



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.

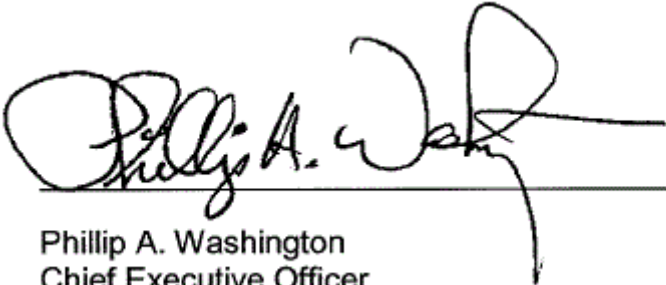
### ATTACHMENTS

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

Attachment D - Fiscal Year 2021 and 2022 Revenue Change

Prepared by: Lan-Chi Lam, Director of Communications, (213) 922-2349  
Glen Becerra, Executive Officer of Marketing, (213) 418-3265

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



---

Phillip A. Washington  
Chief Executive Officer