



Metro

Los Angeles County
Metropolitan Transportation Authority

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**EXECUTIVE MANAGEMENT COMMITTEE
JUNE 21, 2012**

SUBJECT: ADVERTISING ON METRO BUS & RAIL SYSTEM

ACTION: AWARD REVENUE-GENERATING CONTRACTS

RECOMMENDATION

1. Authorize the Chief Executive Officer to award Contract No. PS12714022, a five-year revenue-generating contract inclusive of three one-year options effective January 1, 2013, for a license to sell and display advertising on the Metro Bus fleet on a fixed, guaranteed revenue basis with revenue to Metro totaling \$104,250,000, to CBS Outdoor Group Incorporated.
2. Authorize the Chief Executive Officer to award Contract No. PS12714023, a five-year revenue-generating contract inclusive of three one-year options effective January 1, 2013, for a license to sell and display advertising on the Metro Rail system on a fixed, guaranteed revenue basis with revenue to Metro totaling \$5,750,000, to CBS Outdoor Group Incorporated.

The total amount of revenue from these two contracts is \$110,000,000.

ISSUE

Metro's current five-year bus and rail advertising contracts will expire on December 31, 2012. These contracts require Metro to notify the current vendor of any planned change in vendors by June 30, 2012 to allow sufficient time for a coordinated transition. Therefore, staff reported to the Board in November 2011 that new Requests for Proposals (RFPs) on bus and rail advertising would be released in early 2012 to ensure an uninterrupted flow of revenue from advertising on the Metro system.

DISCUSSION

The new RFPs asked potential vendors to provide independent bus and rail revenue proposals on the following advertising components:

Bus

- A. Standard Exterior advertising;
- B. Standard Interior advertising;
- C. Enhanced Exterior advertising (including oversized king ads, full back tails and headliners);
- D. Exterior Wrapped advertising on up to 200 Metro buses (the maximum number of wrapped buses permitted under the current ATU contract).

Rail

- A. Standard Exterior advertising on light rail cars;
- B. Exterior Wrapped advertising on light rail cars;
- C. Station Prominence and 2-Sheet Poster advertising in all Metro Rail underground stations;
- D. Posters on all Metro Rail lines in designated existing interior rail car frames and station display cases;
- E. Union Station advertising displays.

The RFPs asked vendors to provide proposals on these advertising components under two payment scenarios:

1. Fixed, guaranteed revenue basis, with Metro receiving a specified annual amount of revenue regardless of fluctuations in actual advertising sales; and
2. Revenue-sharing basis, with Metro receiving either a percentage of actual net revenues or a minimum guaranteed annual amount, whichever is greater.

The Rail RFP also invited vendors to propose arrangements for generating revenue through the licensing of naming rights for stations and rail lines. (Any proposed award of an actual licensing agreement for naming rights to a specific station or line would be brought to the Board of Directors for approval prior to implementation.)

Responses & Evaluation

Full responses were received to the Bus and Rail RFPs from two vendors, CBS Outdoor Group Incorporated and Titan Outdoor LLC. One response addressing only the Naming Rights option was received from The Superlative Group, Inc.

After evaluating the proposals, staff concluded that Metro's interests are best served by a) continuing with CBS Outdoor as Metro's advertising vendor, and b) adopting CBS Outdoor's fixed, guaranteed revenue proposal, with Metro receiving a total of \$110,000,000 over the five years.

Staff's recommendation is based both on the stability of a fixed, guaranteed revenue arrangement, which is the model Metro has used with success previously, and on CBS Outdoor's superior corporate ability to weather any potential downturns in the economy and ensure timely payment of the guaranteed amount.

