



Metro

Board Report

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

File #: 2020-0306, File Type: Contract

Agenda Number: 32.

EXECUTIVE MANAGEMENT COMMITTEE MAY 21, 2020

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

ACTION: APPROVE CONTRACT MODIFICATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to:

- A. EXECUTE Modification No. 3 to Contract No. PS41099B - License to Sell and Display Advertising on Metro Bus System, with OUTFRONT Media Group, LLC, to temporarily replace the minimum annual guarantee (MAG) payments to Metro, as required by the Contract, with monthly payments of 55% of actual sales revenues, from May 15, 2020 to December 31, 2020, and to re-schedule the May 2020 payment from May 15, 2020 to May 30, 2020; and
- B. EXECUTE Modification No. 1 to Contract No. PS41099R - License to Sell and Display Advertising on Metro Rail System, with Intersection Parent, to temporarily replace the minimum annual guarantee (MAG) payments to Metro, as required by the Contract, with monthly payments of 55% of actual sales revenues from May 15, 2020 to December 31, 2020, and to re-schedule the May 2020 payment from May 15, 2020 to May 30, 2020.

ISSUE

Metro's bus and rail revenue advertising contractors have requested temporary relief from the revenue Minimum Annual Guarantee (MAG) requirements of the Contracts.

This report details how the current COVID-19 pandemic and *Stay at Home* orders are impacting the advertising business in the short-term and long-term. Due to the significant impacts of COVID-19, both contractors are experiencing canceled sales, lack of sales, and drop in customer impressions - negatively affecting their ability to generate the level of revenue that is necessary in order to meet the minimum annual guarantee (MAG) payments to Metro.

Staff is recommending the temporary suspension of the minimum annual guarantee payment (MAG) obligation from each contractor, and instead, allowing each firm to pay Metro a monthly revenue of 55% share of actual revenues from May 1, 2020 to December 31, 2020. Additionally, staff is requesting approval to re-schedule the May 2020 payment due date from May 15, 2020 to May 30,

2020 to allow both contractors additional time to remit payments to Metro.

BACKGROUND

The Metro Board approved the agency's current revenue advertising contracts with OUTFRONT and Intersection, respectively, in January 2018 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 2,000+ operational bus fleet with guaranteed revenues of \$262,250,000 for the duration of the contract. Intersection was awarded Contract PS41099R to sell and manage commercial advertising on Metro's rail system, including stations and trains, with guaranteed revenues of \$42,902,200 for the duration of the contract. Additionally, Intersection will deploy digital equipment, worth approximately \$20M, at no cost to Metro, for the purpose of migrating to digital advertising and information.

DISCUSSION

The Impact of COVID-19

The current COVID-19 pandemic and *Stay at Home* orders are having unprecedented and unexpected circumstances impacting OUTFRONT and Intersection's ability to generate revenue for the remainder of 2020. Due to the significant impacts of COVID-19, both contractors are experiencing canceled sales, lack of sales, and drop in customer impressions - significantly hindering their ability to meet the contractually required minimum annual guarantee (MAG) payments to Metro.

- *Cancellation of Sales*

Both contractors have received multiple requests for cancellations or requests for postponement of contracted sales to later in the year. Forward bookings and pending transactions have all but stopped for the second quarter of calendar year 2020 (Apr-May-Jun 2020) and the third quarter of calendar year 2020 (Jul-Aug-Sept 2020). Numerous campaigns slated for late March through June from the entertainment business have all been cancelled.

- *Loss of Customer Impressions*

The out of home industry is having to combat lower traffic counts and less people on the street viewing advertisements. Metro has reported a decrease in bus ridership of 65%, and a rail ridership decrease of 75%, along with reduced service. This has resulted in the dramatic loss of transit rider and bystander viewing impressions. With the uncertainty of how long the pandemic will continue with *Stay At Home* orders, it is difficult to predict when viewing impressions will recover.

- *Capital Expenditures Delayed*

Metro's Rail Advertising contractor, Intersection Parent, will delay major capital expenditures for 6 months due to delays in the sourcing of critical components and digital displays. The delays are expected to continue until the worst of the pandemic has passed. As a result, equipment installation for the E Line (Expo Line) will begin in Winter 2020, rather than in

Spring 2020, as previously planned.

MAG Planned Payments versus 55% Revenue Share

Due to the significant impacts of COVID-19 affecting the advertising business, staff is recommending the temporary removal of the minimum annual guarantee (MAG) payments to Metro, and instead receiving 55% revenue share of actual revenues from May 1, 2020 to December 31, 2020 from both Contractors.

