



## Board Report

File #: 2023-0074, File Type: Contract

Agenda Number: 16.

### EXECUTIVE MANAGEMENT COMMITTEE MARCH 16, 2023

**SUBJECT: METRO SYSTEM ADVERTISING CONTRACT MODIFICATIONS  
(LICENSE TO SELL AND DISPLAY ADVERTISING ON BUS AND RAIL)**

**ACTION: APPROVE CONTRACT MODIFICATIONS**

#### **RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to:

- A. EXECUTE Modification No. 5 to Contract No. PS41099B - License to Sell and Display Advertising on Metro Bus System, with OUTFRONT Media Group, LLC, to:
  - 1. Revise Revenue Compensation to LACMTA, to adjust the minimum annual guaranteed (MAG) payments and annual true-up revenue shares for the remainder of the contract as depicted in Attachment A - Revenue Summary;
  - 2. Extend the Contract period of performance for an additional two years from February 28, 2028, to February 28, 2030, to help recover revenue lost during the COVID pandemic;
  - 3. Increase Metro's share of voice (agency ad space) from 10% to 15% as part of the media inventory where the Contractor covers materials and services.
  
- B. EXECUTE Modification No. 3 to Contract No. PS41099R - License to Sell and Display Advertising on Metro Rail System, with Intersection Parent, Inc. to:
  - 1. Revise Revenue Compensation to LACMTA to adjust the minimum annual guaranteed (MAG) payments and annual true-up revenue shares for the remainder of the contracts as depicted in Attachment A - Revenue Summary;
  - 2. Extend the Contract period of performance for an additional two years from February 28, 2028, to February 28, 2030, to help recover revenue lost during the COVID pandemic;
  - 3. Increase Metro's share of voice (agency ad space) from 10% to 15% as part of the media inventory where the Contractor covers materials and services;
  - 4. Expedite the digital screen placement program to deploy 500 screens by 2026 to improve our riders' customer experience and prepare for the 2028 Olympic and Paralympic Games.

#### **ISSUE**

Commercial advertising revenues are an important supplemental revenue source supporting Metro's

transportation operations. Metro's purpose in allowing paid advertising to be displayed in and on Metro property is to maximize supplemental revenues by monetizing Metro-owned assets.

Revenue projections from the initial 2017 proposals for these two contracts are no longer attainable due to long-term COVID impact on out-of-home (OOH) advertising. Both of our advertising contractors (OUTFRONT for bus and Intersection for rail) are facing multimillion dollar losses if we maintain their current contract obligations until 2028 and they could exercise their options to terminate their agreements which is allowed in their contracts. Based on their current obligations, Outfront is slated to lose \$40M; and Intersection is slated to lose \$10M, along with over \$7M on capital expenditure and maintenance cost for digital screens installed on the system

Metro lost \$25.6M in ad revenue during the height of COVID between 2020 - 2021 and risk losing \$27M-\$42M in ad revenue if the contractors terminate their contracts while a new competitive procurement is conducted. Revenue payments would stop once ads have been fulfilled within a few months, and no ad revenue would be generated during the procurement process. Metro would also lose the maintenance of existing digital kiosks and the installation of the remaining 340 digital customer information kiosks.

## **BACKGROUND**

In January 2018, the Board of Directors approved the agency's current revenue advertising contracts with OUTFRONT and Intersection, respectively, with revenue operations beginning in March 2018 and ending in February 2028.

- OUTFRONT was awarded Contract PS41099B to sell and manage commercial advertising on Metro's operational bus fleet with promised revenues of \$262,250,000 for the duration of the contract. Their annual Minimum Annual Guarantees (MAG) for each contract year can be viewed at *Attachment A - Revenue Summary, Table 3 - BUS (Original) column*.
- Intersection was awarded Contract PS41099R to sell and manage commercial advertising on Metro's rail system, including stations and trains, with promised revenues of \$42,902,200 for the duration of the contract. Their annual Minimum Annual Guarantees (MAG) for each contract year can be viewed at *Attachment A - Revenue Summary, Table 3 - RAIL (Original) column*. Additionally, Intersection was committed to digitizing Metro's rail stations to major project completion within 5 years, worth approximately \$20M at no cost to Metro, to migrate to the more lucrative digital advertising and information. (File ID 2017-0718)

During fiscal year 2021, Metro lost 70 percent of its commercial advertising business systemwide - approximately \$25.6M in revenue, equivalent to one year's worth of payments. A table of planned and actual revenue payments since 2018 can be viewed at *Attachment A - Revenue Summary, Table 1*.

With few exceptions, advertisers paused or canceled their ad campaigns. Metro's advertising business is still struggling to return to pre-pandemic sales. Business sectors that usually purchase high volume advertising entertainment, media, local attractions, new products, and services saw their businesses closed due to stay-at-home orders. Another critical factor impacting sales has been the extended loss of transit ridership, thus, loss of transit impressions due to pandemic conditions followed by slower-than-expected post-pandemic rebound. The extended periods of low ridership have caused ad buyers to seek other platforms, mainly digital and static billboards out of home,

rather than return to transit advertising.

Beginning in 2021, the buying behavior in the out-of-home industry has also changed. Buyers who previously bought bus media have shifted their business to digital advertising and have not yet returned, so recovery is very slow. Rail media dependent on ridership impressions (platform and station media) are still depressed due to sluggish ridership; rail media dependent on bystander and street impressions (exteriors, large format, and digital near sidewalks) have fared significantly better.