While Titan's proposals offered a higher minimum guarantee, staff was concerned that their business plan did not adequately support the level of revenue needed to meet these minimum payments. First, Titan indicated that it would rely heavily on local advertisers to generate increased sales, projecting that 45% of its revenue would come from local and regional advertisers; by contrast, CBS projects that 22% of its revenue would come from these sources. Local advertisers specifically identified by Titan included schools, hospitals, not-for-profits and community/ government organizations. Staff questioned whether these organizations could be counted on to provide 45% of Titan's minimum guarantee to Metro of \$117,250,000; staff also noted the possibility that many ads from such groups could potentially be prohibited under the "non-commercial messages" provision of Metro's advertising policy. In addition, Titan's proposed "rate card" advertising prices were 30% to 40% higher than CBS' rate card, presenting another barrier to ad sales in general and local ad sales in particular. This is reflected in the fact that Titan projects an occupancy rate for exterior advertising of 65%, as opposed to CBS' occupancy rate of 94%.

The previous bus and rail advertising contracts were awarded in 2007 on a fixed, guaranteed revenue basis and generated a total of \$129,955,000 in revenue for Metro. As the advertising industry was hit particularly hard by the economic slowdown of 2008-2009, all proposals received in this solicitation offered lesser guaranteed amounts. But while the recommended contract award for a total of \$110,000,000 is 15.5% lower than the previous contracts, it exceeds staff's advertising revenue forecast of \$105,927,000 for that five-year period by 3.8%.

Naming Rights

The proposal addressing only Naming Rights received from The Superlative Group, Inc. did not estimate or guarantee any specific revenue amounts. Two options were provided regarding commissions to the vendor, and both options required Metro to pay all "travel and related expenses" in the pursuit of potential naming rights agreements, resulting in open-ended costs to Metro. In addition, the proposal did not address coordination of potential naming rights agreements with other advertising elements in the stations to remedy any potential reduced revenue opportunities. For these reasons, staff does not recommend pursuing this proposal.

The proposals from both CBS Outdoor and Titan Outdoor indicated that those firms would represent naming rights for Metro as part of the overall rail advertising contract. CBS further pointed out that few naming rights agreements involving transit properties have ever been completed, and that "mini" and/or temporary naming rights arrangements involving Station Prominence advertising have a greater potential for maximizing revenue without triggering the extensive costs involved in formally re-naming a station. As CBS Outdoor is recommended for the rail advertising contract, staff recommends keeping naming rights as an element of that contract, specifying that element only to be implemented on a revenue-share basis, with 70% of the revenue

realized from any such naming arrangement coming to Metro.

DETERMINATION OF SAFETY IMPACT

Advertising installation does not affect the incidence of injuries or healthful conditions for patrons or employees. Therefore, approval of these contracts will have no impact on safety.

FINANCIAL IMPACT

During the economic downturn of 2008-2009, the advertising industry was hit particularly hard. Because Metro’s current advertising contracts were bid and awarded on a fixed guaranteed revenue basis prior to the downturn, our revenue levels over the past five years remained high. While these new contracts continue to provide substantial revenue to Metro, all proposals received reflected changes to the economy in general and the advertising industry in particular through considerable reductions in the proposed guaranteed revenue amounts. While the recommended contract award for a total of \$110,000,000 is 15.5% lower than the previous contracts, it exceeds staff’s advertising revenue forecast for FY13-FY17 of \$105,927,000 by 3.8%.

Guaranteed revenue amounts for the calendar years covered in the contract are shown below. Guaranteed revenue amounts from the previous contracts are included for comparison.

Year	Guaranteed Revenue - Bus	Guaranteed Revenue - Rail	Total
2013	\$ 19,000,000	\$ 1,000,000	\$ 20,000,000
2014	\$ 19,925,000	\$ 1,075,000	\$ 21,000,000
2015	\$ 20,850,000	\$ 1,150,000	\$ 22,000,000
2016	\$ 21,775,000	\$ 1,225,000	\$ 23,000,000
2017	\$ 22,700,000	\$ 1,300,000	\$ 24,000,000
Total	\$104,250,000	\$ 5,750,000	\$110,000,000
<i>Previous Contracts</i>			
2008	\$ 20,000,000	\$ 2,000,000	\$ 22,000,000
2009	\$ 22,400,000	\$ 2,100,000	\$ 24,500,000
2010	\$ 24,400,000	\$ 2,300,000	\$ 26,700,000
2011	\$ 25,365,000	\$ 2,500,000	\$ 27,865,000
2012	\$ 26,190,000	\$ 2,700,000	\$ 28,890,000
Total	\$118,353,000	\$11,600,000	\$129,955,000

Impact to Budget

These are multi-year revenue-generating contracts and as such do not draw funds from a project or cost center budget. The revenue generated is eligible for all expenses including bus and rail operating and capital expenditures.

