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Metropolitan Transportation Authority

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**EXECUTIVE MANAGEMENT & AUDIT COMMITTEE
NOVEMBER 16, 2006**

SUBJECT: PROCUREMENT FOR REVENUE-GENERATING ADVERTISING

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on plans to release two Invitations for Bid (IFB) and a Request for Proposals (RFP) to generate revenue through the sale of various types of advertising on Metro bus and rail vehicles, stations and properties.

ISSUE

Metro plans to release three separate solicitations for vendors in January 2007 to generate revenue through the sale of various types of advertising. IFBs will be used to obtain vendors to sell and display advertising on buses, rail cars and rail stations, while an RFP will be used to solicit proposals for non-traditional advertising displays such as wallscape, video displays and other potential installations. All advertising must adhere to the Board-approved content guidelines in Metro's Advertising Policy (Attachment A).

DISCUSSION

Because the various opportunities for revenue-generating advertising vary in complexity, staff is preparing solicitations in three areas:

Bus Advertising

Metro is approaching the end of its current five-year bus advertising contract. This contract, comprised of an initial two-year period plus three option years, gives the vendor the right to sell and display standard advertising on bus interiors, standard advertising on bus exteriors, and "wrapped" advertising on up to 100 bus exteriors. In return, the vendor pays Metro a fixed, guaranteed amount of revenue, affected only by major increases or decreases in the number of buses in peak hour service which accept advertising. Metro will generate a total of \$76.5 million in revenue over the course of this five-year agreement, which expires on December 31, 2007.

In order to assure an uninterrupted flow of revenue from bus advertising, and to provide the Board flexibility in the contract award, staff is now preparing an IFB that will ask potential vendors to bid fixed, guaranteed amounts of revenue on three separate bus advertising components:

- Option 1: The right to sell and display ordinary interior advertising on the Metro bus fleet;
- Option 2: The right to sell and display ordinary exterior advertising on the Metro bus fleet;
- Option 3: The right to sell and display exterior “wrapped” advertising on up to 200 Metro buses (the maximum number of wrapped buses permitted under the current ATU contract). Wrapped advertising on buses is 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.

Contract award recommendations will be made based on the greatest amount of revenue; however, the Board at its discretion may elect to award or decline the award of each individual option.

Staff recommends that Metro continue the practice of bidding its bus advertising options on a fixed-revenue basis (rather than on a revenue-share basis) because it offers substantial guaranteed revenue, protects Metro from fluctuations in the advertising market over the five-year term of the contract, and saves substantial expense in auditing the vendor's records.

For any option awarded, Metro will enter into a five-year agreement consisting of an initial two-year contract commencing January 1, 2008 plus three one-year options for calendar years 2010, 2011 and 2012. Metro will reserve the right to exercise these contract options in one-year increments or in any combination thereof. As market conditions for advertising are subject to change, longer-term contracts for bus advertising are not recommended.

Rail Advertising

At the Board's direction, Metro has launched sole-source pilot projects for standard advertising on the exteriors of light rail cars and for "station prominence" advertising in subway stations. These pilot programs will expire on December 31, 2007.

In order to permit an uninterrupted flow of revenue from rail advertising, expand potential advertising options, and provide the Board flexibility in the contract award, staff is now preparing an IFB that will ask potential vendors to bid on four separate rail advertising components:

- Option 1: The right to sell and display standard exterior advertising on Metro Gold, Green and Blue line cars;
- Option 2: The right to sell and display "wrapped" exterior advertising on Metro Gold, Green and Blue line cars (subject to the restriction that no window surfaces may be covered);
- Option 3: The right to sell and display "station prominence" advertising in all Metro Red Line stations;

- Option 4: The right to sell and display advertising on all Metro Rail lines in designated existing interior rail car frames and station display cases.

Staff recommends that these rail advertising options be bid both on a fixed-revenue basis and on a revenue-share basis (with Metro receiving a guaranteed minimum against at least 65% of net revenues). Contract award recommendations will be made according to the basis that proves to be in Metro's best interests; however the Board at its discretion may elect to award or decline the award of any option.

For any option awarded, Metro will enter into a five-year agreement consisting of an initial two-year contract commencing January 1, 2008 plus three one-year options for calendar years 2010, 2011 and 2012. Metro will reserve the right to exercise these contract options in one-year increments or in any combination thereof. As market conditions for advertising are subject to change, longer-term contracts for rail advertising are not recommended.

Non-Traditional Displays

In June 2006, the Board encouraged staff to seek non-traditional methods of generating advertising revenue. Metro is currently launching a sole-source pilot program for animated displays in subway tunnels, and frequently receives inquiries from vendors regarding potential installations such as video displays in rail stations and wallscapes on Metro properties.