Overall, no business advertising sector (entertainment, local tourist attractions, products, services) has fully returned to pre-Covid levels for rail and bus advertising sales. For a glimpse of the current sales environment: 6,167 bus wraps were sold in 2019, compared to 3,861 in 2022 (63% pre-Covid), 93 train wraps were sold in 2019, compared to 58 in 2022 (62% pre-Covid), and 16 station activations were sold in 2019, compared to 8 in 2022 (50% pre-Covid).

A breakdown of key advertising media purchased since 2018 is below:

Media Type	2018	2019	2020	2021	2022
Station Activations	13	16	12	5	8
Train wraps	77	93	74	49	58
Bus wraps	5,604	6,167	2,855	3,375	3,861

### Digital Screens Installation and Advertising Program

At the same time, factory and logistics stops delayed the procurement of new digital screens, which Intersection was meant to install to provide customer experience enhancements as well as generate additional revenues from digital advertising on the new screens. In addition, vandalism of the screens has been five times higher than is seen by other transit markets Intersection serves. Since January 2020, 119 of 167 originally deployed displays have been seriously vandalized and needed replacement. Over that period, with capex costs, Intersection has incurred \$505,000 to replace vandalized screens and will spend an additional \$325,000 to replace currently damaged equipment. This high rate of vandalism and related expenditure is not sustainable for Intersection or for Metro, and as a result, the program has begun pivoting from interactive screens to non-interactive screens to add further protection to the equipment.

Digital screens deployed since 2018, including Equity Focus Communities (EFC):

Line/Item	Screens Installed	Year Deployed	Screens Replaced
A Line (EFC)	94	2019	94
E Line	31	2022	3
K Line (EFC)	17	2022	2
75" Digital Panels	2	2020	1
Video Walls	18	2019/20	19
Regional Connector	5	2023	
<b>Total Screens</b>	<b>167</b>		<b>119</b>

### Previous Contract Modifications

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In May 2020, in response to the pandemic impact of losing 70 percent of advertising sales, the Board of Directors approved contract modifications for both contractors, temporarily replacing the MAG payments with monthly payments of 55% of actual sales revenues for 7 months, from May 2020 to December 2020. (File ID 2020-0306). Still, since May 2020, Metro has lost \$25.6M due to extended COVID impact.

In January 2021, in response to the continued pandemic impact, the Board of Directors approved extending the previous contract modifications and extended temporarily replacing the MAG payments with monthly payments of 55% of actual sales revenues for 12 months, from January 2021 to December 2021. (File ID 2020-0811)

The MAG payments are scheduled to increase from \$23.5M to \$28.9M for OUTFRONT and from \$3M to \$5.2M for Intersection in April 2023. Both Intersection and OUTFRONT have options to opt out of their contracts if they become infeasible at any time.

## **DISCUSSION**

Given the soft return of the OOH advertising business to date, Staff have developed a recommendation of *permanent and final* contract terms that will strengthen the viability of the revenue advertising program and preserve a long-term revenue source for Metro. *Attachment A - Revenue Summary, Table 2.*

It's important to note that both contractors have successfully renegotiated their contract terms nationally with other transit agencies including NY MTA, Chicago CTA, SF BART, WMATA, and more; please see *Attachment E - Industry Benchmark of Contract Modifications.*

## **Benefits to Metro**

First, adjusting the current MAG for the remainder of the contract term right-sizes revenue estimates based on the lingering negative impact of COVID-19 including loss of advertisers, vandalism to digital and static advertising equipment, and digital screen procurement delays. Ultimately, the adjusted revenue projections for years 6-10 of the contracts are a combined \$139.7M vs the original \$171M contract estimates from 2017. Revenues from a 2-year extension would earn Metro an additional \$62M. The combined adjusted revenues for years 6-10 (\$139.7M) and 2-year extension would earn Metro a projected \$201.7M with the contracts ending in spring 2030. Overall, with the adjusted payments and additional two-year extension, the contracts' total revenue value is an additional \$4.6M (\$309,852,214 compared to the original estimate of \$304,852,214). Last, if ad sales exceed the annual estimates, the annual True-up will also provide Metro additional revenue share of above and beyond sales.

The MAG adjustment will allow Intersection to expedite the digital screen program for the next three years, deploying up to 100 screens each year for 2023-2025. By 2026, the digital screen program will have added 500 screens (\$18M capex investment by Intersection) to the system with the majority providing new customer amenities in Equity Focus Communities (EFC). Beginning this year, Intersection will replace all broken screens and add plexiglass to existing and new screens installed on the system to mitigate vandalism - ensuring critical transit and travel information is available for all

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riders. Each screen will display real-time vehicle arrival for each station, service alerts, and system maps.

Digital advertising still offers Metro the greatest opportunity to maximize additional revenues long-term due to the flexible nature of a digital platform. The 160 screens on the rail system currently account for 17% of all rail advertising revenues. With the 500 screens added to Metro's advertising inventory, we anticipate an increase in rail ad revenue, above and beyond the MAG and the additional revenue share will be activated.