ALTERNATIVES CONSIDERED

1. Award the bus and rail advertising contracts to CBS Outdoor on a revenue-sharing basis, with Metro receiving 70% of total revenues against a minimum annual guarantee totaling \$90,000,000. While this offer holds the potential of realizing a greater amount of total revenue for Metro, it is not recommended because only the \$90,000,000 minimum is guaranteed; therefore if sales do not reach projected levels, Metro could receive less revenue than it would under the recommended basis. Further, an additional FTE would be required, as the more complex nature of a revenue-sharing arrangement would necessitate daily oversight of sales activity, installation arrangements, payment calculations and contract issues.
2. Award the bus and rail advertising contracts to Titan Outdoor on either a fixed, guaranteed revenue basis for \$117,250,000 or on a revenue sharing basis, with Metro receiving 65% of all net advertising sales against a minimum annual guarantee totaling \$117,250,000. While this alternative offers a higher minimum guarantee, it is not recommended because Titan did not score as highly as CBS Outdoor during the Source Selection committee evaluation.
3. Decline to award advertising contracts on Metro's bus and rail system. This alternative is not recommended as these contract awards will generate \$110,000,000 in revenue for Metro over five years.

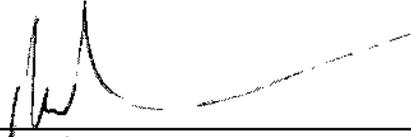
NEXT STEPS

Procurement will execute the subject contracts by June 30, 2012, to take effect January 1, 2013.

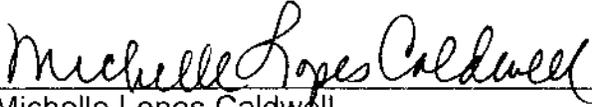
ATTACHMENT

- A. Procurement Summary

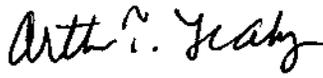
Prepared by: Warren Morse, Deputy Executive Officer, Communications



Matt Raymond
Chief Communications Officer



Michelle Lopes Caldwell
Chief Administrative Services Officer



Arthur T. Leahy
Chief Executive Officer

PROCUREMENT SUMMARY

**LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUSES
LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO RAIL SYSTEMS**

1.	*Contract Number: PS12714022 LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO BUSES PS12714023 LICENSE TO SELL AND DISPLAY ADVERTISING ON METRO RAIL SYSTEMS	
2.	Recommended Vendor: CBS OUTDOOR	
3.	Type of Procurement (check one): <input type="checkbox"/> IFB <input checked="" type="checkbox"/> REVENUE <input type="checkbox"/> RFP-A&E <input type="checkbox"/> Non-Competitive <input type="checkbox"/> Modification <input type="checkbox"/> Task Order	
4.	Procurement Dates:	
	A. Issued: 01/05/12	
	B. Advertised/Publicized: 01/05/12	
	C. Pre-proposal/Pre-Bid Conference: 01/17/12	
	D. Proposals/Bids Due: 03/15/12	
	E. Pre-Qualification Completed: 05/07/12	
	F. Conflict of Interest Form Submitted to Ethics: 05/10/12	
	G. Protest Period End Date: 06/21/12	
5.	Solicitations Picked up/Downloaded: 26	Bids/Proposals Received: 3
6.	Contract Administrator: Linda Rickert	Telephone Number: 213-922-4186
7.	Project Manager: Warren Morse	Telephone Number: 213-922-5661

*Note: Two Requests for Proposals were released – one for bus advertising and one for rail advertising. Although historically and for the current procurement, the recommendation for award is for one contractor, separate RFP's have provided an option for the Source Selection Committee to award to different firms or award a combination of shared and fixed revenue contracts in the best interests of Metro, to maximize revenues.

