



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

28

**EXECUTIVE MANAGEMENT & AUDIT COMMITTEE
JUNE 21, 2007**

SUBJECT: ADVERTISING ON METRO RAIL SYSTEM

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

RECOMMENDATION

Authorize the Chief Executive Officer to award Contract No. PS0771401971, 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 Rail system:

- A. Standard Exterior Rail Car Advertising, for a firm, fixed revenue price of \$2,494,000 inclusive of three one-year options; and
- B. Wrapped Exterior Rail Car Advertising, for a firm, fixed revenue price of \$2,668,000 inclusive of three one-year options; and
- C. Subway Station Prominence Displays, for a firm, fixed revenue price of \$3,712,000 inclusive of three one-year options; and
- D. Rail Station Back-lit Cases and Interior Rail Car Frame Advertising, for a firm, fixed revenue price of \$2,726,000 inclusive of three one-year options.

The total revenue amount to Metro in this contract is \$11,600,000.

RATIONALE

In June 2006, the Board directed staff to pursue opportunities to increase revenues through advertising on Metro properties. As the Metro Rail system has never carried paid advertising before, staff launched two short-term pilot projects for advertising on rail car exteriors and in subway stations which expire on December 31, 2007; to date, several ads have been sold and posted under these agreements. Staff reported to the Board in November 2006 that a new Request for Proposals (RFP) for expanded rail advertising would be released in early 2007 to solicit advertising vendors for Metro Rail on a long term basis.

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

- A. Standard Exterior Rail Car Advertising - This refers to rectangular ads posted on both sides of each light rail car (Metro Green, Gold and Blue lines). Exterior advertising is not permitted on heavy rail cars (Metro Red and Purple lines).
- B. Wrapped Exterior Rail Car Advertising - This refers to advertising that partially or entirely "wraps" a light rail car (Metro Green, Gold and Blue lines), subject to the restriction that advertising may not cover any window surface. Wrapped exterior advertising is not permitted on heavy rail cars (Metro Red and Purple lines).
- C. Subway Station Prominence Displays - This refers to displays from a single advertiser covering large surfaces such as walls and columns in a subway station.
- D. Rail Station Back-lit Cases and Interior Rail Car Frame Advertising - This refers to advertising placed in existing display cases inside rail stations and existing frames inside rail cars. Ads will appear in 6 frames inside each rail car, and in 59 display cases throughout the system.

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 (\$11,600,000).

Under the revenue-sharing basis, Titan Outdoor proposed the highest minimum guarantee (\$8,749,999). However, Titan estimated that Metro might actually realize a total of \$11,499,000 under this scenario -- less than the fixed revenue amount of \$11,600,000 proposed by CBS.

By contrast, CBS estimated that Metro might realize a total of \$13,454,800 under the revenue-sharing scenario; this represents a potential 16% (or \$1,854,800) in additional revenue over the fixed scenario. However, the minimum guarantee in CBS' revenue-sharing scenario drops more than 54% (or \$6,300,000) to \$5,300,000. Weighing the potential loss of \$6.3 million against a potential gain of \$1.8 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 \$300,000 have been included in the FY08 proposed budget for anticipated rail advertising during FY08. This contract will provide \$1 million in FY08, an increase of \$700,000 over the currently budgeted amount. These revenues will be programmed to rail operating or capital needs as they are identified by the Chief Operations Officer or General Manager for Metro Rail. The future years revenue forecasts 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 Rail Cars	\$420,000	\$451,500	\$494,500	\$537,500	580,500	\$2,494,000
B	Wrapped Exterior Rail Cars	\$460,000	\$483,000	\$529,000	\$575,000	\$621,000	\$2,668,000
C	Subway Station Prominence	\$640,000	\$672,000	\$736,000	\$800,000	\$864,000	\$3712,000
D	Back-lit Cases/Int. Car Frames	\$470,000	\$493,500	\$540,500	\$587,500	\$634,500	\$2,726,000
	Total	\$2,000,000	\$2,100,000	\$2,300,000	\$2,500,000	\$2,700,000	\$11,600,000

Because Metro has never before had a long-term revenue-generating agreement for rail advertising, this contract represents \$11,600,000 in new revenues for Metro.

ALTERNATIVES CONSIDERED

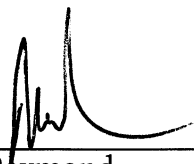
1. Award this contract on the revenue-sharing basis rather than on the fixed, guaranteed basis. This is not recommended as the potential for additional revenue under the revenue-sharing basis is estimated at \$1,854,800 over five years, while the minimum guarantee of \$5,300,000 represents a drop of \$6,300,000 from the fixed scenario guarantee of \$11,600,000. 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 rail advertising program. This is not recommended as it would result in significant revenue loss to Metro. Further, this

solicitation has produced a commitment of \$11.6 million in new revenue, reflecting recent Board direction to aggressively increase advertising revenues.