The expedited digital rollout will provide enhanced customer amenities to Metro rail and major BRT stations - a majority serving Equity Focus Communities (EFC):

**2023 Rollout:**

Regional Connector (EFC)  
E Line (Farmdale to LATTC) (EFC)  
L Line (Pico/Aliso to Atlantic) (EFC)

**2024 Rollout:**

Airport Metro Connector (EFC)  
Purple Line Extension 1  
D Line (LAUS to Wilshire/Western) (EFC)  
A Line (LAUS to APU/Citrus College)(EFC)

**2025 Rollout:**

Purple Line Extension 2  
North Hollywood to Pasadena BRT  
Foothill Extension (Glendora to Montclair)  
B Line (Vermont/Beverly to N. Hollywood) (EFC)  
C Line (Redondo Beach to Norwalk) (EFC)

**2026 Rollout:**

G Line (major stations)  
J Line (major stations) (EFC)

**OUTFRONT (BUS) Contract Modification Details**

1. Contract Extension - Extend the contract for 2 additional years to help recover revenue lost during the COVID pandemic, resulting in the contract being extended to Feb 28, 2030.
2. MAG Adjustment - In the current OUTFRONT contract, MAG payments for years 6-10 are set for \$28,950,000 each year; staff recommends adjusting the MAG for year 6 to \$23,500,000; year 7 and 8 to \$24,000,000; year 9 to \$25,000,000; and year 10 to \$26,000,000. With the 2-year extension, set year 11 MAG payment to \$28,000,000 and year 12 MAG payment to \$26,000,000.
3. Annual True-up - Apply the 70/30 annual true-up revenue share for contract extension years 11 and 12, majority share to Metro.
4. Increase agency share of voice to 15% from 10% on bus media inventory. Staff will work with the contractor to audit bus inventory (bus fleet) and revise quantities for the remainder of the

contract.

Intersection (RAIL) Contract Modification Details

1. Contract Extension - Extend the contract for 2 additional years to help recover revenue lost during the COVID pandemic, resulting in the contract being extended to Feb 28, 2030.
2. MAG Adjustment - Staff recommends adjusting the MAG for year 5 to \$3,000,000 and applying a \$150,000 escalator (increase) to each additional year; year 6 to \$3,150,000, year 7 to \$3,300,000, year 8 to \$3,450,000, year 9 to \$3,600,000, and year 10 to \$3,750,000. With the 2-year extension, set year 11 MAG payment to \$3,900,000 and year 12 MAG payment to \$4,050,000.
3. Annual True-up - Adjust the annual true-up revenue share for Years 6-10 to 60/40 and Years 11-12 70/30, majority share to Metro.
4. Increase agency share of voice to 15% from 10% on rail media inventory. Staff will work with the contractor to audit rail inventory (trains and stations) and revise quantities for the remainder of the contract.

**FINANCIAL IMPACT**

Commercial advertising revenues are an important supplemental revenue source supporting Metro's transportation operations. Metro's purpose in allowing paid advertising to be displayed in and on Metro property is to maximize supplemental revenues by monetizing Metro-owned assets. Metro has received revenue payments totaling \$107.7M since 2018 (\$97.4M from OUTFRONT and \$10.3M from Intersection) and is slated to earn \$201.7M in estimated revenues with the recommended contract modifications.

All revenues are deposited into the General Fund, and disbursement is allocated by the Office of Management and Budget. Since these are multi-year contracts, the cost center manager and Executive Officer of Marketing will be accountable for contractors and oversight of revenue payments and variances.

- In the original contract estimates from 2017, the remaining contract years were projected to earn Metro a combined \$171M in revenue for years 6-10; post-pandemic, the adjusted revenue projections for year 6-10 are a combined \$139.7M.
- Revenues from a 2-year extension would earn Metro an additional \$62M. The combined adjusted revenues for years 6-10 (\$139.7M) and 2-year extension would earn Metro a projected \$201.7M with the contracts ending in spring 2030.
- If ad sales exceed the annual estimates, the annual True-up will also provide Metro additional revenue share of above and beyond sales.

Overall, with the adjusted payments and additional two-year extension, the revised contracts' revenue value is an additional \$4.6M (\$309,852,214 compared to the original estimate of \$304,852,214). A table of original and adjusted annual payment table for 2023-2028 and 2-year extension can be viewed at *Attachment A - Revenue Summary, Table 3*.

### Impact to Budget

The adjusted advertising revenue for fiscal year 2023 is \$26,650,000 from \$33,610,000.

The projected advertising revenue for fiscal year 2024 is \$27,300,000.

Staff will provide annual revenue projections as part of Metro's Zero-Based Budgeting process.

### EQUITY PLATFORM

The proposed contract modifications are anticipated to maintain advertising revenue for Metro. While specific service regions, lines, and stations may earn more revenues based on market demand, the collective revenue from commercial advertising is distributed to all bus and rail operations, including service in Equity Focus Communities, allowing Metro to continue to serve customers who rely on our system. Multi-cultural and multi-language advertisements providing alignment and inclusion of Metro's diverse communities are accepted in the advertising program.

The digital screen program will see enhanced customer amenities (bus and rail arrival information, service alerts, digital maps, and agency messaging) added to all Metro rail and major BRT stations; 160 screens have been installed in Metro's rail stations, including 111 screens in Equity Focus Communities along the A Line and K Line. Furthermore, the expedited screen rollout will see new amenities in Equity Focus Communities along these transit corridors: Regional Connector, E Line (Farmdale to LATTC), L Line (Pico/Aliso to Atlantic), D Line (LAUS to Wilshire/Western), A Line (LAUS to APU/Citrus College), B Line (Vermont/Beverly to N. Hollywood), C Line (Redondo Beach to Norwalk), and major stations on the G and J Line.