A. Procurement Background

This Board Action is for Revenue procurements for contracts to provide a license to sell and display advertising on our bus and rail systems to provide us with revenue.

The RFP was issued in accordance with Metro's Acquisition Policy and the contract type is a Shared Revenue Contract with minimum annual guarantees. Ten firms were represented at the pre-proposal meeting on January 17, 2012. These firms and approximately 15 other firms that downloaded the procurements from the web site generated 39 questions that were answered by the Metro team.

One amendment was issued during the solicitation phase of this RFP; amendment No. 1 issued on 02-06-2012 clarified the headings on the revenue sheets.

A total of three proposals were received on March 15, 2012. The scope of the commitment, given the size of our systems, is something only a select number of firms are positioned to manage.

B. Evaluation of Proposals/Bids

A total of three proposers responded to this solicitation. A Selection Committee consisting of staff from Communications and Operations was convened and conducted a comprehensive technical evaluation of the proposals received.

The proposals were evaluated based on the following evaluation criteria and weights:

- Revenue Projections 40 percent
- Qualifications of the Firm 30 percent
- Management and Work Plan 30 percent

The evaluation criteria are appropriate and consistent with criteria developed for other, similar revenue procurements. Several factors were considered when developing these weights, giving the greatest importance to the revenue projections.

Of the three proposals received, two were determined to be within the competitive range. The two firms within the competitive range are listed below in alphabetical order:

1. CBS OUTDOOR
2. TITAN OUTDOOR LLC

One firm was determined to be outside the competitive range because their offer did not propose guaranteed revenues and, therefore, was not included for further consideration.

During the period from March 15, 2012 through May 08, 2012 the evaluation committee met and considered the revenue projections and the other criteria proposed. Some clarifications were requested. Both Titan and CBS Outdoor were given the opportunity to present Best and Final Offers.

Qualifications Summary of Firms Within the Competitive Range:

CBS OUTDOOR

CBS Outdoor is the incumbent and has received a license to sell advertising from Metro through standard procurements since 1980. CBS Outdoor is a self-funded division of CBS Corporation with headquarters in Delaware and an office in Los

Angeles. Throughout 7 decades and changes in ownership, CBS Outdoor has focused on transit advertising. In 2011, they generated over \$300 million in transit advertising for all agencies under contract, including WMATA in Washington DC, New York City Transit and Miami-Dade Transit, as well as many Western European agencies. CBS Outdoor has always met their contractual requirements.

TITAN OUTDOOR LLC

Titan senior management has a combined 75 years experience in the sale and operation of Out-of-Home transit advertising. Titan's license agreements include agencies such as Orange County Transportation Authority, San Francisco Municipal Transportation Authority, Amtrak and Dallas Area Rapid Transit. Since 2004, Titan has won some 21 major-market public transit contracts to sell and display advertising, providing needed revenue to taxpayer supported agencies.

1	FIRM	Average Score	Factor Weight	Weighted Average Score	Rank
2	CBS OUTDOOR				
3	Revenue	90.0	40.00%	36.0	
4	Qualifications of Firm	98.0	30.00%	29.4	
5	Management and Work Plan	89.0	30.00%	26.6	
6	Total		100.00%	92.0	1
7	TITAN OUTDOOR LLC				
8	Revenue	72.0	40.00%	28.8	
9	Qualifications of Firm	76.0	30.00%	22.8	
10	Management and Work Plan	78.0	30.00%	23.2	
11	Total		100.00%	74.8	2

C. Revenue Analysis

The recommended fixed revenue projection has been determined to be fair and reasonable based upon historical analysis and experience of our staff considering current reasonable advertising rates and occupancy projections. CBS' proposal is based on higher occupancy rates and lower advertising rates than Titan. The Advertising Industry was seriously impacted during the economic downturn and has made a slow recovery. Titan's advertising rates may not be sustainable.

