



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012

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**REGULAR BOARD MEETING
JULY 26, 2007**

SUBJECT: ADVERTISING ON METRO BUS SYSTEM

**ACTION: APPROVE REVENUE CONTRACT AWARD FOR
ADVERTISING ON METRO BUSES**

RECOMMENDATION

Authorize the Chief Executive Officer to award Contract No. PS0771401970, a five-year firm, fixed-price revenue contract inclusive of three one-year options effective January 1, 2008, to CBS Outdoor Group Incorporated for a license to sell and display the following on the Metro bus fleet:

- A. Standard Exterior Advertising, for a firm, fixed revenue price of \$106,049,000 inclusive of three one-year options; and
- B. Standard Interior Advertising, for a firm, fixed revenue price of \$1,226,000 inclusive of three one-year options; and
- C. Enhanced Tail Advertising, for a firm, fixed revenue price of \$3,065,000 inclusive of three one-year options; and
- D. Exterior Wrapped Advertising, for a firm, fixed revenue price of \$12,260,000 inclusive of three one-year options.

The total revenue amount to Metro in this contract is \$122,600,000.

RATIONALE

Metro's current five-year bus advertising contract, which will generate a total of \$76.5 million in revenue, will expire on December 31, 2007. The contract requires Metro to notify the current vendor of any planned change in vendors by June 30, 2007 to allow sufficient time for a coordinated transition. Therefore, staff reported to the Board in November 2006 that a new Request for Proposals (RFP) on bus advertising would be released in early 2007 to ensure an uninterrupted flow of revenue from bus advertising to Metro.

The new RFP asked potential vendors to provide independent revenue proposals on four separate advertising components:

- A. Standard Exterior Advertising - This refers to the common rectangular ads posted on the sides and the rear of each bus. Paid exterior advertising is not permitted on Orange Line vehicles or Express (blue) vehicles.
- B. Standard Interior Advertising - This refers to the rectangular cards placed throughout the interior of each bus. Interior advertising is permitted on all buses in the fleet.
- C. Enhanced Tail Advertising - This new category refers to ads covering the rear surface of a bus. Enhanced tails are not permitted on Orange Line vehicles, Metro Rapid vehicles, Express vehicles or articulated buses.
- D. Exterior Wrapped Advertising - This refers to advertising that partially or entirely "wraps" the vehicle including window surfaces, subject to the restriction that not more than 30% of a vehicle's total window surface and not more than 50% of the window surface of any bus side may be covered. Up to 200 vehicles in the fleet may carry wrapped advertising; however, wraps are not permitted on Orange Line vehicles, Metro Rapid vehicles, Express vehicles or articulated buses.

Further, the RFP 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.

Three responses to the RFP were received. Of those, the selected vendor, CBS Outdoor Group, proposed the highest amount under the fixed revenue basis (\$122,600,000), as well as the highest minimum guarantee (\$110,000,000) and highest percentage (65% for the first two years, increasing to 67% for the final three years) under the revenue-sharing basis.

The vendor estimated that Metro might realize a total of \$125,299,440 under the revenue-sharing scenario; this represents a potential 2.2% (or \$2,699,440) in additional revenue over the fixed scenario. However, the minimum guarantee in the revenue-sharing scenario drops more than 10% (or \$12,600,000) to \$110,000,000. Weighing the potential loss of \$12.6 million against a potential gain of \$2.7 million, the Evaluation Committee concluded that the fixed scenario is in the best interests of Metro. A detailed comparison of proposed revenues from CBS is provided in Attachment B.

FINANCIAL IMPACT

Revenues of \$14.9 million have been included in the FY08 proposed budget for anticipated bus advertising during FY08. This contract will provide \$19 million in FY08, an increase of \$4.1 million over the currently budgeted amount. These revenues can be programmed to bus operations, thereby reducing the FY08 deficit by \$4.1 million or can be set aside as a bus operating reserve to be programmed by the Board at a later time according to the reserve policy. The future year’s revenue forecasts from this contract will be included in the ten-year forecast.

The five-year plan for revenues earned from this contract are identified in the following table (please note that the table reflects calendar years, not fiscal years):

		Year 1 - 2008	Year 2 - 2009	Year 3 - 2010	Year 4 - 2011	Year 5 - 2012	Total
A	Standard Exterior Advertising	\$17,300,000	\$19,376,000	\$21,106,000	\$23,095,500	\$25,171,500	\$106,049,000
B	Standard Interior Advertising	\$200,000	\$224,000	\$244,000	\$267,000	\$291,000	\$1,226,000
C	Enhanced Tail Advertising	\$500,000	\$560,000	\$610,000	\$667,500	\$727,500	\$3,065,000
D	Exterior Wrapped Advertising	\$2,000,000	\$2,240,000	\$2,440,000	\$2,670,000	\$2,910,000	\$12,260,000
	Total	\$20,000,000	\$22,400,000	\$24,400,000	\$26,700,000	\$29,100,000	\$122,600,000

This contract also represents an increase of 48%, or \$46.1 million, in overall advertising revenues over the current bus advertising contract.