This change provides relief to both contractors, while Metro continues to receive revenue payments. Under the present circumstances, it's impossible to estimate the true revenue loss, due to the nature of the pandemic, but the revenue share incentivizes the contractor to continue selling ad space as aggressively as the market will sustain.

Prior to the COVID-19 pandemic, the contracts called for a combined monthly minimum annual guarantee (MAG) payments of \$2,207,754 (\$1,958,333 for bus and \$249,421 for rail) from May to December. Shifting to the 55% revenue share model, the monthly estimated revenues from both contractors for May 2020 to December 2020 are as follows:

- May \$673,638 (bus - \$495,438, rail - \$178,200)
- June \$872,714 (bus - \$756,664, rail - \$116,050)
- July \$450,568 (bus - \$243,218, rail - \$207,350)
- Aug. \$2,020,150 (bus - \$1,760,000, rail - \$260,150)
- Sept. \$1,961,850 (bus - \$1,760,000, rail - \$201,850)
- Oct. \$2,002,000 (bus - \$1,760,000, rail - \$242,000)
- Nov. \$1,994,850 (bus - \$1,760,000, rail - \$234,850)
- Dec. \$1,998,700 (bus - \$1,760,000, rail - \$238,700)

May, June, and July advertising commitments have seen drastic loss of sales on the bus program. It is estimated to recover with a steady revenue projection of \$1,760,000 each month from August 2020 to December 2020. This estimate must be taken with caution, however, as drastic loss of sales and revenues are expected until *Stay at Home* orders have been lifted.

FINANCIAL IMPACT

Temporarily replacing the MAG with the 55% revenue share of actual revenues will result in a drastic change in planned revenues. Under the current circumstances, it's impossible to estimate the true revenue loss, due to the nature of the pandemic, but the revenue share incentivizes the contractor to continue selling ad space as aggressively as the market will sustain.

Impact to Budget

The FY20 Q4 loss of revenue is an estimated \$2,869,156 (-43%).
The FY21 Q1 and Q2 loss of revenue is an estimated \$2,818,406 (-21%).

Advertising revenues are eligible for bus and rail operating and capital expenditures.

ALTERNATIVES CONSIDERED

The Board may choose not to approve the contract modifications, but this is not recommended. By providing short-term relief to both OUTFRONT and Intersection, Metro is preserving long-term revenue generating opportunities and investment of equipment and infrastructure.

The current COVID-19 pandemic is having unprecedented, unexpected, and devastating consequences impacting businesses' ability to operate and create revenue.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The revenue advertising program supports the Strategic Plan by fulfilling these goals:

- Goal 2.2 Improving legibility, ease of use, and trip information on the transit system by creating new amenities that provide quality and up-to-date system information; and using popular technology to enhance customer experience.
- Goal 5.2 Exercising good public policy judgement and sound fiscal stewardship by monetizing Metro's capital assets to generate revenues and exploring private investment in Metro infrastructure improvements.

NEXT STEPS

Upon Board approval, staff will execute both contract modifications, and continue to manage the advertising business in accordance with the contract and applicable agency policies.

Staff will monitor national and local advertising business trends, along with our contractors, and provide the Board with an update in January 2021 on Metro's advertising program - including continuation of the digital rollout and economic performance of the modified contract. By providing short-term relief, we are protecting our long-term revenue source and capital expenditure investment.

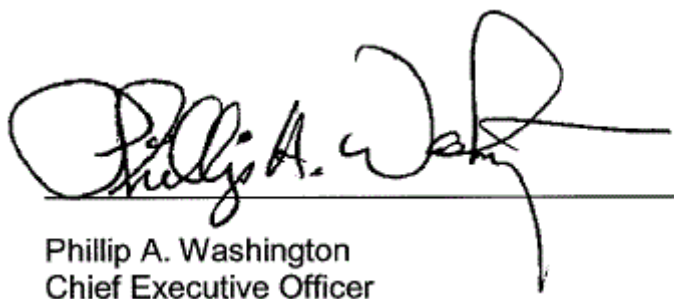
Staff will provide a recommendation on whether it is necessary to extend the removal of the minimum annual guarantee (MAG) payments to Metro, based on COVID-19 pandemic recovery.

