



Board Report

File #: 2020-0811, File Type: Contract

Agenda Number: 45.

REVISED
EXECUTIVE MANAGEMENT COMMITTEE
JANUARY 21, 2021

**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. 4 to Contract No. PS41099B - License to Sell and Display Advertising on Metro Bus System, with Outfront Media Group, LLC, to

- 1) Extend the temporary replacement of the Minimum Annual Guarantee (MAG) payments to Metro with monthly payments of 55% of actual sales revenues for one year, from January 1, 2021 to December 31, 2021;
- 2) Allow contractor to submit payments by the 80th day following the close of each month beginning January 1, 2021;
- 3) Amend ARTICLE VI of the Contract to revise the basis of the Letter of Credit from 50% of the Minimum Annual Guarantee (MAG) to 50% of projected Gross Annual Advertising Revenue Share for calendar year 2021;

B. EXECUTE Modification No. 2 to Contract No. PS41099R - License to Sell and Display Advertising on Metro Rail System, with Intersection Parent, Inc. to

- 1) Extend the temporary replacement of the Minimum Annual Guarantee (MAG) payments to Metro with monthly payments of 55% of actual sales revenues for one year, from

January 1, 2021 to December 31, 2021;

- 2) Allow contractor to submit payment by the 80th day following the close of each month beginning January 1, 2021;
- 3) Amend ARTICLE VI of the Contract to revise the basis of the Letter of Credit from 50% of the Minimum Annual Guarantee (MAG) to 50% of projected Gross Annual Advertising Revenue Share for calendar year 2021;
- 4) ~~Contingent on outcome of a Commercial Sponsorship and Adoption Policy ("Sponsorship Policy"):~~
 - i. ~~Upon Board adoption of a Sponsorship Policy – Amend Exhibit B Statement of Work, Article 8, Subarticles 8.6.2.2 and 8.6.2.3 to remove the station domination restriction of maximum 90 days occupancy and repeat sponsor for interoperability of a commercial sponsorship program and instead replace it with the timebound elements of the Sponsorship Policy (temporary, short and long-term placements);~~
 - ii. ~~Until such time that the Board adopts the Sponsorship Policy – Apply no change to Exhibit B Statement of Work, Article 8, Subarticles 8.6.2.2 and 8.6.2.3 restricting station domination maximum 90 days occupancy and repeat sponsor, leaving restrictions as-is.~~

ISSUE

This report provides an update on how COVID-19 pandemic conditions continue to negatively impact advertising business on the Metro system. Metro's revenue advertising business continues to see depressed sales and lack of customer impressions - negatively affecting advertising contractor's ability to generate the level of revenue that is necessary in order to meet the MAG payments to Metro.

In response to continued COVID-19 negatively affecting advertising business, staff is recommending these temporary contract modifications:

- 1) Extend the removal of MAG payment obligation from each contractor, instead, allowing each to pay Metro 55% revenues share of gross sales from January 1, 2021 to December 31, 2021. This extension provides relief to both contractors while Metro continues to receive revenue payments, it also incentivizes the contractor to keep selling ad space as aggressively as the market will sustain;
- 2) Revising the basis of the Letter of Credit to 50% of projected gross annual advertising revenue share for calendar year 2021, rather than 50% of the MAG as the MAG quantity will not be

used for calendar year 2021.

Staff is also recommending the following permanent contract modifications to align with Metro accounting standards and avoid additional modifications:

- 1) Allowing both contractors to submit payments by the 80th day following the close of each month to align with Metro accounts payable requirements - payments are currently due on the 15th of each following month;
- 2) ~~Contingent upon the outcome of a Commercial and Adoption Sponsorship Policy:~~
~~If the Board adopts the Sponsorship Policy, remove station domination restriction of maximum 90 days occupancy and repeat sponsor for interoperability with the commercial sponsorship policy and instead replace it with the timebound elements of the policy (temporary, short- and long-term placements). The policy will include temporary, short, and long-term commercial opportunities – directly impacting both advertising contracts. Managing this modification now will prevent further administrative action later to both advertising contracts. If the Board does not adopt the Sponsorship Policy, current restrictions on station domination maximum 90 days occupancy and repeat sponsor will remain in place, as-is.~~

Staff recommendations reflect a prudent response to the impact of COVID-19 on Metro's advertising business. The agency may provide short term financial relief in order to preserve a long-term revenue source - the combined advertising contracts will generate \$305M revenue over 10 years, \$20M capital expenditure investment in digital equipment, and both contractors will continue to provide payments to Metro.