In order to invite and evaluate any and all potential methods for generating advertising revenue, and to provide the Board flexibility in making any contract awards, staff is now preparing an RFP that will ask potential vendors to propose specific plans for non-traditional advertising installations on the Metro system.

Staff recommends that these advertising options be proposed on a revenue-share basis, recognizing that such programs may require a substantial investment on the part of the vendor. The RFP will require that any such installations be performed at no cost to Metro.

Contract award recommendations will be made based on projected revenue potential and feasibility of the installations; however, the Board at its discretion may elect to award or decline the award of any contract.

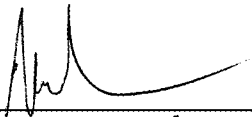
NEXT STEPS

Metro is obligated to notify the current bus advertising vendor by June 30, 2007 of any planned change in vendors at the end of the contract period. Therefore staff will bring contract award recommendations both for bus and rail advertising to the Board in May 2007. Staff will bring contract award recommendations for non-traditional advertising displays to the Board as proposals are received and evaluated.

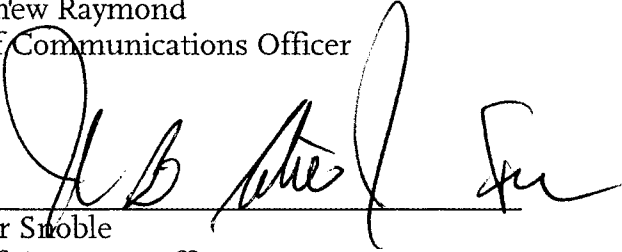
ATTACHMENTS

- A. Policy COM 6 - Metro System Advertising

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ATTACHMENT A

COMMUNICATIONS POLICY COM-6

METRO SYSTEM ADVERTISING

POLICY STATEMENT

The Los Angeles County Metropolitan Transportation Authority (Metro) has determined that allowing revenue-generating advertising which does not compromise public or employee safety to be placed in designated areas on its transit properties is a responsible means of maximizing use of the authority's capital investments. Therefore Metro may enter into contracts with outside vendors to sell and display advertising on Metro buses, trains and transit facilities for the sole purpose of generating revenue. Issuance of such contracts must be in accordance with Metro's procurement policies and approved by Metro's Board of Directors. Locations for revenue-generating advertising may include but are not limited to: interiors and exteriors of buses, interiors and exteriors of rail cars, interiors of rail stations, and fixed outdoor displays on Metro property. Metro reserves the right to reject any advertising based upon its guidelines for acceptable advertising content contained in this policy statement.

Metro has further determined that advertising on its own properties is a valuable means of communicating with its customers. Therefore Metro explains and promotes its transit services through the dissemination of information onboard the Metro Bus and Metro Rail systems. Informational advertising space is limited, and reserved exclusively for Metro transit information. All messages and materials distributed by this means are prepared, approved and/or authorized by the Chief Communications Officer or their designee.

PURPOSE

To clearly define the use of Metro's revenue-generating advertising space and informational advertising space throughout the Metro System.

APPLICATION

This policy and its procedures apply to all Metro employees, consultants and Board members.

1.0 PROCEDURES

The display of paid (revenue-generating) advertising carries with it a responsibility to protect the agency from potential litigation and to recognize the potential association of advertising images with Metro services while simultaneously respecting First Amendment principles. The agency addresses these issues through the responsible and consistent application of written criteria for advertising acceptability. It is not Metro's intent to create a public forum through the acceptance of advertising.

At the same time, Metro's ability to reach its customers directly is crucial to adequate dissemination of transit information. Any use of the unique distribution channels at its command (such as allotments of interior and exterior bus advertising space as well as on-board "take-one" boxes and in-station Variable Message Signs) for purposes unrelated to customer information or retention is to be avoided, as it effectively "pre-empts" the availability of transit information to the public. Metro's Communications department administers the use of these unique distribution channels as part of its overall responsibility for customer communication.

1.1 Revenue-Generating Advertising

Metro contracts with outside vendors to sell and display advertising on bus and rail vehicles and facilities for the sole purpose of generating revenue. Metro does not sell or post advertising directly. Vendors for such contracts are solicited through competitive bids which must conform to Metro's procurement procedures and be approved by Metro's Board of Directors. Such agreements may dedicate no more than 90% of the available space covered by the contract for revenue-generating advertising, reserving the remaining available space for Metro's own transit-related information.