### IMPLEMENTATION OF STRATEGIC PLAN GOALS

This board action supports Strategic Goal 5: Provide responsive, accountable, and trustworthy governance within the LA Metro organization. Commercial advertising revenues provide long-term supplemental revenue that supports Metro's transportation operations; affords new modern equipment at no capital cost to Metro; and enhances customer experience by displaying transit/travel information, agency messaging, and commercial content within a mix-use space.

### ALTERNATIVES CONSIDERED

Throughout the pandemic, staff and contractors have explored alternative techniques to generate additional revenues for the agency.

Staff has been coordinating with contractors on additional media inventory explorations and new advertising techniques. Intersection has identified additional exteriors on Metro property that may be used for large format advertising - pivoting from reaching exclusively transit/riders impressions to now include bystander/street impressions. Long-term advertising campaigns have also seen success on the Metro system. Campaigns such as *station buy-outs* as HBO at Culver City Station and *inventory buy-outs* as DoorDash for Metro BikeShare see dedicated revenues for an entire year.

The Board may elect not to approve this recommendation; however, this is not recommended. If

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Metro does not have advertising vendors, we will lose the revenue generated by these advertising program. It would take 12-18 months to issue a new Request for Proposals and award new contracts, and due to the current economic climate, Metro risks receiving less favorable proposals than the proposed amended contracts. In addition, the digital advertising program would cease, and further delay enhanced customer experiences within our stations.

### **NEXT STEPS**

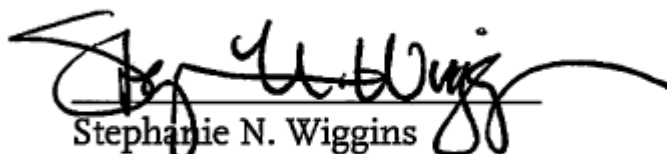
Upon Board approval, staff will execute both contract modifications to PS41099B (Bus) and PS41099R (Rail) and continue to manage the advertising business in accordance with contract and agency policies. Staff will monitor national and local advertising business trends and provide the Board with an annual update on the digital screen deployment, vandalism mitigation, and any new developments impacting the advertising program.

### **ATTACHMENTS**

- Attachment A - Revenue Summary
- Attachment B - Procurement Summary
- Attachment C - Modification Log
- Attachment D - DEOD Summary
- Attachment E - Industry Benchmark of Contract Modifications

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Stephanie N. Wiggins  
Chief Executive Officer



## Attachment A - Revenue Summary

**TABLE 1:  
PLANNED AND ACTUAL PAYMENTS - CONTRACT YEARS 2018 - 2022**

Contract Year	BUS (Original)	BUS (Actual)	RAIL (Original)	RAIL (Actual)	BUS + RAIL (Actual)
2018 YR1	\$23,500,000	\$23,500,000	\$2,000,000	\$2,000,000	\$25,500,000
2019 YR2	\$23,500,000	\$23,500,000	\$2,046,000	\$2,046,000	\$25,546,000
2020 YR3	\$23,500,000	\$20,449,561	\$2,993,058	\$1,845,372	\$22,294,933
		\$3,050,439		\$1,147,686	
2021 YR4	\$23,500,000	\$6,466,677	\$3,641,198	\$1,472,334	\$7,939,011
		\$17,033,323		\$2,168,864	
2022 YR5	\$23,500,000	\$23,500,000	\$5,190,446	\$3,000,000	\$26,500,000
				\$2,190,446	
<b>PAYMENTS</b>	<b>\$117,500,000</b>	<b>\$97,416,238</b>	<b>\$15,870,702</b>	<b>\$10,363,706</b>	<b>\$107,779,944</b>
<b>(LOSS)</b>		<b>\$20,083,762</b>		<b>\$5,506,996</b>	<b>\$25,590,758</b>

**TABLE 2:  
REVENUE ESTIMATES (ORIGINAL AND ADJUSTED)  
YEARS 6-10 AND 2 EXTENSION YEARS**

Contract Year	BUS (Original)	BUS (Adjusted)	RAIL (Original)	RAIL (Adjusted)	BUS + RAIL (Original)	BUS + RAIL (Adjusted)
2023 YR6	\$28,950,000	\$23,500,000	\$5,240,826	\$3,150,000	\$34,190,826	\$26,650,000
2024 YR7	\$28,950,000	\$24,000,000	\$5,292,365	\$3,300,000	\$34,242,365	\$27,300,000
2025 YR8	\$28,950,000	\$24,000,000	\$5,345,090	\$3,450,000	\$34,295,090	\$27,450,000
2026 YR9	\$28,950,000	\$25,000,000	\$5,399,027	\$3,600,000	\$34,349,027	\$28,600,000
2027 YR10	\$28,950,000	\$26,000,000	\$5,454,204	\$3,750,000	\$34,404,204	\$29,750,000
<b>TOTALS</b>	<b>\$144,750,000</b>	<b>\$122,500,000</b>	<b>\$26,731,512</b>	<b>\$17,250,000</b>	<b>\$171,481,512</b>	<b>\$139,750,000</b>
2028 YR11		\$28,000,000		\$3,900,000		\$31,900,000
2029 YR12		\$26,000,000		\$4,050,000		\$30,050,000
<b>GRAND TOTALS</b>	<b>\$144,750,000</b>	<b>\$176,500,000</b>	<b>\$26,731,512</b>	<b>\$25,200,000</b>	<b>\$171,481,512</b>	<b>\$201,700,000</b>