BACKGROUND

In May 2020, the Metro Board approved contract modifications providing temporary financial relief to revenue advertising contractors, Outfront and Intersection, due to negative impact of COVID-19 pandemic conditions. The temporary relief removed the MAG obligation from each contractor, instead, allowing each to pay Metro a monthly revenue of 55% share of actual revenues from May 2020 through December 31, 2020.

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 promised revenues of \$262,250,000 for the duration of the contract. Intersection was awarded a 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. 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

2020 Revenue Payments and Capital Expenditures

Following the Board's approval of temporarily removing the MAG obligation from May 1, 2020 to

December 31, 2020 for both advertising contractors Outfront has paid Metro \$12,123,570 and Intersection has paid Metro \$1,616,197 for a collective \$13,739,767 (calendar year 2020). Metro received MAG payments from January to April, and 55% revenue share payments from May to December from both contractors. Below is breakdown of payments for the 2020 calendar year:

JAN	\$2,128,833	(bus - \$1,958,333, rail - \$170,500)	MAG
FEB	\$2,128,833	(bus - \$1,958,333, rail - \$170,500)	MAG
MAR	\$2,128,833	(bus - \$1,958,333, rail - \$170,500)	MAG
APR	\$2,128,833	(bus - \$1,958,333, rail - \$170,500)	MAG
MAY	\$903,316	(bus - \$639,932, rail - \$92,883)	RevShare
JUNE	\$698,760	(bus - \$627,486, rail - \$71,274)	RevShare
JULY	\$338,725	(bus - \$255,452, rail - \$83,725)	RevShare
AUG	\$771,591	(bus - \$663,046, rail - \$108,545)	RevShare
SEPT	\$682,317	(bus - \$567,394, rail - \$114,923)	RevShare
OCT	\$768,189	(bus - \$669,372, rail - \$98,817)	RevShare
NOV	\$732,937	(bus - \$409,798, rail - \$323,139)	RevShare
DEC	\$578,022	(bus - \$457,758, rail - \$120,246)	RevShare

On the bus system, approximately 10% of normal revenue from the theatrical/studio business has returned, bus revenue is down 55% overall, and is anticipated to finish around \$22.7M in sales (before Metro revenue share).

On the rail system, legal and healthcare industries have continued to buy advertising throughout the pandemic. Intersection has also seen large technology companies, such as Facebook, purchase advertising and give back a percentage of their spend to small, local, and minority-owned businesses, as well as for COVID-19 public health guidelines such as safe social distancing and hand washing practices.

Additionally, Intersection has continued to deploy digital equipment as part of the digital advertising program, including:

- A pair of 75-inch flatscreens at 7th Street / Metro Center Station (October)
- 9-panel video wall at Hollywood / Highland Station (October)
- Replacement of vandalized screens on A Line (9 screens have been replaced to date with 7 more scheduled to be replaced by the end of 2020)

Continued Negative Impact of COVID-19

As COVID-19 pandemic conditions persist, the resulting pandemic recession conditions also persist - impacts to business reported in May 2020 have not improved and remain consistent. Global pandemic conditions continue to negatively impact regional advertising business. Some examples include:

Altered Work Patterns

Working remotely or virtually is becoming a *new norm* in order to adhere to physical distance

measures as a way of inhibiting the spread of coronavirus. Beyond 2020, companies are allowing their employees to selectively work from home or part-time from home; this action removes the need of workers to commute.