Bus Advertising Revenue Comparison

Vendor	Terms	Year	Guaranteed Revenue	Percentage Share	Potential Revenue		
					Metro's share based on CBS sales estimate	Metro's share based on Titan sales estimate	Metro's share based on avg. of their estimates
CBS	Fixed	1	\$19,000,000	n/a	n/a	n/a	n/a
		2	\$19,925,000	n/a	n/a	n/a	n/a
		3	\$20,850,000	n/a	n/a	n/a	n/a
		4	\$21,775,000	n/a	n/a	n/a	n/a
		5	\$22,700,000	n/a	n/a	n/a	n/a
		Total	\$104,250,000				
Titan	Fixed	1	\$19,511,000	n/a	n/a	n/a	n/a
		2	\$21,173,000	n/a	n/a	n/a	n/a
		3	\$22,176,000	n/a	n/a	n/a	n/a
		4	\$23,790,000	n/a	n/a	n/a	n/a
		5	\$24,940,000	n/a	n/a	n/a	n/a
		Total	\$111,590,000				
CBS	Revenue Share	1	\$17,250,000	70%	\$20,259,400	\$22,120,000	\$21,189,700
		2	\$17,250,000	70%	\$21,272,370	\$23,668,400	\$22,470,385
		3	\$17,250,000	70%	\$22,123,290	\$25,325,188	\$23,724,239
		4	\$17,250,000	70%	\$23,008,230	\$26,591,447	\$24,799,839
		5	\$17,250,000	70%	\$23,928,520	\$27,921,020	\$25,924,770
		Total	\$86,250,000		\$110,591,810	\$125,626,055	\$118,108,933
Titan	Revenue Share	1	\$19,511,000	65%	\$18,812,300	\$20,540,000	\$19,676,150
		2	\$21,173,000	65%	\$19,752,915	\$21,977,800	\$20,865,358
		3	\$22,176,000	65%	\$20,543,055	\$23,516,246	\$22,029,651
		4	\$23,790,000	65%	\$21,364,785	\$24,692,058	\$23,028,422
		5	\$24,940,000	65%	\$22,219,340	\$25,926,661	\$24,073,001
		Total	\$111,590,000		\$102,692,395	\$116,652,765	\$109,672,580
					Projected Gross Revenue - Bus		
			CBS	Titan	(Total)	Average	
Bus 1			\$28,942,000	\$31,600,000	\$60,542,000	\$30,271,000	
Bus 2			\$30,389,100	\$33,812,000	\$64,201,100	\$32,100,550	
Bus 3			\$31,604,700	\$36,178,840	\$67,783,540	\$33,891,770	
Bus 4			\$32,868,900	\$37,987,782	\$70,856,682	\$35,428,341	
Bus 5			\$34,183,600	\$39,887,171	\$74,070,771	\$37,035,386	
			\$157,988,300	\$179,465,793		\$168,727,047	

Rail Advertising Revenue Comparison

Vendor	Terms	Year	Guaranteed Revenue	Percentage Share	Potential Revenue		
					Metro's share based on CBS sales estimate	Metro's share based on Titan sales estimate	Metro's share based on avg of their estimates
CBS	Fixed	1	\$1,000,000	n/a	n/a	n/a	n/a
		2	\$1,075,000	n/a	n/a	n/a	n/a
		3	\$1,150,000	n/a	n/a	n/a	n/a
		4	\$1,225,000	n/a	n/a	n/a	n/a
		5	\$1,300,000	n/a	n/a	n/a	n/a
		Total	\$5,750,000				
Titan	Fixed	1	\$989,000	n/a	n/a	n/a	n/a
		2	\$1,077,000	n/a	n/a	n/a	n/a
		3	\$1,124,000	n/a	n/a	n/a	n/a
		4	\$1,210,000	n/a	n/a	n/a	n/a
		5	\$1,260,000	n/a	n/a	n/a	n/a
		Total	\$5,660,000				
CBS	Revenue Share	1	\$750,000	70%	\$1,315,370	\$1,050,000	\$1,182,685
		2	\$750,000	70%	\$1,381,100	\$1,123,500	\$1,252,300
		3	\$750,000	70%	\$1,436,400	\$1,202,145	\$1,319,273
		4	\$750,000	70%	\$1,493,800	\$1,262,253	\$1,378,026
		5	\$750,000	70%	\$1,553,580	\$1,325,365	\$1,439,472
		Total	\$3,750,000		\$7,180,250	\$5,963,262	\$6,571,756
Titan	Revenue Share	1	\$989,000	65%	\$1,221,415	\$975,000	\$1,098,208
		2	\$1,077,000	65%	\$1,282,450	\$1,043,250	\$1,162,850
		3	\$1,124,000	65%	\$1,333,800	\$1,116,278	\$1,225,039
		4	\$1,210,000	65%	\$1,387,100	\$1,172,092	\$1,279,596
		5	\$1,260,000	65%	\$1,442,610	\$1,230,696	\$1,336,653
		Total	\$5,660,000		\$6,667,375	\$5,537,315	\$6,102,345
Projected Gross Revenue - Rail							
			CBS	Titan	(Total)	Average	
		Rail 1	\$1,879,100	\$1,500,000	\$3,379,100	\$1,689,550	
		Rail 2	\$1,973,000	\$1,605,000	\$3,578,000	\$1,789,000	
		Rail 3	\$2,052,000	\$1,717,350	\$3,769,350	\$1,884,675	
		Rail 4	\$2,134,000	\$1,803,218	\$3,937,218	\$1,968,609	
		Rail 5	\$2,219,400	\$1,893,378	\$4,112,778	\$2,056,389	
			\$10,257,500	\$8,518,946		\$9,388,223	