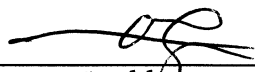
ATTACHMENTS

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

Prepared by: Warren Morse
Deputy Executive Officer, Communications



Matthew Raymond
Chief Communications Officer



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

ADVERTISING ON METRO RAIL SYSTEM

1.	Contract Number: PS0771401971		
2.	Recommended Vendor: CBS Outdoor Group Inc.		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$ 11,600,000	Recommended Price: \$ 11,600,000	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm fixed price revenue		
5.	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 19, 2007		
6.	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		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 57	Bids/Proposals Picked up: 27	Bids/Proposals Received: 3
8.	Evaluation Information:		
	A. Bidders/Proposers Names: Clear Channel Outdoor CBS Outdoor Group Inc. Titan Outdoor LLC	<u>Bid/Proposal Amount:</u> \$ 500,000 \$11,600,000 \$10,000,000	<u>Best and Final Offer Amount:</u> \$
	B. Evaluation Methodology: Best Value Numerically Factored Revenue Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: May 21, 2007		
	B. Protest Receipt Date:		
	C. Disposition of Protest Date:		
10.	Contract Administrator: Phyllis L. Walker	Telephone Number: 922-1084	
11.	Project Manager: Warren Morse	Telephone Number: 922-5661	

**BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY**

ADVERTISING ON METRO RAIL 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 currently has three pilot revenue share contracts for advertising on Metro's Rail System that includes advertising on the Metro Light Rail Gold and Green Line exteriors and Station Prominence Displays.

CBS Outdoor advertising experience on other rail systems shows current contracts with New York City Transit; Miami-Dade Transit, San Francisco Municipal Railway; Washington Metropolitan Area Transit Authority in Washington, DC and 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, Rail Operations Department and Wayside Systems Facility 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 \$11,600,000 proposed by CBS as offering the best value to Metro.

D. Cost/Price Analysis Explanation of Variances

The recommended guaranteed revenue of \$11,600,000 (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 \$5,300,000 guaranteed minimum revenue, an additional \$8,154,800 might be achieved based on 65% of CBS' estimated net revenue base. This analysis shows a potential of \$13,454,800 revenue on the revenue share basis over the five year period.

Given the \$ 8,300,000 variance between guaranteed revenue in Approach 1 (\$11,600,000) and Approach 2 (\$5,300,000), the SSC determined the risk associated with unknown economic factors of the next five years made the guaranteed revenue Approach 1 to be in the best interest of Metro.

CBS Outdoor's proposed guaranteed revenue of \$11,600,000 is 14% higher than Titan Outdoor's proposed guaranteed revenue of \$10,000,000 and 48% higher than the independent revenue estimate.

This analysis supports the SSC recommendation of award to CBS Outdoor Group Inc. for \$11,600,000 guaranteed revenue over the five year period.

**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 Rail Advertising Revenues from CBS Outdoor

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Item A - Exterior						
Fixed	\$430,000	\$451,500	\$494,500	\$537,500	\$580,500	\$2,494,000
Share - Minimum guarantee	\$215,000	\$215,000	\$236,500	\$236,500	\$236,500	\$1,139,500
<i>Difference</i>	<i>\$215,000</i>	<i>\$215,000</i>	<i>\$236,500</i>	<i>\$236,500</i>	<i>\$344,000</i>	<i>\$1,247,000</i>
Item B - Wrapped						
Fixed	\$460,000	\$483,000	\$529,000	\$575,000	\$621,000	\$2,668,000
Share - Minimum guarantee	\$230,000	\$230,000	\$253,000	\$253,000	\$253,000	\$1,219,000
<i>Difference</i>	<i>\$230,000</i>	<i>\$253,000</i>	<i>\$276,000</i>	<i>\$322,000</i>	<i>\$368,000</i>	<i>\$1,449,000</i>
Item C - Station Prominence						
Fixed	\$640,000	\$672,000	\$736,000	\$800,000	\$864,000	\$3,712,000
Share - Minimum guarantee	\$320,000	\$320,000	\$352,000	\$352,000	\$352,000	\$1,696,000
<i>Difference</i>	<i>\$320,000</i>	<i>\$352,000</i>	<i>\$384,000</i>	<i>\$448,000</i>	<i>\$512,000</i>	<i>\$2,016,000</i>
Item D - Cases/Frames						
Fixed	\$470,000	\$493,500	\$540,500	\$587,500	\$634,500	\$2,726,000
Share - Minimum guarantee	\$235,000	\$235,000	\$258,500	\$258,500	\$258,500	\$1,245,500
<i>Difference</i>	<i>\$235,000</i>	<i>\$258,500</i>	<i>\$282,000</i>	<i>\$329,000</i>	<i>\$376,000</i>	<i>\$1,480,500</i>
Total						
Fixed	\$2,000,000	\$2,100,000	\$2,300,000	\$2,500,000	\$2,700,000	\$11,600,000
Share - Minimum guarantee	\$1,000,000	\$1,000,000	\$1,100,000	\$1,100,000	\$1,100,000	\$5,300,000
<i>Difference</i>						
			Grand Total - Fixed			\$11,600,000
			Grand Total - Minimum Guarantee			\$5,300,000
Revenue Share Scenario:						
<u>Estimated Revenue to Metro</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
Exteriors	\$503,100	\$545,025	\$572,975	\$614,900	\$656,825	\$2,892,825
Wrapped	\$538,200	\$583,050	\$612,950	\$657,800	\$702,650	\$3,094,650
Station Prominence	\$748,800	\$811,000	\$852,800	\$915,200	\$977,600	\$4,305,400
Cases/Frames	\$549,900	\$595,725	\$626,275	\$672,100	\$717,925	\$3,161,925
					Grand total:	\$13,454,800