- *IMPACT - Loss of Customer Impressions*

Less people riding the Metro system and less people on the streets equal fewer eyeballs viewing advertisements. Metro's bus and rail ridership is down 48 percent compared to pre-pandemic levels - resulting in the loss of transit rider and bystander viewing impressions. Until a vaccine is approved and distributed, and while the *Stay-at-Home* orders remain in place, it is anticipated that viewing impressions for 2021 will remain consistently low with gradual recovery towards the end of 2021.

Pandemic Recession Patterns

While federal stimulus packages provide aid to local economies and small businesses, larger businesses do not qualify and are mitigating financial hardship themselves. Larger businesses and national brands - those who normally purchase large media buys on the Metro system - are weathering financial difficulty by cutting advertising budgets and advertising spending.

- *IMPACT - Ad Buys Are Still Not Returning*

During a standard year, Metro's advertising business will see significant media buys from the following sectors: entertainment, local attractions, new products and services. However, these key sectors are still shut down or struggling, and products and service agencies are holding on to ad spending. During the height of the pandemic from April to July 2020, transit advertising was down 75% and is recovering very slowly.

- *IMPACT - Ad Brokers Securing Credit*

In order to weather pandemic recession conditions, both advertising brokers have or are in the process of independently securing capital. Outfront is a large enterprise company and does not qualify for federal aid nor grants and has secured \$500M. Intersection is a smaller, privately held company that is in the process of securing additional capital.

2021 Sales Projections and Capital Expenditures

Advertising Sales Projections

For calendar year 2021, Outfront projects gross revenue sales of \$21M for bus advertising, and Intersection projects gross revenue sales of \$2M for rail advertising - for a combined \$23M in advertising gross revenue sales. Metro's combined revenue share from both parties is projected to be \$12.6M for calendar year 2021.

	Gross Sales	Metro Payments (55% Rev Share)
Bus	\$21M	\$11.5M
Rail	\$2M	\$1.1M
Totals	\$23M	\$12.6M

In lieu of MAG payments for 2021, Metro will retain a greater *share of voice* - 20 percent up from 10 percent - on digital and static inventory to communicate agency priorities and implement Board motions such as Metro Art Programs including *Uplifting the Human Spirit Through Art*; customer experience *Surprise and Delight* opportunities; and *East, Shop, Play* construction mitigation.

Capital Expenditures (CapEx)

Intersection's planned capital expenditure investment on the E Line is still on schedule with an estimated investment of over \$1M. Various staff and departments have been coordinating with Intersection on kiosk placement, installation logistics, and scheduling. There are currently 34 interactive screens planned for deployment for E Line stations, but the scoping is not complete. Intersection will work with Metro to coordinate the installation of the digital units with minimal service disruption. Deployment is on track to be completed by the end of Q3 2021.

CapEx is independent of MAG suspension. The MAG suspension is essential due to the continued advertising revenue depression resulting from COVID. Intersection will deploy capital in 2021, but the level of capital is less than planned due to the pandemic. Marketing staff are also coordinating with C/LAX program management on digital scoping and deployment.

Rail System and Intersection Modifications

~~One additional modification is recommended to Contract No. PS41099R – License to Sell and Display Advertising on Metro Rail System, with Intersection Parent:~~

~~*Station Domination Restrictions*~~

~~The current contract restricts station activation/domination activity to maximum 90 days and consecutive purchase by one advertiser. However, future Commercial Sponsorship and Adoption Policy, if adopted by the Board, allows for temporary (up to 6 months), short-term (6 months to 2 years), and long-term (2 years to 10 years) sponsorships – and will directly impact both advertising contracts. Since this restriction is germane to this contract, it should be removed as part of this contract modification to prepare for the forthcoming commercial sponsorship. Removing this now in anticipation of the new Sponsorship Policy, makes it so staff does not have to bring another modification to this contract next month. If the Board adopts the Sponsorship Policy, this language will be removed:~~

~~8.6.2.2 Contractor shall not allow or authorize any single advertiser to engage in Station Domination of a single station for a period of more than 90 consecutive days.~~

~~8.6.2.3 Immediately following the period of Station Domination by an advertiser, said advertiser shall not be permitted to engage in Station Domination of that same station for at least 90 consecutive days.~~

~~The forthcoming policy, rather than providing opportunities for station activations and dominations, will allow for temporary, short and longer-term sponsorship opportunities.~~

FINANCIAL IMPACT

Temporarily replacing the minimum annual payment (MAG) with 55% revenue share of sales for 12 months will see a drastic change in planned revenues. Advertising revenues are eligible for bus and rail operations and capital expenditures.