ALTERNATIVES CONSIDERED

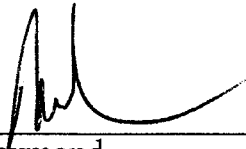
1. Award this contract on the revenue-sharing basis rather than on the fixed, guaranteed basis. This is not recommended as the potential for additional revenue under the revenue-sharing basis is estimated at only 2.2%, or \$2,699,440, over five years, while the minimum guarantee of \$110,000,000 represents a drop of more than 10%, or \$12,600,000, from the fixed scenario guarantee of \$122,600,000. In addition, the revenue-sharing scenario could result in additional costs to Metro through potential audits of the vendor's sales records and lag time in collecting actual revenues.

2. Decline to award some or all components of the bus advertising program. This is not recommended as it would result in significant revenue loss to Metro. Further, this solicitation has produced an increase of \$46.1 million, or 48%, in overall advertising revenues over the current bus advertising contract, reflecting recent Board direction to aggressively increase advertising revenues.

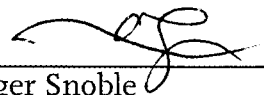
ATTACHMENTS

- A. Procurement Summary
- B. CBS Outdoor Proposed Revenue Comparison

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Matthew Raymond
Chief Communications Officer



Roger Snoble
Chief Executive Officer

**ATTACHMENT A
PROCUREMENT SUMMARY**

ADVERTISING ON METRO BUS SYSTEM

	Contract Number: PS0771401970		
	Recommended Vendor: CBS Outdoor Group Inc.		
3	Cost/Price Analysis Information:		
	Bid/Proposed Price: \$ 122,600,000	Recommended Price: \$ 122,600,000	
	B. Details of Significant Variances are in Attachment A-1.D		
	Contract Type: Firm fixed price revenue		
	Procurement Dates:		
	A. Issued: February 5, 2007		
	B. Advertised: E-mail notification January 26, 2007; Internet posting February 7, 2007		
	C. Pre-proposal Conference: February 8, 2007		
	D. Proposals Due: March 16, 2007		
	E. Pre-Qualification Completed: Not required for media or advertising contracts		
	F. Conflict of Interest Form Submitted to Ethics: April 17, 2007		
	Small Business Participation:		
	A. Bid/Proposal Goal: No Goal Recommended	Date Small Business Evaluation Completed: December 20, 2006	
	Small Business Commitment: Details are in Attachment A-2		
	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 57	Bids/Proposals Picked up: 27	Bids/Proposals Received: 3
	Evaluation Information:		
	A. Bidders/Proposers names: Clear Channel Outdoor CBS Outdoor Group Inc. Titan Outdoor LLC	Bid/Proposal Amount: \$ 75,000,000 \$122,600,000 \$ 95,250,000	Best and Final Offer Amount: \$
	B. Evaluation Methodology: Best Value Numerically Factored Revenue Details are in Attachment A-1.C		
	Protest Information:		
	A. Protest Period End Date: May 16, 2007		
	B. Protest Receipt Date:		
	C. Disposition of Protest Date:		
	Contract Administrator: Phyllis L. Walker	Telephone Number: 922-1084	
	Project Manager: Warren Morse	Telephone Number: 922-5661	

BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY

ADVERTISING ON METRO BUS SYSTEM

A. Background on Contractor

CBS Outdoor Group Inc. has been providing transit advertising services to many of the world's largest transit agencies since 1938. They are the largest out-of-home advertising company in North America with a major international presence in Western Europe and China. CBS (and predecessors) have provided revenue payments to Metro for almost fifteen years as a result of their offering highest revenue under the previous Invitation for Bids to sell and display advertising on Metro's buses.

CBS Outdoor currently has contracts with Metropolitan Transportation Authority in New York; Metropolitan Atlanta Rapid Transit Authority, AC Transit in Oakland; San Francisco Municipal Railway; and Washington Metropolitan Area Transit Authority in Washington, DC among others.

B. Procurement Background

This is a competitive negotiated procurement using the best value explicit factors/weighted guidelines methodology in accordance with Metro's Procurement Policy Manual for the selection of the advertising firm offering the highest revenue to Metro. A guaranteed fixed revenue approach and revenue share with minimum guarantee approach were proposed. In addition, the firms were asked to propose on the following advertising components: standard exterior advertising; standard interior advertising; enhanced tail advertising and exterior wrapped advertising.

A Small Business Enterprise goal was not recommended.

C. Evaluation of Proposals

A Request for Proposal (RFP) using the numerically scored/explicit factors methodology was used for the selection of the firm and revenue approach and recommendation for award. Three proposals were received in response to this RFP. The source selection committee (SSC) was comprised of representatives from Metro's Marketing and Communication Department and Bus Operations Department.

