Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Metro

Board Report

File #: 2015-1799, **File Type:** Informational Report **Agenda Number:** 57.

EXECUTIVE MANAGEMENT COMMITTEE
JANUARY 21, 2016

SUBJECT: UPDATE ON ADVERTISING CONTRACTS AND EXERCISING FINAL CONTRACT OPTION YEAR WITH OUTFRONT MEDIA

ACTION: EXERCISE OPTION

RECOMMENDATION

AWARD the third, and final, **one-year option for year 2017 with Outfront Media's revenue-generating bus and rail advertising contracts**; a $24,000,000 fixed, guaranteed amount of revenue to be received from these agreements by Metro for calendar year 2017.

ISSUE

In January 2015, Metro's Board approved Director Antonovich's Substitute to Director Fasana's Motion 79.1 (Attachment A), directing the CEO to exercise the next one-year option (for Calendar Year 2016) with Outfront Media. And that the Metro Board direct the CEO to provide quarterly updates to the Board on the contract performance of Outfront Media, specifically regarding the contractor's timely implementation of new opportunities (e.g. bike rack advertising space) as described in its January 2015 presentation to the Metro Executive Management Committee.

DISCUSSION

Outfront Media was awarded two related 5-year revenue contracts (PS12714022 License to sell and display advertising on Metro buses, and PS12714023 License to sell and display advertising on Metro Rail system), each inclusive of three 1-year options. The period of performance for the initial term started January 1, 2013, and ends December 31, 2014. In January 2015, Metro's Board approved to exercise the next one-year option, which extends the term of this contract to December 31, 2016.

Metro receives a fixed, guaranteed amount of revenue from these agreements ($22 million in calendar year 2015 and $23 million in calendar year 2016) rather than a percentage of actual sales. This method shields Metro's revenue from fluctuations in the advertising industry, and relieves the agency of having a financial stake in the acceptance or rejection of any particular ad. Advertising acceptability is governed by the Content Guidelines in Metro's Board-approved Advertising Policy.

Per direction of the Board, in January 2015, Metro staff and Outfront Media presented their

recommendations for increasing the advertising revenue generated on the Metro system and moved forward with the installation of bike racks on all Metro buses. In 2015 Outfront Media bike rack ad sales have generated $80,000 in gross sales with Metro receiving $56,000, which is 70% of revenue generated. Once fully implemented, this program is expected to generate roughly $400,000 in additional revenue for Metro over and above the current contract.

Option one currently being pursued is the installation of bike rack ad displays

Outfront Media will manufacture and install bike rack ad display panels on all Metro buses. Outfront Media will front the cost of the torsion springs, and the manufacture and installation of the display ad panels. Outfront Media will recover those costs by selling ads on the bike rack displays. Once Outfront Media has been reimbursed for the initial investment, the revenue generated from selling ad space will go to Metro as per the terms of the current contract; and the bike rack ad display installations will become the property of Metro.

In 2015 Outfront Media bike rack sales have generated $80,000 in gross sales with Metro receiving $56,000 which is 70% of revenue.

Second recommended option is the installation of 2- sheet ad panels on the Expo, Gold, Blue, and Green Line stations

Currently Outfront Media sells 2- sheet (46” X 60”) ad panels that are only installed on the Red / Purple Line. In order to generate additional revenue for Metro, we would like to propose the expansion of up to an additional 200 2- sheet posters to be built on the Expo, Gold, Green, and Blue line stations.

Plan overview:

Select high profile Expo, Gold, Green, and Blue stations to install 200 - 2- sheet ad panels.

All manufacturing and installation costs will be paid by Outfront Media to get the program up and running. Outfront Media will be reimbursed from first revenues generated by the advertising sales of the 2- sheet panels. Once Outfront Media has been reimbursed for the manufacturing and installation of the new ad panels, Metro will own this new asset.

Projected Fabrication and Installation Costs: $150,000.00

Projected Annual Net Revenues paid to Metro: $100,000.00

This project will be part of the Innovative Approach clause of the contract with a revenue share of 70% being paid to Metro and is contingent upon Metro approval of the fifth and final option year of the contracts between Metro and Outfront Media.

DETERMINATION OF SAFETY IMPACT

This Board action will have no impact on safety standards for Metro.

FINANCIAL IMPACT

Adoption of third, and final, one-year option would have a net-positive impact on the agency, generating $24,000,000 in revenue for calendar year 2017, while concurrently providing additional revenue from the Bike Rack program, as well as from sales of the additional 2-sheet ad panels Outfront Media is proposing to install on Metro's expanding rail lines.