Impact to Budget

Final loss of revenues will be reported once payment actuals have been received. This contract modification will affect FY21 Q3 and Q4, and FY22 Q1 and Q2, with projected revenue losses to be:

- FY21 Q3 and Q4 loss of revenue is an estimated \$7,108,566
- FY22 Q1 and Q2 loss of revenue is an estimated \$7,270,602

- FY21 is projected to see a total loss of \$16,537,225 (-62%)
- ~~FY22 is projected to see a total loss of \$6,883,294 (-25%)~~
- FY22 is projected to see a total loss of \$7,270,602 (-26%)

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.

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 a long-term revenue source and capital expenditure investment that enhances station amenities for our riders.

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 July 2021 on Metro's advertising program.

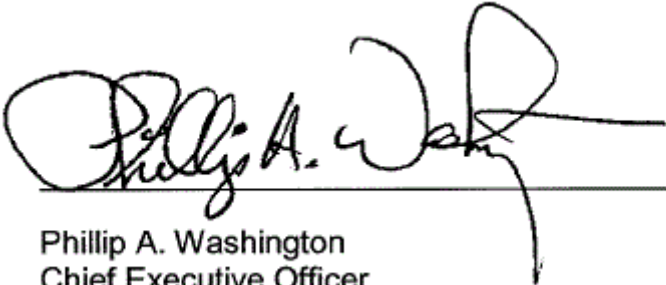
ATTACHMENTS

Attachment A - Procurement Summary
Attachment B - Contract Modification/Change Order Log
Attachment C - DEOD Summary

Attachment D - Fiscal Year 2021 and 2022 Revenue Change

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Reviewed by: Yvette Rapose, Chief Communications Officer, (213) 418-3154
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Phillip A. Washington
Chief Executive Officer

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: (a) PS41099B: Extend the temporary replacement of monthly Minimum Annual Guarantee (MAG) Payments with monthly payments of 55% of sales revenues to December 31, 2021. (b) PS41099R: Extend the temporary replacement of monthly Minimum Annual Guarantee (MAG) Payments with monthly payments of 55% of sales revenues to December 31, 2021.		
5.	The following data is current as of: December 8, 2020		
6.	Contract Completion Status		Financial Status
	Contract Awarded:	Jan 25, 2018	Revenue Contract Award Amount: PS41099B: \$262,250,000 PS41099R: \$42,902,200
	Original Completion Date:	Feb 28, 2028	Total of Modification Approved \$0
	Current Est. Completion Date:	Feb 28, 2028	Current Contract Value (with this action): PS41099B: \$262,250,000 PS41099R: \$42,902,200
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 contracts. There were three modifications issued for PS41099B and one modification was issued for PS41099R.

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

Because of the significant loss of advertising sales revenues due to COVID-19, the advertising industry has experienced serious losses of revenue. Both bus and rail revenue advertising contractors have requested to extend the temporary replacement of the MAG requirements of the Contract, paying instead a share of 55% of monthly sales to Metro through December 2021, 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 necessary level of revenue. Therefore, the levels of revenue submitted by both Contractors are considered fair and reasonable.