All proposals were reviewed in accordance with the evaluation criteria. The two revenue approaches were compared and evaluated to determine which approach would provide the greatest revenue to Metro.

The SSC rated CBS technically highest overall. Based on the comparative analysis of the revenue approaches proposed by the three firms, the SSC recommends the guaranteed revenue approach of \$122,600,000 proposed by CBS offers the best value to Metro.

D. Cost/Price Analysis Explanation of Variances

The recommended guaranteed revenue of \$122,600,000 (Approach 1) has been determined to be the highest guaranteed revenue offer based on the comparative revenue analysis provided as Attachment B.

CBS Outdoor's estimated revenue share proposal (Approach 2) with \$110,000,000 guaranteed minimum revenue, an additional \$15,299,440 might be achieved based on 65% (1st two years) and 67% (three option years) of CBS' estimated net revenue base. This analysis shows a potential of \$2,699,440 more revenue over the five year period.

However, given the \$12,600,000 variance of guaranteed revenue between Approach 1 (\$122,600,000) and Approach 2 (\$110,000,000), the SSC determined the risk associated with unknown economic factors over the next five years made the guaranteed revenue Approach 1 to be in the best interest of Metro.

CBS Outdoor's proposed revenue of \$122,600,000 is 22% higher than Titan Outdoor's proposed revenue of \$95,250,000 and 39% higher than the independent revenue estimate. The proposed revenue represents an increase of approximately 48% over the current advertising revenue contract.

This analysis supports the SSC recommendation of award to CBS Outdoor Group Inc.

**BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS**

ADVERTISING ON METRO BUS SYSTEM

PRIME CONTRACTOR CBS Outdoor Group Inc.

Subcontractors: J. Perez Associates, certified DBE/MBE
 Bardel, Inc. certified DBE

Total Commitment No goal was recommended

ATTACHMENT B

Comparison of Proposed Bus Advertising Revenues from CBS Outdoor

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Item A - Exterior						
Fixed	\$17,300,000	\$19,376,000	\$21,106,000	\$23,095,500	\$25,171,500	\$106,049,000
Share - Minimum guarantee	\$17,300,000	\$18,165,000	\$19,030,000	\$19,895,000	\$20,760,000	\$95,150,000
<i>Difference</i>	\$0	\$1,211,000	\$2,076,000	\$3,200,500	\$4,411,500	\$10,899,000
Item B - Interior						
Fixed	\$200,000	\$224,000	\$244,000	\$267,000	\$291,000	\$1,226,000
Share - Minimum guarantee	\$200,000	\$210,000	\$220,000	\$230,000	\$240,000	\$1,100,000
<i>Difference</i>	\$0	\$14,000	\$24,000	\$37,000	\$51,000	\$126,000
Item C - Enhanced Tails						
Fixed	\$500,000	\$560,000	\$610,000	\$667,500	\$727,500	\$3,065,000
Share - Minimum guarantee	\$500,000	\$525,000	\$550,000	\$575,000	\$600,000	\$2,750,000
<i>Difference</i>	\$0	\$35,000	\$60,000	\$92,500	\$127,500	\$315,000
Item D - Wrapped Buses						
Fixed	\$2,000,000	\$2,240,000	\$2,440,000	\$2,670,000	\$2,910,000	\$12,260,000
Share - Minimum guarantee	\$2,000,000	\$2,100,000	\$2,200,000	\$2,300,000	\$2,400,000	\$11,000,000
<i>Difference</i>	\$0	\$140,000	\$240,000	\$370,000	\$510,000	\$1,260,000
Total						
Fixed	\$20,000,000	\$22,400,000	\$24,400,000	\$26,700,000	\$29,100,000	\$122,600,000
Share - Minimum guarantee	\$20,000,000	\$21,000,000	\$22,000,000	\$23,000,000	\$24,000,000	\$110,000,000
<i>Difference</i>	\$0	\$1,400,000	\$2,400,000	\$3,700,000	\$5,100,000	\$12,600,000
						Grand Total - Fixed
						\$122,600,000
						Grand Total - Minimum Guarantee
						\$110,000,000
Revenue Share Scenario: Estimated Revenue to Metro						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Exteriors	\$17,429,750	\$20,072,325	\$22,138,810	\$23,703,595	\$25,326,335	\$108,670,815
Interiors	\$201,500	\$232,050	\$248,300	\$265,850	\$284,050	\$1,231,750
Enhanced Tails	\$503,750	\$580,125	\$620,750	\$664,625	\$710,125	\$3,079,375
Wrapped Buses	\$2,015,000	\$2,320,500	\$2,483,000	\$2,658,500	\$2,840,500	\$12,317,500
Total	\$20,150,000	\$23,205,000	\$25,490,860	\$27,292,570	\$29,161,010	\$125,299,440
						Grand total:
						\$125,299,440