Locations for revenue-generating advertising may include, but are not limited to: exterior surface areas of buses and rail cars (see restrictions in Section 1.1.5 below), interior display frames in bus and rail vehicles, back-lit map cases inside stations, automated public toilets and other fixed outdoor displays on Metro property, electronic Variable Message Signs (VMS) on station platforms, banner ads on Metro's website, space in Metro's printed brochures, timetables and other publications and printed materials, and any other location approved by Metro's Board of Directors.

Content restrictions for advertising displayed through these arrangements are as follows:

1.1.1 Alcohol and Tobacco Advertising

Advertising of all alcohol and tobacco products is prohibited.

1.1.2 Non-Commercial Advertising

Metro does not accept advertising from non-governmental entities if the subject matter and intent of said advertising is non-commercial. Specifically, acceptable advertising must promote for sale, lease or other form of financial benefit a product, service, event or other property interest in primarily a commercial manner for primarily a commercial purpose.

Exception: Governmental entities, meaning public entities specifically created by government action, may purchase advertising space for messages that advance specific government purposes. It is Metro's intent that government advertising will not be used for comment on issues of public debate.

1.1.3 Other Subject Matter Restrictions

Advertising may not be displayed if its content:

Promotes or relates to an illegal activity;

Contains language which is obscene, vulgar, profane or scatological;

Contains images, copy or concepts that actively denigrate a specific ethnic or gender group;

Contains images, copy or concepts that actively denigrate public transportation; or

Contains obscene matter as defined in the Los Angeles County Code, Chapter 13.17, Section 13.17.010, or sexually explicit material as defined in the Los Angeles County Code, Chapter 8.28, Section 8.28.010D.

1.1.4 Metro's Right of Rejection

Beyond the above, Metro's vendors may review advertising content according to their own guidelines of acceptability. Metro does not screen individual ads submitted to its vendors prior to posting unless specifically requested to do so by the vendors. Nevertheless, in all contracts Metro reserves the right to reject any advertising content submitted for display on its properties and/or to order the removal of any advertising posted on its properties.

Decisions regarding the rejection or removal of advertising are made by the Chief Communications Officer or their designee based upon the criteria in this policy statement.

1.1.5 Wraps and Vinyl Window Graphics

To ensure the safety and security of passengers, operators and law enforcement officers, advertising displays which employ vinyl window graphics are restricted from obscuring window surfaces on Metro vehicles as follows:

Buses: No more than 30% of the vehicle's total window surface, and no more than 50% of the window surface of any bus side, may be covered by vinyl window graphics. (Note: this excludes the front window surface, which may not be covered in any manner.)

Rail Cars: No windows may be covered on rail cars.

Metro Rapid: No wrapped advertising, bus backs or oversized king ads are permitted on Metro Rapid vehicles or on any articulated buses.

1.2 Informational Advertising

Metro has several unique distribution channels at its disposal for disseminating transit information for which it incurs no “space” cost (the fee charged for advertising space). These distribution channels include, but are not limited to: “take-one” boxes on board Metro Buses and Metro Rail trains, “take-one” racks at Metro Customer Centers, back-lit and non-lit map cases inside Metro Rail stations and on Metro Bus Stop poles, advertising kiosks at select Metro Rail stations, electronic Variable Message Signs (VMS) on Metro Rail platforms, and interior rail posters on board Metro Rail trains.

In addition, as specified in Section 1.1, Metro has the use of an allotment of exterior and interior bus advertising space at no charge by agreement with the vendor that sells all remaining interior and exterior bus advertising space under a revenue-generating agreement.

Acceptable information for these distribution channels is categorized as follows:

1.2.1 Regular Transit Information

Regular transit information is prepared by the Metro’s Communications department in accordance with its annual strategic planning process as well as upon request from other internal departments. Regular transit information includes, but is not limited to: service features and changes, fare information and changes, safety and security messages, maps and explanations of related transportation services.

1.2.2 Cross -Promotional Information

On an occasional basis and only when space is available, Metro’s Communications Department may use Metro’s distribution channels to participate in cross-promotional opportunities that offer a direct opportunity to promote use of transit. Any materials distributed for this purpose must prominently include promotion of Metro services (i.e. “Go Metro to Fiesta Broadway”). Metro is prohibited by law from simply donating advertising space to any entity for purposes that are not directly transit-related.

The outside organization involved must either bear the cost of producing such materials or, if approved by Metro’s Communications Department, provide an equivalent or greater value in cross-promotional benefits (i.e. advertising space, editorial space, etc.). Any cross-promotional arrangement must be approved by the Chief Communications Officer or their designee based upon the criteria in this policy statement.