Impact to Budget

Adoption of Metro's final one-year option with Outfront Media would generate $24,000,000 in revenue for the agency, along with additional revenue provided by the Bike Rack program and the 2-sheet ad panels installed on Metro's rail lines.

ALTERNATIVES CONSIDERED

If Outfront Media's final one-year option is not approved, the contract would go out as an RFP in February. Outfront would then be given a 6-month notice in June informing them of the contract's conclusion on December 31st, 2016, and a new vendor would be in place to take over the new contract on January 1, 2017. The Communications/Marketing staff does not recommend this approach, but instead supports executing the third and final option to take advantage of the $1,000,000 increase ($23,000,000 in 2016 to $24,000,000 in 2017) in the contract for 2017 and allow for the build-out of the 2-sheet advertising program on our rail system before we release an RFP in January of 2017, creating more value for Metro's advertising infrastructure. Also, when comparing other, like-size transportation systems (Washington DC, Chicago, Boston), our advertising revenue, comparatively, is in-line with these systems.

NEXT STEPS

Metro staff will continue to monitor trends, projections and other relevant developments in the outdoor advertising industry. Metro staff and Outfront Media will continue to install bike rack ad displays as part of the five phase installation project and Outfront Media will install up to 200 2- sheet posters.

Bike Rack Ad Display Project Update

Phase One - Install Displays on 648 buses will complete December 31, 2015

1. May 18, 2015: Outfront Media orders display panels and mounting hardware for 648 45-foot vehicles; in hand by July 1, 2015. Estimated cost for fabrication and installation borne by Outfront Media: $97,200 ($150 x 648)

2. September 1, 2015: Metro installd torsion springs and relocate license plates on 648 buses. Cost for torsion springs and heavy duty bolt kits borne by Outfront Media: $84,240 ($130 x 648)

3. September 1, 2015: Outfront Media installed displays on 648 buses during the months of September through December 2015 , after installation of springs were completed. Installations were done.

4. December 31, 2015: 648 bike rack displays available for ad posting.

Phase Two - Install Displays on 500 buses

1. November 1, 2015: Metro identifies the next 500 buses for bike rack ads.

2. December 3, 2015: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by January 10, 2016. Cost for fabrication and installation borne by Outfront Media: $82,500 ($165 x 500)

3. November 1, 2015: Metro relocates license plates on the next 500 buses identified.

4. January 10, 2016 : Outfront Media installs displays on the next 500 buses identified during the month of November. Installations are done at the rate of 25 per night, five nights per week, 125 per week.

5. February 10, 2016: 1,148 bike rack displays now available for ad posting.

Phase Three - Install Displays on 500 buses

1. January 1, 2016: Metro identifies the next 500 buses for bike rack ads.

2. January 15, 2015: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by February 15, 2016. Cost for fabrication and installation borne by Outfront Media: $82,500 ($165 x 500)

3. January 15, 2015: Metro installs torsion springs and relocate license plates on the next 500 buses identified. Cost for torsion springs and heavy duty bolts borne by Outfront Media: $67,500 ($135 x 500) Note we may not need to install torsion springs on all 500 so the cost may be less.

4. February 15, 2016: Outfront Media installs displays on the next 500 buses identified during the month of February. Installations are done at the rate of 25 per night, five nights per week, 125 per week.

5. March 15, 2016: 1,648 bike rack displays now available for ad posting.

Phase Four - Install Displays on 500 buses

1. February 10, 2016: Metro identifies the next 500 buses for bike rack ads.

2. February 15, 2016: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by March 15, 2016. Cost for fabrication and installation borne by Outfront Media: $82,500 ($165 x 500)

3. February 15, 2016: Metro installs torsion springs and heavy duty bolts, and relocate license plates on the next 500 buses identified. Cost for torsion springs, and bolts borne by Outfront Media: $67,500 ($135 x 500)

4. March 15, 2016: Outfront Media installs displays on the next 500 buses identified during the month of January. Installations are done at the rate of 25 per night, five nights per week, 125 per week.

5. April 15, 2016: 2,148 bike rack displays now available for ad posting.

Phase Five - Install Displays on 52 buses

1. March 10, 2016: Metro identifies the next 52 buses for bike rack ads.

2. March 15, 2016: Outfront Media orders display panels and mounting hardware for 52 vehicles; in hand by April 15, 2016. Cost for fabrication and installation borne by Outfront Media: $8,580 ($165 x 52)

3. March 15, 2016: Metro installs torsion springs heavy duty bolts, and relocate license plates on the next 52 buses identified. Cost for torsion springs borne by Outfront Media: $7,020 ($135 x 52)

4. April 15, 2016: Outfront Media installs displays on the next 52 buses identified during the month of March. Installations are done at the rate of 25 per night, five nights per week, 125 per week.