**TABLE 3:  
REVENUE ESTIMATES (ORIGINAL AND ADJUSTED)  
10 YEARS + 2 EXTENSION YEARS**

<b>Contract Year</b>	<b>BUS (Original)</b>	<b>BUS (Adjusted)</b>	<b>RAIL (Original)</b>	<b>RAIL (Adjusted)</b>	<b>BUS + RAIL (Original)</b>	<b>BUS + RAIL (Adjusted)</b>
2018 YR1	\$23,500,000	\$23,500,000	\$2,000,000	\$2,000,000	\$25,500,000	\$25,500,000
2019 YR2	\$23,500,000	\$23,500,000	\$2,046,000	\$2,046,000	\$25,546,000	\$25,546,000
2020 YR3	\$23,500,000	\$20,449,561	\$2,993,058	\$1,845,372	\$26,493,058	\$22,294,933
2021 YR4	\$23,500,000	\$6,466,677	\$3,641,198	\$1,472,334	\$27,141,198	\$7,939,011
2022 YR5	\$23,500,000	\$23,500,000	\$5,190,446	\$3,000,000	\$28,690,446	\$26,500,000
2023 YR6	\$28,950,000	\$23,500,000	\$5,240,826	\$3,150,000	\$34,190,826	\$26,650,000
2024 YR7	\$28,950,000	\$24,000,000	\$5,292,365	\$3,300,000	\$34,242,365	\$27,300,000
2025 YR8	\$28,950,000	\$24,000,000	\$5,345,090	\$3,450,000	\$34,295,090	\$27,450,000
2026 YR9	\$28,950,000	\$25,000,000	\$5,399,027	\$3,600,000	\$34,349,027	\$28,600,000
2027 YR10	\$28,950,000	\$26,000,000	\$5,454,204	\$3,750,000	\$34,404,204	\$29,750,000
2028 YR11		\$28,000,000		\$3,900,000		\$31,900,000
2029 YR12		\$26,000,000		\$4,050,000		\$30,050,000
<b>TOTAL PAYMENTS</b>	<b>\$262,250,000</b>	<b>\$273,916,238</b>	<b>\$42,602,214</b>	<b>\$35,563,706</b>	<b>\$304,852,214</b>	<b>\$309,479,944</b>

**TABLE 4:  
ANNUAL TRUE-UP REVENUE SHARE**

When revenues exceed the MAG estimates, this additional revenue share is activated resulting in additional end of the year payment to Metro

<b>Contract Year</b>	<b>OUTFRONT (Bus)</b>	<b>Intersection (Rail)</b>
2023 YR6	70/30	60/40
2024 YR7	70/30	60/40
2025 YR8	70/30	60/40
2026 YR9	70/30	60/40
2027 YR10	70/30	60/40
2028 YR11	70/30	70/30
2029 YR12	70/30	70/30

## PROCUREMENT SUMMARY

## METRO SYSTEM ADVERTISING – LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUS AND RAIL SYSTEMS/PS41099B AND PS41099R

1.	<b>Contract Numbers:</b> A) PS41099B B) PS41099R		
2.	<b>Contractors:</b> A) Outfront Media Group, LLC B) Intersection Parent, Inc.		
3.	<b>Contract Work Description:</b> Advertising Revenue		
4.	<b>Modification Description:</b> 1) Adjust the minimum annual guaranteed (MAG) payments and annual true-up revenue shares for the remainder of the contract as depicted in Attachment A; 2) Extend the Contract Period of Performance by an additional two years; 3) Increase Metro's share of voice (agency ad space) as part of the media inventory where materials and services are covered by the Contractor. 4) Expedite the digital screen program to deploy 500 screens by 2026 in preparation for 2028 Olympics.		
5.	<b>The following data is current as of:</b> January 31, 2023		
6.	<b>Contract Completion Status</b>		<b>Financial Status</b>
	<b>Contract Awarded:</b>	Jan 25, 2018	<b>Original Agreed Upon Revenue</b> PS41099B: \$262,250,000  PS41099R: \$42,902,200
	<b>Original Completion Date:</b>	Feb 28, 2028	<b>Total of Modification Approved</b> \$0
	<b>Current Contract Est. Completion Date:</b>	Feb 28, 2030	<b>Current Contract Value (with this action):</b> PS41099B: \$273,916,238  PS41099R: \$35,563,706
7.	<b>Contract Administrator:</b> Ernesto N. De Guzman		<b>Telephone Number</b> (213) 922 - 7267
8.	<b>Project Manager:</b> Lan-Chi Lam		<b>Telephone Number</b> (213) 922 - 2349

**Background:**

On January 25, 2018, the Board approved the award of Contract Nos. PS41099B and PS41099R to Outfront Media Group, LLC and Intersection Parent, Inc., respectively, for license to sell and display advertising on Metro's bus and rail assets. The contracts' terms were for ten (10) years, from March 1, 2018 through February 28, 2028, and included minimum annual

guarantee (MAG) payments that would yield to Metro revenues of \$262,250,000 for advertising on bus assets, and \$42,902,200 for advertising on rail assets during the life of the contracts.

There have been four modifications issued for PS41099B and two modifications have been issued for PS41099R.

Refer to Attachment C – Contract Modification/Change Order Log for details of modifications.

Because of significant loss of advertising sales revenues due to COVID-19, the advertising industry, among others, has experienced serious losses of revenue. Both bus and rail revenue advertising contractors have requested to extend relief from the MAG requirements of the Contract, while they recover from the economic effects of the COVID-19 pandemic.

