three policies that govern naming rights, sponsorships, and advertising. Before summarizing these policies, it is important to first define these concepts. For the purposes of this report:

- Naming Rights refer to a physical property, event or other initiative where a business or organization's name is added as a prefix to the name of the property or a portion thereof for a defined term;
- Sponsorship refers to a marketing oriented, contracted arrangement that involves the payment of a fee or in-kind by a company in return for the rights to an association with an activity, item, person or property for mutual commercial benefit; and
- Advertising refers to a commercial message directed at a specific audience, usually paid for by the advertiser and with no implied association between the advertiser and the organization offering the advertising opportunity.

The existing Council approved policies along with the current approaches for each are summarized below:

Naming Rights and Sponsorships - The authority to enter into agreements is established by Council Policy C09-028 – Sponsorships.

In complying with the policy, the focus for the City has been to pursue the sale of naming rights for new recreation facilities, buildings and assets. The money received for naming rights has been primarily used to offset capital costs.

Generally, third party fundraising firms have been hired to sell naming rights for new facilities on behalf of a particular division (e.g. Recreation & Community Development). The City has also received and accepted unsolicited proposals for naming new facilities.

Each agreement is developed and administered directly by the division overseeing the facility. Once the agreements are in place, the agreements become the responsibility of division staff to continue to fulfil the terms – also known as servicing – in addition to their day to day duties. Since there is no corporate-wide strategy, dedicated staff resources, or centralized entity to oversee the process, at times, this approach has resulted in:

- Duplication in approaching potential sponsors by a variety of divisions and/or staff;
- Inconsistencies in tangible benefits negotiated and received by the participating business or organization; and
- Inconsistencies in the servicing of sponsors and the agreements.

In terms of sponsorships, the City does not have a centralized location to consistently track activity or agreements across the corporation.

Advertising – The City has two Council Policies in place to guide the selling of advertising space on Saskatoon Transit vehicles and other property (C02-037 – Transit Advertising) and in recreation facilities (C10-010 – Advertising in Recreation Facilities).

In complying with these policies, individual divisions pursue opportunities to enter into agreements with third party firms to sell and install advertising on Saskatoon Transit vehicles and property. A similar approach is used for recreation facilities and supporting publications.

The third party firm generates sales with a certain percentage of the revenue going back to the City. Advertising revenues generated from Saskatoon Transit advertising and recreation facilities are allocated directly to the program to offset program and operating costs, or lower user fees

Complementary to the above approaches, other parties or the City has also established foundations for specific assets. For example, the Saskatoon Zoo Foundation, an entity independent of the City, raises funds for capital projects and improvements to the Saskatoon Zoo. The Friends of the Bowl Foundation, which is a City non-profit, perform a similar function, in addition to planning and project management at the Gordon Howe Sports Complex. Each of these foundations are responsible for soliciting and maintaining naming right and sponsorship agreements at their respective facilities and have been tremendously successful in advancing the respective Master Plans for these sites.

As identified in Appendix 1, City divisions and foundations have generated naming rights, sponsorship and advertising revenue totaling approximately $25M over the last 20 years, or on average $1.25M per year. This amount excludes donation revenue, since donations are not included within the scope of this report.

DISCUSSION/ANALYSIS

Administration explored options related to selling naming rights, sponsorship and advertising utilizing the consultant, CEPSM. The scope of the work excluded controlled corporations or wholly-owned subsidiaries. Appendix 2 provides the Administration's summary of the detailed consultant's reports and findings. The appendix includes, among other things, an overview of the naming right and sponsorship environment, master inventory of assets for the City, recommended prioritization of the assets, estimated asset values for those prioritized, and a financial analysis.

<u>Naming Right & Sponsorship Environment</u>

Generally, the consultant's findings indicate that many municipalities permit the selling of naming rights and sponsorships for civic assets as a way to generate non-tax revenue to offset the costs of operating programs and services. However, the majority of assets made available for the sale of naming rights are recreation facilities and programs. Assets typically excluded from sale are streets, roads, and other highly visible public infrastructure, such as bridges, and parks.

According to a 2015 survey conducted by CEPSM of municipal sponsorship activities nationwide, it was found that the best opportunities for sponsorship were viewed as:

- Arenas (96%)
- Recreation Complexes (82%)
- Pools (61%)
- Sports fields (61%)

<u>Master Inventory of Assets</u>
CEPSM compiled a master inventory of potential properties and assets based on the wide range of programs and services offered by the City. This compilation considered those areas where corporate involvement could be leveraged to the benefit of the City, the company, and program participants. The assets have been organized into five core categories as identified on Table 3 in Appendix 2.