ATTACHMENTS

Attachment A - Revenue Advertising Update Presentation
Attachment B - Revenue Change Summary
Attachment C - Procurement Summary
Attachment D - Change Order/Modification Log
Attachment E - DEOD Summary

Prepared by: Lan-Chi Lam, Director of Communications, (213) 922-2349
Glen Becerra, Executive Officer of Marketing, (213) 418-3264

Reviewed by: Yvette Rapose, Chief Communications Officer, (213) 418-3154
Debra Avila, Chief Vendor/Contract Management Officer, (213) 418-3051
Nalini Ahuja, Chief Finance Officer, (213) 92-3088



Phillip A. Washington
Chief Executive Officer

**Executive
Management
Committee**

May 2020



Revenue Advertising

Contract Summary

Metro Board approved the current revenue advertising contracts with OUTFRONT and Intersection in JAN 2018 with revenue operations beginning MAR 2018 - FEB 2028.

Buses - OUTFRONT

- Sell and manage advertising on/in 2,000+ bus fleet
- Revenues of \$262,250,000 for the duration of the contract

Rail - Intersection

- Sell and manage advertising on/in rail stations and trains
- Revenues of \$42,902,200 for the duration of the contract
- +\$20M capital expenditure investment for new equipment providing digital advertising and information

\$305M long-term revenue source for Metro

Revenues Paid

Since revenue operations began in March 2018

- \$57.7M have been paid to Metro by OUTFRONT and Intersection combined
- Intersection invested \$4.2M in A Line (2019)
- Both contractors meeting their contractual financial obligations and operating per policies

Summary of Contract Modifications

To preserve a long-term revenue source and investment of equipment and infrastructure, staff is recommending temporary contract changes for both contractors –

1. Temporarily replace the minimum annual guarantee (MAG) payments to Metro, as required by the Contract
2. Submit monthly payments 55% of actual sales revenues, from May 15, 2020 to December 31, 2020
3. And re-schedule the May 2020 payment from May 15, 2020 to May 30, 2020

Impact of COVID-19

COVID-19 pandemic and *Stay Home* orders beginning March 15th are having unexpected circumstances impacting both contractors' ability to generate revenue for the remainder of 2020.

Cancellation of Sales

- Both contractors are flooded with cancellation requests from their clients.
- Forward bookings have all but stopped for calendar year Q2 (Apr-May-Jun) and Q3 (Jul-Aug-Sept).
- The local entertainment business has evaporated; all sales for 2020 have been cancelled.

Impact of COVID-19 (cont.)

Loss of Customer Impressions

- Bystander viewing impressions – impressions from traffic and pedestrians (people on the streets).
- Rider viewing impressions – impressions from transit riders (Metro riders).

Capital Expenditures Delayed

- Intersection will delay major capital expenditures for 6 months – digitizing E Line pushed to Winter 2020 (originally planned for Summer 2020).
- They have experienced delays sourcing critical components and digital displays and expect the delayed to continue until the worst of the pandemic has passed.

Impact of COVID-19 (cont.)

Nationally – Transit agencies are experiencing similar issues with revenue re-forecasting and shortfalls.

- Regional Transportation Commission Southern Nevada (RTC SNV)
- Sound Transit
- Chicago Transit Authority (CTA)
- Dallas DART

Locally – Businesses who are not providing *essential service* have cancelled orders.

- Entertainment industry (new releases, theaters, television shows) accounts for 50% of BUS sales.
- Local business and institutions (schools, museums, destinations, hospitals) account for 39% of RAIL sales.

Revised Revenue Estimates

Revised revenue projections for May 2020 to December 2020 - with *estimated* 55% revenue share payments compared to *planned* minimum annual guarantee (MAG) payments.

MAG Revenues (planned revenues and payments)								
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
BUS - MAG	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333
RAIL - MAG	249,421	249,421	249,421	249,421	249,421	249,421	249,421	249,421
MAG (planned)	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754

55% Revenue Share (estimated revenues and payments)								
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
BUS - 55%	495,438	756,664	243,218	1,760,000	1,760,000	1,760,000	1,760,000	1,760,000
RAIL - 55%	178,200	116,050	207,350	260,150	201,850	242,000	234,850	238,700
55% Revenue (estimated)	\$673,638	\$872,714	\$450,568	\$2,020,150	\$1,961,850	\$2,002,000	\$1,994,850	\$1,998,700

Financial Impact

Estimated loss of revenues

- \$2,869,156 (-43%) = FY20 Q4
- \$2,818,406 (-21%) = FY21 Q1 and Q2
- *Actual monthly sales will vary*
- Advertising revenues are eligible for bus and rail operating and capital expenditures.