**Reasonableness of Revenue Levels**

Metro’s marketing staff has been continuously monitoring market conditions since the beginning of the COVID-19 pandemic and had recently concluded that the advertising industry continues to see depressed sales and lack of customer impressions which continues to negatively affect Metro’s advertising contractors’ ability to generate the previously agreed upon levels of revenue. Therefore, the levels of revenue submitted by both Contractors are considered fair and reasonable.

ATTACHMENT C

CONTRACT MODIFICATION/CHANGE ORDER LOG

PS41099B – OUTFRONT MEDIA

(LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUS SYSTEM)

Mod. No.	Description	Status (approved or pending)	Date	Amount (Revenue)
1	Clarify contract language	Approved	03/28/2018	\$0
2	Provide a schedule of monthly Minimum Annual Guarantee (MAG) payments	Approved	04/25/2018	\$0
3	Temporarily replace MAG monthly payments with payments of 55% of actual gross sales from May 2020 through December 2020	Approved	06/04/2020	-\$3,050,439
4	Extend temporary MAG replacement by one year to a new expiration date of 12/31/2021; allow contractor to submit payments up to the 80th day following the close of each month beginning January 1, 2021; and revise the basis of the Letter of Credit from 50% of the MAG to 50% of annual revenue share payment amount for calendar year 2021	Approved	01/28/2021	-\$17,033,323
5	Adjust the MAG payments and annual true-up revenue shares for the remainder of the contract; Extend the Contract period of performance for two years; Allow increase in Metro's share of voice (agency ad space) as part of the media inventory where materials and services are covered by the Contractor; Expedite the digital screen program to deploy 500 screens by 2026 in preparation for 2028 Olympics	Pending	Pending	\$176,500,000
	<b>Modification Total:</b>			<b>\$11,666,238</b>
	<b>Original Contract</b>	Approved	01/25/18	<b>\$262,250,000</b>
	<b>Total:</b>			<b>\$273,916,238</b>

**PS41099R - INTERSECTION**

**(LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO RAIL SYSTEM)**

<b>Mod. No.</b>	<b>Description</b>	<b>Status (approved or pending)</b>	<b>Date</b>	<b>Amount (Revenue)</b>
1	Temporarily replace Minimum Annual Guarantee (MAG) monthly payments with payments of 55% of actual gross sales from May 2020 through December 2020	Approved	06/23/2020	<del>-\$1,147,686</del>
2	Extend temporary MAG replacement by one year to a new expiration date of 12/31/2021; allow contractor to submit payments up to the 80th day following the close of each month beginning January 1, 2021; revise the basis of the Letter of Credit from 50% of the MAG to 50% of annual revenue share payment amount for calendar year 2021; and, contingent upon approval of Commercial Sponsorship Policy, remove the station domination restriction of maximum 90 days	Approved	01/28/2021	<del>-\$2,168,864</del>
3	Adjust the MAG payments and annual true-up revenue shares for the remainder of the contract; Extend the Contract period of performance for two years; Allow increase in Metro's share of voice (agency ad space) as part of the media inventory where materials and services are covered by the Contractor; Expedite the digital screen program to deploy 500 screens by 2026 in preparation for 2028 Olympics	<b>Pending</b>	<b>Pending</b>	<b>\$25,200,000</b>
	<b>Modification Total:</b>			<del><b>-\$7,038,508</b></del>
	<b>Original Contract</b>	Approved	01/25/18	<b>\$42,902,200</b>
	<b>Total:</b>			<b>\$35,563,706</b>

DEOD SUMMARY

**METRO SYSTEM ADVERTISING – LICENSE TO SELL AND DISPLAY  
ADVERTISING ON METRO BUS AND RAIL SYSTEMS/PS41099B and PS41099R**

**A. Small Business Participation**

The Diversity & Economic Opportunity Department did not establish a Disadvantaged Business Enterprise (DBE) or Small Business Enterprise / Disabled Veteran Business Enterprise (SBE/DVBE) goal for this project. The subject procurement is revenue generating and does not involve use of federal, state or local funds. It is expected that Outfront Media Group and Intersection Parent, Inc. will perform the services with its own workforce.

**B. Living Wage and Service Contract Worker Retention Policy Applicability**

The Living Wage and Service Contract Worker Retention Policy is not applicable to this contract.

**C. Prevailing Wage Applicability**

Prevailing wage is not applicable to this contract.

**D. Project Labor Agreement/Construction Careers Policy**

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. PLA/CCP is applicable only to construction contracts that have a construction related value in excess of \$2.5 million.

## ATTACHMENT E - INDUSTRY BENCHMARK

Both contractors have executed modified contracts with other transit agencies from 2020 to 2022 as a response to pandemic impact. The tables below denote agency, year modified, contract extension, and revenue adjustments.

