



**Board Report**

**File #:** 2017-0718, **File Type:** Contract

**Agenda Number:** 10.

**REGULAR BOARD MEETING  
JANUARY 25, 2018**

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

**ACTION: APPROVE ADVERTISING CONTRACT AWARDS**

**RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to:

- A. AWARD Contract No. PS41099B - License to Sell and Display Advertising on Metro Bus System to OUTFRONT Media Group, LLC for 10 years, generating an aggregate minimum guarantee of \$262,250,000 revenue for Metro, subject to resolution of protest(s), if any;
- B. AWARD Contract No. PS41099R - License to Sell and Display Advertising on Metro Rail System to Intersection Parent, Inc. for 10 years, generating an aggregate minimum guarantee of \$42,902,200 revenue for Metro, subject to resolution of protest(s), if any; and
- C. AMEND the FY18 Budget to add three (3) Full Time Employees (FTEs) to support implementation of digital advertising and the new revenue contracts; FTEs will be funded by revenues generated from No. PS41099B and No. PS41099R.

**ISSUE**

Metro's current system advertising contract (License To Sell and Display Advertising on Metro Bus and Rail System) expired December 31, 2017. The contract has been extended to allow time to finalize the approval and contract execution process. The procurement for new revenue-generating contracts began in April 2017 with a public Request for Proposals (RFP) process.

The agency's expanded advertising policy coupled with recent innovations in advertising allow for leveraging technology to enhance the customer experience. Staff is recommending the award of two separate contracts - one for bus advertising to a firm with extensive experience, longevity and solid performance, and one for rail advertising to a firm that offers innovative digital technology to enhance the customer experience through new amenities for Metro customers and the communities Metro serves.

## **DISCUSSION**

### **Background**

Metro has an advertising policy as a way of utilizing the agency's assets to generate revenue. To implement the policy, Metro contracts with a professional advertising firm to sell, schedule, produce and install advertising on the Metro system. In January 2016, the Metro Board of Directors approved the Risk Allocation Matrix (RAM) and creation of an Internal Savings Account intended as tools to ensure long-term financial stability and mitigate projected budget shortfalls. Expanded advertising was identified as a significant initiative contributing to the sustainability of Metro's current and future operations and expansions.

In February 2017, the Metro Board of Directors approved the revised System Advertising Policy in order to implement the RAM initiative of expanded advertising as an agency revenue generator.

A Request for Proposals (RFP) process was initiated in April 2017 with intent to award a 10-year contract.

### **Goals**

The contract approach centered around three primary goals:

- 1. Enhance the customer experience** by upgrading all current static map cases to digital customer information panels (CIPs), thus, enabling real-time management and flexibility of customer information.
- 2. Reduce costs** by securing free and guaranteed advertising space and no print/production costs to the agency.
- 3. Increase revenue-generation** by maximizing the agency's vast and growing capital assets including the bus and rail fleet, rail stations, transitway stations, parking facilities, and Division facilities; and migrating to digital advertising.

### **Enhancing the Customer Experience**

Transitioning to a digital advertising model affords a unique opportunity for the agency to leverage its system advertising program to not only increase revenues, but also enhance the customer experience by providing new amenities for Metro customers and the communities Metro serves.

This new digital technology will include interactive screens to display customer information, system and neighborhood maps, vehicle arrival information, service alerts and disruptions, and other agency information.

Some of the displays will also provide customer amenities such as free Wi-Fi, free 911 emergency calls and other calls nationwide, USB charging stations, and neighborhood and city information on an interactive tablet.

### **Conversion to Digital Displays**

Staff has mapped out a plan to modernize the agency's advertising approach by transitioning from static map cases and signage to digital advertising over a five-year period. This will involve upgrading the display of ads to digital advertising screens and customer information panels across the rail system.

Metro's current and future rail stations will feature digital screens to share real-time customer information. Additionally, the screens will be placed at stations along the Orange Line and Silver Line, as well as the El Monte and Harbor Gateway Transit Centers.

For the first year of the contract, the contractor will audit all rail stations in Metro's system and develop an installation plan based on those that are install-ready. A proposed design for each station will be reviewed and approved by the relevant Metro departments.

