



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

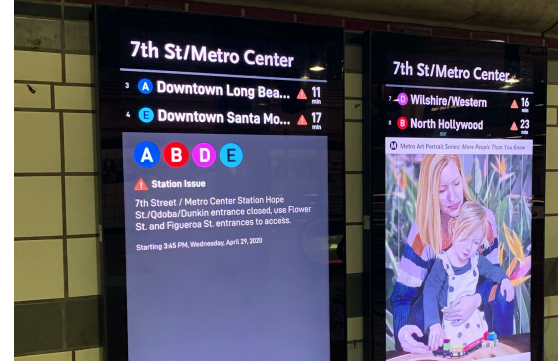
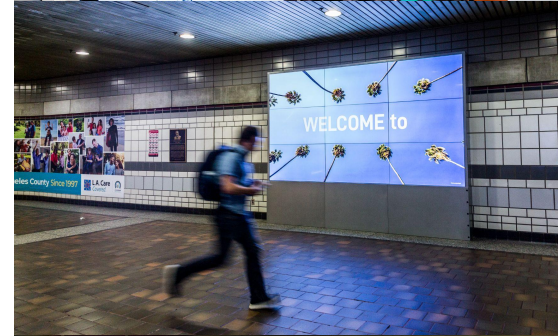
2020-21: Pandemic Contract Modifications

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)

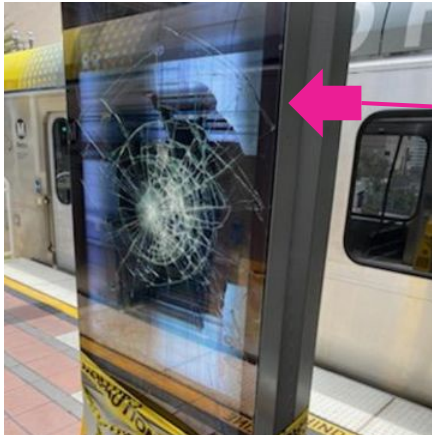
	BUS+RAIL (ORIGINAL)	BUS+RAIL (ACTUAL/ADJUSTED)	(-/+)
YEARS 1-5	\$133,370,702	\$107,779,944	-\$25,590,758
YEARS 6-10	\$171,481,512	\$139,750,000	-\$31,731,512
2-YEAR EXTENSION		\$61,950,000	
CONTRACT TOTALS	\$304,852,214	\$309,479,944	+ \$4,627,730

**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.

- Immediately, replace ALL broken screens currently deployed on the system (apprx. 50)
- Add plexiglass protective layer to replaced screens
- Add plexiglass protective layer to remaining functional current screens (apprx. 110)
- 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
TOTAL PAYMENTS	\$262,250,000	\$273,916,238	\$42,602,214	\$35,563,706	\$304,852,214	\$309,479,944