<u>Recommended Prioritization of Assets</u>
If the City were to embark on a formalized approach to selling naming rights, sponsorship and advertising, it was the consultant's recommendation that the master inventory be implemented gradually.

Table 4 in Appendix 2 identifies five criteria used to develop the initial prioritization of assets as recommended by the consultant. Of specific interest is the first criteria which stipulates:

> "Opportunities should focus on areas where there is already a high degree of public acceptance for environments with commercial overtones. To avoid controversy, opportunities should focus on areas where the public is used to seeing sponsors and advertisers such as sports facilities and programs, publications and special activities."

Based on the initial research and proposed criteria, the consultant identified the assets that would be attractive to sponsors and acceptable to the community, while minimizing the perception of competition with other community organizations and charities which rely heavily on fundraising and donations. Figure 2 in Appendix 2 identifies the recommended prioritization of naming rights, sponsorship and advertising opportunities for an initial five year roll-out phase. It should be noted that renewals of existing naming right agreements are excluded as part of the consultant's report.

<u>Asset Values and Financial Analysis</u>
As identified on Table 7 of Appendix 2 the value of the prioritized inventory is $1,047,450 annually. However, projected revenue is based on achieving a percentage of sales for the total identified inventory available. Therefore, the estimated gross revenue is approximately $542,425 by year 5. Additional information is provided on Table 12 for estimated net revenue after accounting for program expenses.

Consultant's Recommendations

The consultant recommended that the City:

- Embark on a coordinated approach to sponsorship;
- Focus on most lucrative opportunities such as selling and renewing naming rights (i.e. recreation facilities), or consider expanding the program to include a range of prioritized opportunities;
- Allow divisions to retain the revenue generated through naming rights, sponsorship and advertising with a portion allocated towards agreement deliverables;
- Ensure adequate resources are in place to implement the program; and
- Review and update relevant policies.

Approaches Used in Other Canadian Jurisdictions

In addition to the consultant's work, the Administration investigated the policy framework and implementation approaches used in other Canadian jurisdictions (including Winnipeg, Calgary, Edmonton, London and Ottawa). Appendix 3 provides a comparative analysis of how these Canadian cities manage naming rights, sponsorships and advertising. The analysis reveals that:

- The most common assets sold are recreation facilities and programs;
- The majority of cities have a policy that covers naming rights and sponsorship;
- The majority of cities have separate policies for naming civic property such as streets, roads and parks which recognize the important role these have to guide identification of location and navigation of a city, and as a method of commemorative recognition;
- The majority of cities have policies requiring Council approval for naming rights with Administration approval for sponsorship and advertising;
- The majority of cities have a centralized approach primarily located within an area responsible for recreation;
- The majority of cities have dedicated sponsorship staff and use third party services for valuation and solicitation;
- The majority of cities use third party contracts to sell advertising primarily focused on recreation facilities, arenas and transit opportunities;
- The majority of cities promote opportunities and invite participation through a "request for sponsorship" process; and
- Revenue generated for the naming rights, sponsorship and advertising primarily go to the sponsored City asset.

IMPLICATIONS

There are no financial, legal, social or environmental implications resulting from this report. The costs associated for conducting the review were approved in the 2017 Business Plan and Budget, as highlighted in Appendix 1.

NEXT STEPS

Based on the findings and the consultant's recommendations, Administration is currently focusing on the most lucrative opportunity for sustained revenue. This includes pursuing the renewal of existing naming right agreements for Shaw Centre that begin to expire in 2022. Although these require the largest investment of time and effort, the longer-term agreements require minimal servicing to maintain once the terms are in place. The overseeing division will be responsible for seeking renewal agreements with the parties involved.

The estimated net revenue of renewing these agreements is $150,000 annually or approximately $750,000 over 5 years (the term of the various agreements is to be determined). The revenue generated from these renewals will go towards offsetting operating costs within the department budgets as identified in Council Policy, Sponsorship C09-028.

Furthermore, the relevant Council Policies, Sponsorship C09-028, Transit Advertising C02-037 and Advertising in Recreation Facilities C10-010, were last updated in 2009, 2012, and 1988 respectively. Therefore, Administration will review all three of the existing policies to ensure they meet modern common practice and industry expectations. If reforms are required, the Administration will prepare the necessary report and proposed policy amendments for Committee and Council approval.

APPENDICES

1. Naming Rights, Sponsorships, Advertising, and Donations Review Interim Report, dated November 30, 2016
2. Considerations for the Development and Implementation of a City of Saskatoon Sponsorship Program - Summary of Consultant's Reports, November 13, 2019
3. Comparative Overview of Municipal Approaches on Sponsorship Programs

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