



Board Report

File #: 2015-0462, **File Type:** Informational Report

Agenda Number: 55.

EXECUTIVE MANAGEMENT COMMITTEE

June 18, 2015

SUBJECT: UPDATE ON ADVERTISING CONTRACTS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on the status of **Metro's revenue-generating bus and rail advertising contracts.**

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 and digital kiosks) 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 Systems), each inclusive of three 1-year options. The period of performance for the initial term started January 1, 2013 and ended 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 (\$21 million total in calendar year 2014) rather than a percentage of actual sales. Outfront Media has met all of their financial obligations pursuant to contract as of the date of this report. 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. One of the options 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 (estimated at \$400,000 annually) will go to Metro as per the terms of the contract modification to be executed by end of June, 2015; and the bike rack ad display installations will become the property of Metro.

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 begin installation of the bike rack ad displays in five phases:

Phase One - Install Displays on 648 buses

1. May 18, 2015: Outfront Media orders display panels and mounting hardware for 648 45-foot vehicles; in hand by July 1, 2015. Cost for fabrication and installation borne by Outfront Media: \$97,200 (\$150 x 648)
2. July 1, 2015: Metro installs torsion springs and relocates license plates on 648 buses. Cost for torsion springs borne by Outfront Media: \$66,096 (\$102 x 648)
3. July 1, 2015: Outfront Media installs displays on 648 buses during the month of July, after installation of springs is complete. Installations are done at the rate of 29 per night, five nights per week, 145 per week.
4. August 1, 2015: 648 bike rack displays available for ad posting.

Phase Two - Install Displays on 500 buses

1. August 1, 2015: Metro identifies the next 500 buses for bike rack ads.
2. August 1, 2015: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by September 15, 2015. Cost for fabrication and installation borne by Outfront Media: \$75,000 (\$150 x 500)
3. September 15, 2015: Metro installs torsion springs and relocates license plates on the next 500 buses identified. Cost for torsion springs borne by Outfront Media: \$51,000 (\$102 x 500)
4. September 15, 2015: Outfront Media installs displays on the next 500 buses identified during the month of September. Installations are done at the rate of 25 per night, five nights per week, 125 per week.
5. October 15, 2015: 1,148 bike rack displays available for ad posting.

Phase Three - Install Displays on 500 buses

1. October 15, 2015: Metro identifies the next 500 buses for bike rack ads.
2. October 15, 2015: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by November 1, 2015. Cost for fabrication and installation borne by Outfront Media: \$75,000 (\$150 x 500)
3. November 1, 2015: Metro installs torsion springs and relocates license plates on the next 500 buses identified. Cost for torsion springs borne by Outfront Media: \$51,000 (\$102 x 500)
4. November 1, 2015: 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. December 1, 2015: 1,648 bike rack displays available for ad posting.

Phase Four - Install Displays on 500 buses

1. December 1, 2015: Metro identifies the next 500 buses for bike rack ads.
2. December 1, 2015: Outfront Media orders display panels and mounting hardware for 500 vehicles; in hand by January 15, 2016. Cost for fabrication and installation borne by Outfront Media: \$75,000 (\$150 x 500)
3. January 15, 2016: Metro installs torsion springs and relocates license plates on the next 500 buses identified. Cost for torsion springs borne by Outfront Media: \$51,000 (\$102 x 500)
4. January 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. February 15, 2016: 2,148 bike rack displays available for ad posting.

Phase Five - Install Displays on 52 buses

1. February 15, 2016: Metro identifies the next 52 buses for bike rack ads.
2. February 15, 2016: Outfront Media orders display panels and mounting hardware for 52 vehicles; in hand by March 1, 2016. Cost for fabrication and installation borne by Outfront Media: \$7,800 (\$150 x 52)
3. March 1, 2016: Metro installs torsion springs and relocates license plates on the next 52 buses identified. Cost for torsion springs borne by Outfront Media: \$5,304 (\$102 x 52)
4. March 1, 2016: Outfront Media installs displays on the next 52 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 1, 2016: 2,200 bike rack displays available for ad posting.

ATTACHMENTS

- A. Attachment A - Motion 79.1

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A handwritten signature in black ink, appearing to read "Phillip A. Washington", is written over a horizontal line.

Phillip A. Washington
Chief Executive Officer

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.