*\* Includes digital screen program*

OUTFRONT CONTRACTS			
Transit Agency	Year Modified	Extension	Revenue Adjustment
NY MTA *	2021	+ 3 years	YES
SF BART *	2020	+ 2 years	YES
WMATA *	2021	+ 18 months	YES
LB Transit (bus)	2020	+ 5 years	YES
OCTA (bus)	2021	+ 1 year	NO
LADOT (bus)	2021	+ 18 months	NO

INTERSECTION CONTRACTS			
Transit Agency	Year Modified	Extension	Revenue Adjustment
SEPTA *	2021	+ 2 years	YES
SFMTA *	2021	+ 5 years	YES
NJTransit *	2022	N/A	YES
SOUND TRANSIT	2021	+ 2 years	YES
Dallas DART (bus)	2021	+ 2 years	YES
AMTRAK	2022	N/A	YES
Chicago CTA *	2022	N/A	YES
Portland TriMet *	2020	New contract	YES





# REVENUE ADVERTISING

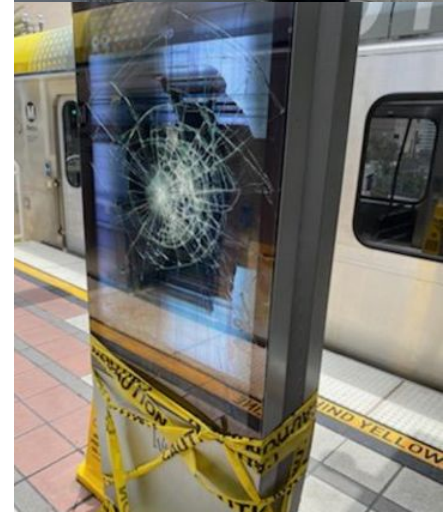
Request for Modifications on Metro's Bus and Rail Advertising Contracts

Executive Management Committee, March 16, 2023  
Item # 2023-0074

# ISSUE

Revenue projections from the initial 2017 proposals are no longer attainable due to long-term COVID impact on out-of-home (OOH) advertising and both contractors may option to initiate termination of the contract for convenience. OUTFRONT is facing a \$40M total loss and Intersection is facing a \$10M total loss and \$7.3M in equipment and maintenance costs already invested in the system.

- Metro lost \$25.6M in ad revenue during the height of COVID between 2020 - 2021 and risks losing \$27M-\$42M in ad revenue if the contractors terminate their contracts while a new competitive procurement is conducted.
- Revenue payments would stop once ads have been fulfilled within a few months, and no ad sales or revenue would be generated during the procurement process.
- A new competitive procurement would take 12-18 months and produce less favorable revenue estimates due to uncertain economy and high inflation.
- Metro would also lose the maintenance of existing digital kiosks and the installation of the remaining 340 digital customer information kiosks. The upcoming maintenance cost for screen replacements and plexiglass protective equipment is \$800,000.



# BACKGROUND: CONTRACT & PROGRAM

## 2018: Award of Contracts

OUTFRONT and Intersection were awarded Metro's bus and rail advertising contracts after a competitive procurement; combined contracts would have earned Metro \$305M from 2018-2028.

- OUTFRONT – Bus \$262M (bus fleet), Intersection – Rail \$42.9M (trains/stations)
- Intersection will invest up to \$20M capital expenditure for a digital screen program

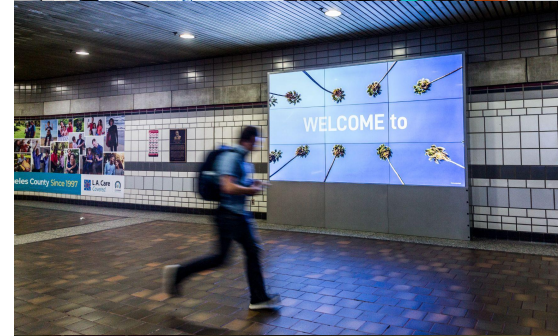
## 2020-21: Pandemic Contract Modifications

Due to COVID negative impact on sales, the minimum annual guarantee (MAG) was temporarily replaced with revenue share of actual sales from 2020 - 2021.

**PAYMENT HISTORY:** \$107.7M Revenue payments since 2018 (\$97.4M/Bus and \$10.3M/Rail)

## Digital Screen Program

- 160 Screens have been added to the system on A Line, K Line, and E Line (partial)  
\$6.5M investment thus far (capital and operating expenditures)
- Screens display transit information (rail/bus arrivals, service alerts, maps), agency messaging, and commercial advertising



Line/Item	Screens Installed	Year Deployed	Screens Replaced
A Line	94	2019	94
E Line	31	2022	3
K Line	17	2022	2
75" Panels	2	2020	1
Video Walls	18	2019/20	19

## Digital Screen Program Delayed

- Program was paused for two years, and contractor could not procure equipment due to factory closures and then shipping backlogs of 6 months.
- Delayed customer experience enhancements in rail and BRT stations.
- Delayed new revenue from digital advertising on the new screens.

## Digital Screens Face High Vandalism

- Vandalism on Metro is 5x greater than Intersection's other markets; 119 of original 167 screens have been vandalized and need replacing (\$505,000 cost).
- Intersection needs to spend additional \$800,000 to replace current broken screens and also apply plexiglass protective layer.

Media Type	2019	2020	2021	2022
Station Activations	16	12	5	8
Train Wraps	93	74	49	58
Bus Wraps	6,167	2,855	3,375	3,861

## Out of Home (OOH) Transit Advertising Still Down

- Advertisers paused or canceled their ad campaigns due to business closures.
- Advertisers sought other platforms such digital and static billboard out of home, and have not or slow to return to transit advertising.
- Key media only selling at 50-60% compared to pre-COVID sales.

# RECOMMENDATIONS TO MITIGATE RISKS



Staff has a recommended plan to renegotiate permanent and final contract terms to ensure the viability of the revenue advertising program and preserve a long-term revenue source. The plan will result in total revenues of \$309,852,214 compared to the original \$304,852,214 estimates and expedite customer experience enhancements for Metro riders.