1.2.3 “Added Value” Materials

On an occasional basis and only when space is available, Metro’s Communications Department may use Metro’s distribution channels to provide “added value” materials to its customers. Such materials must present a specific and time-dated offer uniquely provided for Metro Bus and Metro Rail customers (generally a money-saving discount) in which transit can be used to access the redemption point. Any materials distributed for this purpose must prominently include the Metro logo and other wording approved by Metro’s

Communications Department to indicate that the offer is specifically designed for Metro Bus and Metro Rail customers. Metro is prohibited by law from simply donating advertising space to any entity for purposes that are not directly transit-related.

The outside organization involved must either bear the cost of producing such materials or, if approved by Metro's Communications Department, provide an equivalent or greater value in cross-promotional benefits (i.e. advertising space, editorial space, etc.). Any added value programs must be approved by the Chief Communications Officer or their designee based upon the criteria in this policy statement.

DEFINITION OF TERMS

Added Value Materials: Informational advertising which offers a tangible benefit to patrons as a means of rewarding and retaining customers (i.e., a money-saving discount).

Cross-Promotion: A cooperative partnership in which two or more entities work together with the goal of jointly promoting their respective services.

Exterior King Ad: Large ad measuring 144" x 30" displayed on the sides of Metro Buses. King ads are directly applied to the bus with adhesive vinyl.

Exterior Tail light or "Tail" Ad: Smaller ad measuring 48" x 15 ½" or 72" x 21" displayed on the rear of Metro Buses. Tail ads are directly applied to the bus with adhesive vinyl.

Governmental Entities: Public entities specifically created by government action.

Interior Bus Car Card: A 28" x 11" poster that mounts above the seats in Metro Buses to provide information on fares, routes, safety, pass & token sales locations, service changes and other matters relevant to the use of the Metro System.

Interior Rail Poster: A 21" x 22 ¼" poster that mounts in frames on the walls of Metro Rail cars, used to display Metro Rail System Maps and provide information on fares, routes, safety, pass & token sales locations, service changes and other matters relevant to the use of the Metro System.

Map Cases: Fixed cases in Metro Rail stations that hold a 46¾" x 46¾" display, usually backlit. Used to display Metro Rail System Maps and provide information on fares, routes, safety, pass & token sales locations, service changes and other matters relevant to the use of the Metro System.

Non-Commercial Advertising: A public service announcement, event notification, political statement or other message which does not have as its primary purpose to propose a commercial transaction.

Take-One: A printed brochure measuring 3½" x 8½" placed inside Metro Buses or Metro Rail trains, used to provide information on fares, routes, safety, pass & token sales locations, service changes and other matters relevant to the use of the Metro System.

Take-One Box: A metal rack or plastic holder installed on the interior of Metro Buses and Metro Rail trains designed to hold approximately 40 take-ones. Many Metro Buses have a multi-pocket rack in addition to 2 plastic take-one boxes; most Metro Rail cars have from 2 to 6 plastic take-one boxes.

Variable Message Signs (VMS): Electronic sign boards in Metro Rail stations controlled from the Rail Operations Control Center that scroll through a series of written messages. Used to provide information on safety, pass & token sales locations, service changes, emergency announcements and other matters relevant to the use of the Metro System.

Vinyl Window Graphics: An adhesive vinyl super-graphic which covers a portion of the window surface of a bus or rail vehicle. Such graphics are manufactured to be largely transparent to those inside the vehicle, permitting passengers to see outside through the graphics.

3.0 RESPONSIBILITIES

Communications Department: Prepares all messages and materials for dissemination on board Metro Buses and Metro Rail trains; administers the distribution/display of transit information; tracks/coordinates the availability and use of Metro's unique information distribution channels.

Mailroom: Distributes quantities of take-ones to Metro Operating Divisions and Customer Centers according to distribution list prepared by project managers in Communications.

Operators and Service Attendants: Physically place take-ones on buses/trains for distribution to the public.

Advertising Vendors: Sell, post and maintain all revenue-generating advertising on Metro properties; implement Metro's policies on revenue-generating advertising; post all Metro informational advertising according to instructions from Metro's Communications Department.

Chief Communications Officer (or designee): Reviews and approves/rejects all cross-promotions and added value programs using Metro's unique distribution channels based upon the criteria in this policy statement; enforces Metro's right to reject and/or order removal of revenue-generating advertising based upon the criteria in this policy statement.

4.0 FLOWCHART

Not Applicable

5.0 REFERENCES

Not Applicable

6.0 ATTACHMENTS

Not Applicable

7.0 PROCEDURE HISTORY

- 03/23/00 Original policy adopted by Metro's Board of Directors.
- 01/27/05 Policy amended by Board of Directors to permit advertising on Metro Rapid vehicles.
- 06/22/06 Policy amended by Board of Directors to permit non-traditional advertising displays and advertising on rail car exteriors.