D. Background on Recommended Contractor

The recommended firm, CBS OUTDOOR located in New York has been in business for over 80 years, is a leader in the field of transit advertising. CBS Outdoor, as a division of CBS Corporation, provides strong financial wherewithal and integrity that has proven to be a particular asset in the economic downfalls in recent years. Since 2009, CBS Outdoor has achieved a compounded growth rate of 14% for ad revenues for LACMTA.

CBS Outdoor has a team of advertising executives, many of whom have 20 years or more in advertising. CBS Outdoor partners with J. Perez Associates. This sub-contractor has been providing installation and maintenance of advertising for 20 years and was the sub-contractor on previous CBS Outdoor contracts.

E. Small Business Participation

The Diversity and Economic Opportunity Department (DEOD) did not recommend a Disadvantaged Business Enterprise (DBE) Anticipated Level of Participation (DALP) on this shared revenue procurement. However, CBS Outdoor Group, Inc. is partnering with a DBE subcontractor, J. Perez Associates.

F. All Subcontractors Included with Recommended Contractor’s Proposal

	Subcontractor	Services Provided
1.	J. Perez Associates	Installation and Maintenance of displays

Advertising on Bus & Rail System: Revenue-Generating Contracts

June 21, 2012



Metro

Background

- **Current contracts awarded in 2007**
- **Fixed, guaranteed revenue basis**
- **\$129,955,000 total revenue**
- **Expiring on December 31, 2012**



Metro

Changes to Advertising Industry

- Hit hard by 2008-09 economic downturn
- Contracts renegotiated at 20 other agencies
- Metro unaffected due to fixed basis
- Vendors now offering reduced guarantees



Contracts starting January 1, 2013

- **Bus & Rail proposals from two vendors**
 - Including Naming Rights
- **One Naming Rights-only proposal**
 - No revenue guaranteed
 - Required Metro to incur sales expenses
 - Deemed outside of the competitive range



Recommendation

- Award Bus & Rail to CBS Outdoor
- Award on Fixed, Guaranteed Revenue basis
- \$110 million to Metro over five years
- Exceeds revenue forecast by 3.8%
- 70% Revenue Share on any Naming Rights



Guaranteed Revenue by Year

	Bus	Rail	Total
2013	\$ 19,000,000	\$ 1,000,000	\$ 20,000,000
2014	\$ 19,925,000	\$ 1,075,000	\$ 21,000,000
2015	\$ 20,850,000	\$ 1,150,000	\$ 22,000,000
2016	\$ 21,775,000	\$ 1,225,000	\$ 23,000,000
2017	\$ 22,700,000	\$ 1,300,000	\$ 24,000,000
Total	\$104,250,000	\$ 5,750,000	\$110,000,000