CONTRACT MODIFICATION/CHANGE ORDER LOG

LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUS
SYSTEM/PS41099B

Mod. No.	Description	Status (approved or pending)	Date	\$ Amount
1	Clarify contract language	Approved	03/28/18	\$0
2	Provide a schedule of monthly Minimum Annual Guarantee (MAG) payments	Approved	04/25/18	\$0
3	Temporarily replace MAG monthly payments with payments of 55% of actual gross sales from May 2020 through December 2020	Approved	06/04/20	\$0
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 80 th 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	Pending	Pending	\$0
	Modification Total:			\$0
	Original Contract:	Approved	01/25/18	\$262,250,000
	Total:			\$262,250,000

CONTRACT MODIFICATION/CHANGE ORDER LOG

LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO RAIL
SYSTEM/PS41099R

Mod. No.	Description	Status (approved or pending)	Date	\$ Amount
1	Temporarily replace Minimum Annual Guarantee (MAG) monthly payments with payments of 55% of actual gross sales from May 2020 through December 2020	Approved	06/23/20	\$0
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 80 th 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	Pending	Pending	\$0
	Modification Total:			\$0
	Original Contract:	Approved	01/25/18	\$42,902,200
	Total:			\$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**

For this revenue generating procurement, the Diversity and Economic Opportunity Department (DEOD) determined that a goal was not applicable as the system advertising contract does 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.

ATTACHMENT D

FISCAL YEAR 2021 AND 2022 REVENUE CHANGE

Advertising Revenue - FY21 Payment Summary

(Entire fiscal year earning 55% revenue share of gross sales)

	Planned (MAG)	Actuals & Projected (RevShare)	Difference	Difference (%)
BUS	\$23,500,000	\$8,772,818		
RAIL	\$3,209,000	\$1,398,957		
TOTAL	\$26,709,000	\$10,171,775	\$(16,537,225)	-62%

Advertising Revenue - FY21 Monthly Payments

JULY	\$338,725	(bus - \$255,452, rail - \$83,725)	RevShare
AUG	\$771,591	(bus - \$663,046, rail - \$108,545)	RevShare
SEPT	\$682,317	(bus - \$567,394, rail - \$114,923)	RevShare
OCT	\$768,189	(bus - \$669,372, rail - \$98,817)	RevShare
NOV	\$732,937	(bus - \$409,798, rail - \$323,139)	RevShare
DEC	\$578,022	(bus - \$457,758, rail - \$120,264)	RevShare
JAN	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected
FEB	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected
MAR	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected
APR	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected
MAY	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected
JUNE	\$1,529,166	(bus - \$1,237,500, rail - \$291,666)	RevShare Projected

Advertising Revenue - FY22 Payment Summary

(Q1 and Q2 earning 55% revenue share of gross sales, Q3 and Q4 earning MAG payment)

	Planned (MAG)	Projected & Planned (RevShare+MAG)	Difference	Difference (%)
BUS	\$23,500,000	\$17,499,996		
RAIL	\$4,028,508	\$3,145,218		
RAIL	\$4,028,508	\$2,757,906		
TOTAL	\$27,528,508	\$20,645,214	\$(6,883,294)	-25%
TOTAL	\$27,528,508	\$20,257,902	\$(7,270,606)	-26%

Advertising Revenue - FY22 Monthly Payments

JULY	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
AUG	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
SEPT	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
OCT	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
NOV	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
DEC	\$1,116,666	(bus - \$958,333, rail - \$91,666)	RevShare Projected
JAN	\$2,390,870	(bus - \$1,953,333, rail - \$303,433 \$432,537)	MAG
FEB	\$2,390,870	(bus - \$1,953,333, rail - \$303,433 \$432,537)	MAG
MAR	\$2,390,870	(bus - \$1,953,333, rail - \$303,433 \$432,537)	MAG
APR	\$2,390,870	(bus - \$1,953,333, rail - \$432,537)	MAG
MAY	\$2,390,870	(bus - \$1,953,333, rail - \$432,537)	MAG
JUNE	\$2,390,870	(bus - \$1,953,333, rail - \$432,537)	MAG

