



Board Report

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

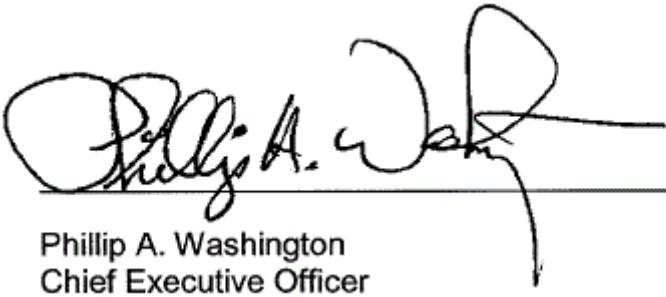
Attachment C - Procurement Summary

Attachment D - Change Order/Modification Log

Attachment E - DEOD Summary

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