5. May 10, 2016: 2,200 bike rack displays now available for ad posting.

2-Sheet Ad Panel Expansion Plan for Rail

1. Once Metro exercises the final contract option year staff will report a timeline and implementation schedule.

2. All manufacturing and installation costs will be paid by Outfront Media, and Outfront Media will be reimbursed from first revenues generated by the advertising sales of the 2-sheet panels. Once Outfront Media has been reimbursed then Metro will own the ad panel structures.

3. Projected Fabrication and Installation Costs: $150,000.00

4. Projected Net Revenues paid to Metro: $100,000.00

5. This will be part of the Innovative Approach clause of the contract with a revenue share of 70% being paid to Metro and contingent upon Metro approval of the fifth option year of the contracts between Metro and Outfront Media.

6. Timeline for implementation

    a. Lead time planning each station One Month

    b. Metro approval of each station plan three to four months

    c. Fabrication time six weeks

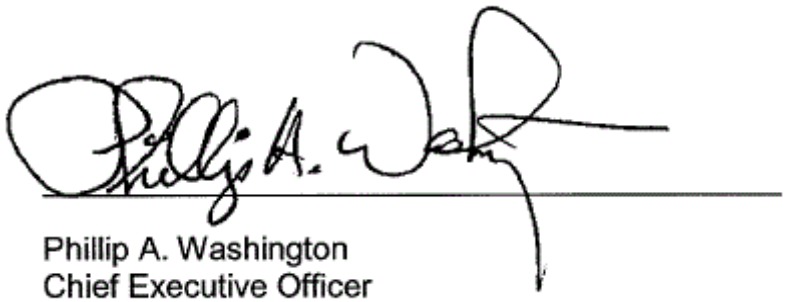
    d. Installation time six weeks

ATTACHMENTS

Attachment A - Motion 79.1

Prepared by: Glen Becerra, Deputy Executive Officer, Communications, (213) 922-5661

Reviewed by: Pauletta Tonilas, Chief Communications Officer, (213) 922-3777



Phillip A. Washington
Chief Executive Officer

79.1

FASANA MOTION
January 15, 2015

Since MTA rebid its advertising contract in early 2012 there have been three large transit authorities that have also rebid their contracts with significant increases in revenue to those agencies.

Unlike MTA, all of the three transit authorities have revenue sharing agreements rather than a flat fee contract. They have a "minimum annual guarantee" against a percentage share of the gross revenue. Twenty-three of the twenty-five larger transit properties have revenue sharing agreements.

SEPTA's previous contract had a total minimum guarantee of $84.5 million for the term of the contract of 9 years. The new contract beginning in May of 2014 has a total guarantee of $150 million, on a 5-year, with 2-2year extensions (a total of 9 year)s. A 77% increase.

SEMTA's previous contract had a guarantee of $22.1 million on a 5 year contract. Their new contract beginning in July of 2014 has a guarantee of $28.5 million on a 5 year contract. A 29% increase.

WMATA's previous guarantee was $40 million over 5 years. Its new guarantee beginning in January 2014 is $103 million over 5 years. A 157% increase.

The MTA RFP requested both a minimum annual guarantee and a flat fee contract. MTA chose a flat fee contract for the five year term. CBS had proposed $110 million. Titan had proposed $117.25 million. MTA selected CBS and left more than $7 million on the table.

MTA has completed the first two years of the contract which began in January of 2013 and is began the first of three option years January 1, 2015. The contract calls for the next option year decision to be made in June of 2015.

The advertising market has recovered quite well from the recession. There is still time to test the market by releasing the RFP to determine if there is more revenue to be realized from transit advertising. Based on the healthier economy and the results of four recent bids, it would appear that there is more money to be realized from this contract and MTA should test the market by releasing the RFP with sufficient time for a decision before the next option year determination.

In an effort to ensure that Metro is receiving the maximum revenues from advertising, the Board needs issue an RFP to test the market and determine whether or not to award a new contract in June 2015 or exercise the next option.

I THEREFORE MOVE THAT in an effort to generate the maximum amount of revenue from advertising, staff is directed issue a Request for Proposals for advertising revenues from bus and rail. Staff needs to include information related to potential revenue from a fixed guaranteed revenue option and a revenue sharing option and any other revenue generating opportunities.