Rail / Intersection – Minimum Annual Guarantee (MAG) Payment Table

CONTRACT YEAR 1 MAG TOTAL	\$2,000,000
CONTRACT YEAR 2 MAG TOTAL	\$2,046,000
CONTRACT YEAR 3 MAG TOTAL	\$2,993,058
CONTRACT YEAR 4 MAG TOTAL	\$3,641,198
CONTRACT YEAR 5 MAG TOTAL	\$5,190,446
CONTRACT YEAR 6 MAG TOTAL	\$5,240,826
CONTRACT YEAR 7 MAG TOTAL	\$5,292,365
CONTRACT YEAR 8 MAG TOTAL	\$5,345,090
CONTRACT YEAR 9 MAG TOTAL	\$5,399,027
CONTRACT YEAR 10 MAG TOTAL	\$5,454,204
TOTAL 10-YEAR REVENUE MAG	\$42,602,214

Bus / Outfront – Minimum Annual Guarantee (MAG) Payment Table

CONTRACT YEAR 1 MAG TOTAL	\$23,500,000
CONTRACT YEAR 2 MAG TOTAL	\$23,500,000
CONTRACT YEAR 3 MAG TOTAL	\$23,500,000
CONTRACT YEAR 4 MAG TOTAL	\$23,500,000
CONTRACT YEAR 5 MAG TOTAL	\$23,500,000
CONTRACT YEAR 6 MAG TOTAL	\$28,950,000
CONTRACT YEAR 7 MAG TOTAL	\$28,950,000
CONTRACT YEAR 8 MAG TOTAL	\$28,950,000
CONTRACT YEAR 9 MAG TOTAL	\$28,950,000
CONTRACT YEAR 10 MAG TOTAL	\$28,950,000
TOTAL 10-YEAR REVENUE MAG	\$262,250,000

REVENUE ADVERTISING

- Program Update and Contract Modification

Executive Management Committee - January 2021

File No. 2020-0811



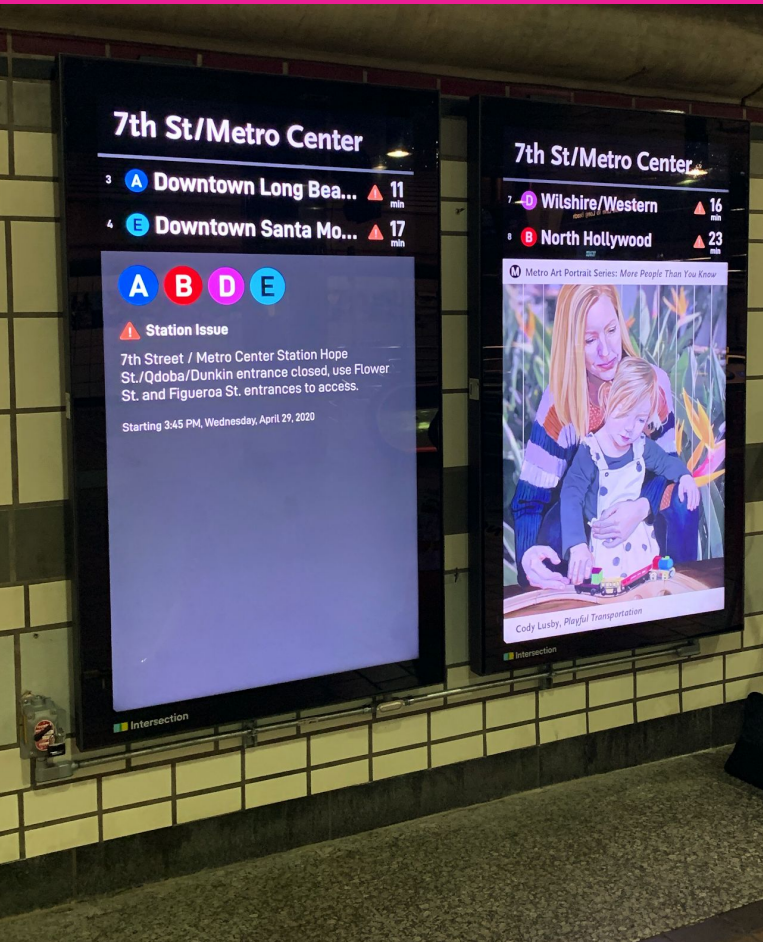
Metro

CONTRACT HISTORY

May 2020 Board approved contract modification in response to COVID impact. Vendors pay Metro 55% revenue share of gross sales rather than minimum annual payment (MAG) from May 2020 - December 2020.