#### Procurement Process

*Attachment A - Procurement Summary* provides full procurement process, where the RFP followed the best value process:

- Two proposals were received and oral presentations were held in September by both Respondents.
- Best and Final Offers, along with a final oral presentation, were requested, which were provided by Respondents in October. Final scoring and decision was completed in October by the evaluation committee.
- The evaluation committee was comprised of staff from Marketing, Countywide Planning, Office of Budget and Finance, Operations, and Signage and Environmental Design; with advisors from: Marketing, Vendor/Contract Management, and Universal Studios Hollywood (non-Metro).

#### Contract Terms

- 10 years with midpoint performance audit at the end of 5<sup>th</sup> year
- Minimum annual guarantee (MAG) revenue payments
- Revenue share of 55% to Metro beyond the MAG (years 1-5)
- Revenue share of 70% to Metro beyond the MAG (years 6-10)
- Full financial audit access and detailed reporting requirements
- Full compliance with Metro's standard terms and conditions, Fire Life Safety, and ADA compliance
- Commitment to install and maintain digital screens for the customer information and advertising

#### OUTFRONT Media Group, LLC

OUTFRONT Media Group, LLC (OUTFRONT) is proposing guaranteed revenues of \$262,250,000 to Metro over the 10-year contract term for the bus system. They will provide static advertising on and in the agency's bus fleet.

OUTFRONT is an industry leader in transit advertising with 80 years of knowledge and experience - 35 years of direct service experience with Metro. OUTFRONT demonstrates a solid financial history with a consistent record of fulfilling their revenue payments to Metro and all other transit agencies including NY MTA, WMATA, and MBTA.

With a strong national and local sales team, expert knowledge in sales management and operations of commercial advertising, staff is confident OUFROnt will fulfill their bus revenue guarantee to Metro over the 10-year contract term.

As the incumbent, their experience with Metro and their intricate knowledge of agency Bus Operations is advantageous to Metro, requiring no new training or transition. OUTFRONT has been and will continue to utilize the services of a certified Disadvantaged Business Enterprise (DBE) firm to fulfill advertising operations on the agency's bus fleet.

#### Intersection Parent, Inc.

Intersection Parent, Inc. (Intersection) is proposing guaranteed revenues of \$42,902,200 to Metro over the 10-year contract term for the rail system. They are also committed to a capital investment of \$19,700,000 to install new digital equipment to implement customer information and digital advertising on Metro's rail system.

Intersection is an industry leader in municipal out-of-home advertising with 15 years of knowledge and expertise. They are also a leader in product innovation involving technology in public spaces. Intersection has a proven track record with NY MTA deploying interactive On-the-Go customer kiosks, and with New York City deploying digital screens that include customer amenities - a technology known as LinkNYC.

In their proposal and demonstration to Metro, Intersection better addressed the agency's goal of enhancing the customer experience through innovative and digital technology with three offerings: LinkLA, interactive customer information panels, and station activations.

Intersection proposes deploying LinkLA on Metro's system providing free Wi-Fi, USB charging stations, an interactive tablet with Metro and community resources, and free 911 calls and calls nationwide for use by Metro customers and the communities Metro serves. Intersection embraces advancing the participation of DBE, SBE and women-owned businesses on Metro's municipal contracts.

### **DETERMINATION OF SAFETY IMPACT**

Digital and interactive information will improve the customer experience by providing relevant and timely content to Metro customers, including safety information. Once the displays are installed and ready for use, Metro staff will manage agency information on all digital screens. In the event of an emergency, digital screens can be used to display emergency information with a take-over message on a single screen, station-wide, the entire rail line, or system-wide.

The light emanating from digital screens and customer information panels provide additional lighting within each station - a safety benefit to all riders. Additionally, the screens are designed with a self-dimming feature at night to reduce glare and light pollution.

All new equipment, placement, and impact to passenger flow will be reviewed by System Safety to meet Metro Fire Life Safety Criteria, and Civil Rights to meet ADA Compliance. All contractors and subcontractor personnel will be trained and certified in Metro Rail Safety training.