1) **Adjust the current minimum annual guarantees (MAG) payments for the remainder of the contract terms to right-size revenue estimates based on lingering negative impact of COVID-19 including loss of advertisers, vandalism to digital and static advertising equipment, and digital screen procurement delays.**

- a) This adjustment will expedite the digital screen program for the next three years – deploying up to 100 screens each year in 2023 - 2025; resulting in major project completion by 2026 and 500 screens.
- b) The majority of rail lines and stations receiving these customer amenities are in Equity Focus Communities (EFC).
- c) Digital ads currently account for 17% of rail ad revenues with 160 screens; rail ad revenues are projected to increase and activate the annual true-up (annual bonus) with 500 digital screens.

YEAR	EXPEDITED ROLLOUT SCHEDULE
2023	Regional Connector, E Line (Farmdale to LATTC), L Line (Pico/Aliso to Atlantic)
2024	D Line (Union Station to Wilshire/Western), A Line (Union Station to APU/Citrus College), Airport Metro Connector, Purple Line Extension 1
2025	B Line (Vermont/Beverly to North Hollywood), C Line (Redondo Beach to Norwalk), Purple Line Extension 2, North Hollywood to Pasadena BRT, Foothill Extension (Glendora to Montclair)
2026	G Line (major stations), J Line (major stations)
2027	Purple Line Extension 3

# RECOMMENDATIONS TO MITIGATE RISKS



- 2) Extend both contracts for 2 additional years to recoup revenues lost during COVID pandemic, resulting in both contracts ending spring 2030, rather than spring 2028.
- a) Metro will earn an additional \$62M and cover the MAG adjustment loss (-\$31,731,512)
  - b) \$201.7M still to be earned by adding the adjusted MAG and 2 Extension Years (\$139.7M + \$62M)
  - c) Overall, Metro has increased the total revenue contract value by an additional \$4.6M (\$309,852,214 compared to the original estimate of \$304,852,214)

	BUS+RAIL (ORIGINAL)	BUS+RAIL (ACTUAL/ADJUSTED)	(-/+)
YEARS 1-5	\$133,370,702	\$107,779,944	-\$25,590,758
YEARS 6-10	\$171,481,512	\$139,750,000	-\$31,731,512
2-YEAR EXTENSION		\$61,950,000	
CONTRACT TOTALS	<b>\$304,852,214</b>	<b>\$309,479,944</b>	<b>+ \$4,627,730</b>

**COMMERCIAL ADVERTISING IS A REVENUE-POSITIVE PROGRAM THAT REQUIRES NO CAPITAL COST TO METRO!  
PROVIDES SUPPLEMENTAL REVENUE SUPPORTING METRO'S TRANSPORTATION OPERATIONS**

# RECOMMENDATIONS TO MITIGATE RISKS

3) **Vandalism Mitigation Plan:** Staff and Intersection have designed a mitigation plan that involves fortifying all digital equipment with protective plexiglass. This plexiglass material has already been tested and installed on current video walls, providing 12 months of protection before a new incident and no damage to screens.

- a) Immediately, replace ALL broken screens currently deployed on the system (apprx. 50)
- b) Add plexiglass protective layer to replaced screens
- c) Add plexiglass protective layer to remaining functional current screens (apprx. 110)
- d) All new screens deployed will have the plexiglass layer pre-installed in the factory



**DIRECT SCREEN**



**PLEXIGLASS ADDITION**



# TOTAL CONTRACT VALUES



## REVENUE ESTIMATES (ORIGINAL AND ADJUSTED) - 10 YEARS + 2 EXTENSION YEARS

CONTRACT YEAR	BUS (Original)	BUS (Actual/Adjusted)	RAIL (Original)	RAIL (Actual/Adjusted)	BUS + RAIL (Original)	BUS + RAIL (Actual/Adjusted)
2018 YR1	\$23,500,000	\$23,500,000	\$2,000,000	\$2,000,000	\$25,500,000	\$25,500,000
2019 YR2	\$23,500,000	\$23,500,000	\$2,046,000	\$2,046,000	\$25,546,000	\$25,546,000
2020 YR3	\$23,500,000	\$20,449,561	\$2,993,058	\$1,845,372	\$26,493,058	\$22,294,933
2021 YR4	\$23,500,000	\$6,466,677	\$3,641,198	\$1,472,334	\$27,141,198	\$7,939,011
2022 YR5	\$23,500,000	\$23,500,000	\$5,190,446	\$3,000,000	\$28,690,446	\$26,500,000
2023 YR6	\$28,950,000	\$23,500,000	\$5,240,826	\$3,150,000	\$34,190,826	\$26,650,000
2024 YR7	\$28,950,000	\$24,000,000	\$5,292,365	\$3,300,000	\$34,242,365	\$27,300,000
2025 YR8	\$28,950,000	\$24,000,000	\$5,345,090	\$3,450,000	\$34,295,090	\$27,450,000
2026 YR9	\$28,950,000	\$25,000,000	\$5,399,027	\$3,600,000	\$34,349,027	\$28,600,000
2027 YR10	\$28,950,000	\$26,000,000	\$5,454,204	\$3,750,000	\$34,404,204	\$29,750,000
2028 YR11		\$28,000,000		\$3,900,000		\$31,900,000
2029 YR12		\$26,000,000		\$4,050,000		\$30,050,000
<b>TOTAL PAYMENTS</b>	<b>\$262,250,000</b>	<b>\$273,916,238</b>	<b>\$42,602,214</b>	<b>\$35,563,706</b>	<b>\$304,852,214</b>	<b>\$309,479,944</b>