Summary of Contract Modifications

To preserve a long-term revenue source and investment of equipment and infrastructure, staff is recommending temporary contract changes for both contractors –

1. Temporarily replace the minimum annual guarantee (MAG) payments to Metro, as required by the Contract
2. Submit monthly payments 55% of actual sales revenues, from May 15, 2020 to December 31, 2020
3. And re-schedule the May 2020 payment from May 15, 2020 to May 30, 2020

Attachment B - Revenue Change Summary

Revised revenue projections for May 2020 to December 2020 - with *estimated* 55% revenue share payments compared to *planned* minimum annual guarantee (MAG) payments.

MAG Revenues (*planned* revenues and payments)

	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
BUS - MAG	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333	1,958,333
RAIL - MAG	249,421	249,421	249,421	249,421	249,421	249,421	249,421	249,421
MAG (planned)	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754	\$2,207,754

55% Revenue Share (*estimated* revenues and payments)

	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
BUS - 55%	495,438	756,664	243,218	1,760,000	1,760,000	1,760,000	1,760,000	1,760,000
RAIL - 55%	178,200	116,050	207,350	260,150	201,850	242,000	234,850	238,700
55% Revenue (estimated)	\$673,638	\$872,714	\$450,568	\$2,020,150	\$1,961,850	\$2,002,000	\$1,994,850	\$1,998,700

PROCUREMENT SUMMARY

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

1.	Contract Numbers: A) PS41099B B) PS41099R			
2.	Contractors: A) Outfront Media Group, LLC B) Intersection Parent, Inc.			
3.	Contract Work Description: Advertising Revenue			
4.	Modification Description: Replace monthly Minimum Annual Guarantee (MAG) Payments with monthly payments of 55% of sales revenues for the period May 2020 through December 2020 while Contractors recover from the effects of the COVID-19 pandemic.			
5.	The following data is current as of: April 28, 2020			
6.	Contract Completion Status		Financial Status	
	Contract Awarded:	Jan 25, 2018	Original Agreed Upon Revenue (Minimum Annual Guarantee)	PS41099B: \$262,250,000 PS41099R: \$42,902,200
	Original Completion Date:	Feb 28, 2028		
	Current Contract Estimated Completion Date:	Feb 28, 2028		
7.	Contract Administrator: Ernesto N. De Guzman		Telephone Number (213) – 922 - 7267	
8.	Project Manager: Lan-Chi Lam		Telephone Number (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 contract. Two modifications were issued for PS41099B previously. Modification No. 1, issued on March 28, 2018, added the Minimum Annual Guarantee payment schedule and provided clarifications to the contents of the Scope of Work. Modification 2, issued on April 25, 2018, provided a revised schedule of payments for the Minimum Annual Guarantee. No modifications have been previously issued for PS41099R.

Due to significant loss of advertising sales revenues due to COVID-19, the advertising industry has experienced significant losses of revenue. Both bus and rail revenue advertising contractors have requested a temporary relief from the Minimum Annual Guarantee requirements of the Contract, paying instead a share of 55% of monthly sales to Metro from May 2020 through December 2020, while they recover from the economic effects of the COVID-19 pandemic.

ATTACHMENT D**CHANGE ORDER/MODIFICATION LOG****CONTRACT NO. PS41099B****LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUS SYSTEM**

Modification No.	Description	Date	Amount
1	Clarify contract language	03/28/2018	\$0
2	Provide a schedule of monthly Minimum Annual Guarantee payments	04/25/2018	\$0
3	Temporarily replace Minimum Annual Guarantee (MAG) monthly payments with payments of 55% of actual net sales from May 2020 through December 2020	PENDING	TBD
	Original Contract Revenue Amount (Minimum Annual Guarantee)	1/25/18	\$262,250,000

CONTRACT NO. PS41099R**LICENSE TO SELL AND DSIPLAY ADVERTISING ON METRO RAIL SYSTEM**

Modification No.	Description	Date	Amount
1	Temporarily replace Minimum Annual Guarantee (MAG) monthly payments with payments of 55% of actual net sales from May 2020 through December 2020	PENDING	TBD
	Original Contract Revenue Amount (Minimum Annual Guarantee)	1/25/18	\$42,902,200

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 and Economic Opportunity Department (DEOD) determined that a goal is not applicable for this revenue generating procurement, as it will not utilize any federal, state and/or local funds.

B. Living Wage and Service Contract Worker Retention Policy Applicability

A review of the current service contract indicates that the Living Wage and Service Contract Worker Retention Policy (LW/SCWRP) was not applicable at the time of award. Therefore, the LW/SCWRP is not applicable to this modification.

C. Prevailing Wage Applicability

Prevailing wage is not applicable to this modification.

D. Project Labor Agreement/Construction Careers Policy

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