### **FINANCIAL IMPACT**

This is a revenue-generating contract and requires no capital funds to support it. This 10-year

contract meets three main goals:

- Enhance the customer experience
- Increase cost savings towards the agency's annual budget
- Generate significant revenue for the agency

#### Revenues to Metro

Metro will generate a minimum guarantee of \$30,515,221 annually and \$305,152,214 over 10 years in combined revenues from both contracts. Metro has also incorporated a shared revenue component to the contract so that the agency benefits from revenue generated over and beyond the minimum annual guarantee (MAG). In years 1-5 of the contract term, Metro will receive 55 percent of any additional revenue beyond the MAG. In years 6-10, Metro will receive 70 percent of additional revenues beyond the MAG. The revenue generated through this contract also contributes to the agency's ability to implement the "28 by 28" initiative to deliver major projects by the time Los Angeles hosts the 2028 Olympic and Paralympic Games.

#### Cost Savings

Metro will save approximately \$2,937,240 per year in cost savings and \$29,372,400 over the 10-year duration of both contracts in free and guaranteed advertising space and print/production costs for the purpose of agency awareness, outreach and advertising campaigns. Historically, Metro has paid for the print/production cost of advertising on our own system.

#### Contractor Capital Investment

Intersection Parent, Inc. is committed to making a \$19,700,000 capital investment in the installation of new innovative digital customer information and advertising equipment on the rail system. This is a commitment by the contractor to invest in Metro's technology infrastructure, new digital equipment, and efforts to improve the customer experience - at no cost to the agency.

#### Impact to Budget

While no capital funds are needed to support these revenue-generating contracts, labor support agency-wide is required to effectively rollout, implement, manage, and maintain advertising activities. Three new full-time employees (FTEs) are necessary to manage the program, manage the installation of new advertising infrastructure, and ensure seamless operations across the agency. Funding for the FTEs will be provided by revenues generated from commercial advertising on Metro's system (No.PS41099B and No.PS41099R), and will be pursued through the mid-year 2018 budget process to fully deliver this initiative:

#### **Digital Advertising Installation and Rollout**

- Full-Time Employee (FTE) - Project Manager staffed as a project position for a defined timeframe to implement installation and rollout of digital advertising infrastructure on the Metro system and coordinate activities from the following internal departments:
  - Engineering/Safety staff to review and approve station proposals in order to meet Metro Fire Life Safety Criteria.
  - Civil Rights/ADA Compliance staff to review and approve station proposals in order to meet ADA Compliance.
  - Countywide Planning staff to review and approve station proposals in order to

- meet Metro Rail Design Criteria.
- Signage Design staff to review and approve station proposals in order to meet Customer Station Signage Criteria.
- Information Technology staff to review and approve station proposals in order to meet IT Architecture and Infrastructure Standards.

### **Ongoing Advertising Efforts**

- Full-Time Employee (FTE) - Digital Communications Administrator to manage the agency's free and guaranteed content in new advertising systems for static and digital advertising.
- Full-Time Employee (FTE) - Communications Officer to audit and provide quality control to ensure agency free and guaranteed advertising is executed by all contractors.

### **ALTERNATIVES CONSIDERED**

The Board may choose to not award the revenue contracts for system advertising. This is not recommended as it would contradict the RAM initiative.

The existing advertising contract with OUTFRONT Media expired December 31, 2017. Staff has extended the contract to allow time for Board approval and the contract execution process. If the Board chooses not to award a new contract, Metro would have to continue to extend the current contractor on a temporary basis while undergoing a new procurement process. However, both proposers are leaders in the industry and submitted impressive proposals, so staff would not expect another procurement to result in much of a different outcome.

Another alternative is that Metro suspends its advertising program while pursuing a new procurement process, which would negatively impact the agency's budget (up to \$2,000,000 in monthly revenue) given the substantial revenue generated through the advertising program.

### **NEXT STEPS**

Upon Board approval, staff will execute both contracts:

1. Contract No. PS41099B with OUTFRONT Media Group, LLC to provide a License to Sell and Display Advertising on Metro Bus System.
2. Contract No. PS41099R with Intersection Parent, Inc. to provide a License to Sell and Display Advertising on Metro Rail System, and

Staff will coordinate knowledge transfer between the contractors to ensure no gap or disruption of advertising efforts or revenue payments to the agency.

### **ATTACHMENTS**

Attachment A - Procurement Summary  
Attachment B - Financial Summary  
Attachment C - DEOD Summary  
Attachment D - PowerPoint Presentation

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

Reviewed by: Pauletta Tonilas, Chief Communications Officer, (213) 922-3777  
Carolina Coppolo, Executive Officer of Vendor/Contract Management, (213) 922-4471



Phillip A. Washington  
Chief Executive Officer