Jan 2018 Board approved the current advertising contracts awarding Outfront / bus inventory and Intersection / rail inventory. Combined contracts will generate \$305M revenue over 10 years with \$20M capital expenditure (CapEx) investment for digital advertising and information.

2020 RECAP - REVENUE & CAPITAL EXPENDITURES



\$13.7M Revenues paid to Metro for CY2020

\$8.5M Jan-Apr (MAG)

\$5.2M May-Dec (55% Rev Share)

Pandemic caused disruption in global supply chain, pausing/halting equipment orders

- **IMPACT** - Intersection could not procure large volume order, delaying rollout to E Line
- Small batch orders: Video walls, additional flats screens @ 7th/Metro, and maintenance

2020 RECAP - COVID-19 CONTINUED IMPACT

Pandemic recession conditions persist → impacting regional advertising business

Altered Work - Telecommuting and working remotely removing the need to commute

- **IMPACT – Loss of customer impressions (Less people riding the Metro system and less people on the streets equal fewer eyeballs viewing advertising)**

Pandemic Recession - Most businesses are facing financial hardship and cut ad budget

- **IMPACT – Ad buys still not returning (entertainment, local attractions)**
- **IMPACT – Ad brokers independently securing credit to weather pandemic (Outfront secured \$500M, Intersection in process)**



Metro

2021 FORECAST - REVENUE & CAPITAL EXPENDITURES

\$12.6M Projected revenue payments for CY2021

- Metro will receive 55% Revenue Share for entire year

E Line Deployment

- Onschedule to install 34 screens (\$1M+ investment) beginning Summer 2021 and complete Fall 2021

Agency Share of Voice (SOV)

- Increase SOV from 10% to 20% to communicate agency priorities and implement Board motions (Art Program, Customer Experience, Eat, Shop, Play)



FINANCIAL IMPACT - METRO FISCAL YEARS

Advertising Revenue - FY21 Payment Summary

(Entire fiscal year earning 55% revenue share of gross sales)

	Planned (MAG)	Actuals & Projected (RevShare)	Difference	Difference (%)
BUS	\$23,500,000	\$8,772,818		
RAIL	\$3,209,000	\$1,398,957		
TOTAL	\$26,709,000	\$10,171,775	\$(16,537,225)	-62%

Advertising Revenue - FY22 Payment Summary

(Q1 and Q2 earning 55% revenue share of gross sales, Q3 and Q4 earning MAG payment)

	Planned (MAG)	Projected & Planned (RevShare+MAG)	Difference	Difference (%)
BUS	\$23,500,000	\$17,499,996		
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RAIL	\$4,028,508	\$2,757,906		
TOTAL	\$27,528,508	\$20,645,214	\$(6,883,294)	-25%
TOTAL	\$27,528,508	\$20,257,902	\$(7,270,606)	-26%



Metro

CONTRACT MODIFICATION - RECOMMENDATION & JUSTIFICATION

Temporary Modifications

- Extend minimum annual guarantee (MAG) easement and continue to receive 55% revenue share of gross sales for January-December 2021 (12 months)
- Revise Letter of Credit removing tie to MAG amount for 2021 (technicality)

Permanent Modifications

- Align with AP: Allow contractors to submit payment by the 80th day upon invoice
- ~~● Contingent on approval of Commercial Sponsorship Policy:
Remove station activation restrictions of maximum 90 days occupancy and repeat buyer so staff do not have to modify this contract once again~~

Justification

- Provide short term financial easement in order to preserve a long-term revenue source for Metro (\$305M over 10 years into 2028, \$20M CapEx investment)
- Prevent contract cancellation and need to begin new procurement