Committee Report

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Transportation Committee

Item: 2010-11

For Metropolitan Council meeting of January 27, 2009

Date Prepared: January 20, 2010

Subject: Amendment to Titan Outdoor, LLC., Advertising Sales Contract

Proposed Action:

That the Metropolitan Council: (1) find that the current economic climate has had a significant and adverse effect on advertising and the advertising industry; (2) determine that the best alternative for maximizing its advertising revenue under prevailing circumstances is to renegotiate and amend its current contract with Titan; and (3) authorize its Regional Administrator to negotiate and execute amendments to the Titan Outdoor, LLC., contract substantially in compliance with the attached term sheet.

Background:

Titan Outdoor, LLC was awarded a five-year contract beginning January 1, 2007 for purposes of selling advertising on Metro Transit buses, trains, kiosks and other properties. Titan's bid was selected as most advantageous from a field of five candidates in a competitive process. The contract terms include a revenue share of 60% of net ad sales to Metro Transit and an increasing minimum annual guarantee (MAG) over the five years of the contract totaling $20 million dollars.

As a result of the economic downturn, Titan is asking all transit agencies it represents to renegotiate their contracts to reduce the MAGs. In exchange for a reduce MAG, Metro Transit negotiated a higher revenue share in 2010 and 2011.

Summary of Committee Discussion / Questions:

Marketing Director Bruce Howard and Finance Director Ed Petrie presented the options Metro Transit considered in renegotiating the Titan contract. Staff believes that the proposed amendments negotiated for Metro Transit are comparatively more advantageous than most any of the other transit system agreements reached with Titan to date. In addition staff noted that recent competitive bids from around the country indicated that transit systems are receiving far less value in terms of both revenue share and minimum annual guarantees for contract currently being bid than just two years ago. For those reasons staff recommended amending Titan's existing contract with reduced MAG's but an increase in revenue share to 63.5% in 2010 and 65% in 2011.

There was considerable discussion and some questions about the existing contract and the options considered. Committee members wanted to know if the Council was getting the best deal possible in this economy. Staff replied they believed the best course forward was amending the existing contract with higher revenue shares rather than ending the contract and rebidding it.

Chair McFarlin asked if the proposed action needed to include the three parts to which Deputy General Counsel Dave Theisen responded that he suggested the language to better establish a formal reason why an existing contract should be amended. The proposed action was approved as presented in the business item on a unanimous vote.

Business Item
Item: 2010-11

T Transportation Committee

Meeting date: January 11, 2010

Metropolitan Council Meeting: January 27, 2010

ADVISORY INFORMATION	
Date:	**January 4, 2010**
Subject:	**Amendment to Titan Outdoor, LLC., Advertising Sales Contract**
District(s), Member(s):	**All**
Policy/Legal Reference:	
Staff Prepared/Presented:	**Brian J. Lamb, General Manager, Metro Transit (612-349-7510)** **Bruce Howard, Director of Marketing, Metro Transit (612-349-7694)** **Ed Petrie, Director of Finance, Metro Transit (612-349-7624)**
Division/Department:	**Metro Transit, Marketing Division**

Proposed Action

That the Metropolitan Council authorize the regional administrator to approve the proposed amendments to the Titan Outdoor, LLC., contract as described in the attached term sheet dated December 15, 2009.

Background

Titan Outdoor, LLC was awarded a 5-year contract beginning January 1, 2007 for purposes of selling advertising on Metro Transit buses, trains, kiosks and other properties. Titan's bid was selected as most advantages from a filed of five candidates in a competitive process. The contract terms include a revenue share of 60% of net ad sales to Metro Transit and an increasing minimum annual guarantee (MAG) over the five years of the contract totaling $20 million dollars. During the first two years of the contract, Titan increased net ad sales 24% (15% in 2007 and 9% in 2008) generating $3.4 million and $3.8 million in revenue share to Metro Transit. This 60% revenue share for the first two years of the contract exceeded the minimum annual guarantees ($3.3 million in 2007 and $3.6 million in 2008) by $300,000.

However, in 2009 Titan began to experience cash flow problems as a result of the steep decline in advertising spending brought on by the recession. They notified all 44 of the transit agencies they have contracts with that they would not be able to honor the minimum annual guarantees for 2009 and still remain in business. Titan asked each of their clients, including Metro Transit, to renegotiate their contracts as part of a business restructuring Titan is currently undergoing.

Rationale

Staff believes the best course of action is to amend the existing Titan contract, rather than rebid the advertising sales contract at this time. Current market conditions and recent competitive bids from other cities indicate transit agencies are receiving far less value in terms of both revenue share and MAGs compared to before the current economic downturn. During the negotiation process with Titan it became apparent that while Titan was asking for some concessions in either revenue share or MAGs, they were still willing to agree to an above market value amendment in order to retain our contract. In fact, of the 44 transit agencies that have contracts with Titan, 41 have renegotiated tentative agreements or re-awarded their contracts to Titan. This includes BART in San Francisco, MBTA in Boston, King County in Seattle, SEPTA in Philadelphia, NJ Transit and CTA in Chicago.

As an example, CTA in Chicago put their contract with Titan out for bids this fall. In December CTA again awarded the contract to Titan. However, the winning bid Titan submitted was far less than the existing contract CTA had just canceled. The canceled contract had a 67% revenue share and a $24 million MAG for the remaining two years of the contract. Comparatively, the winning Titan bid included a 62.5% revenue share for the first through third years and a 63% share for years four and five with a $14 million MAG. It is also worth noting that the only other serious bidder, CBS Outdoor, offered a revenue share of between 55% and 60% and MAGs less than half the value of Titan's winning bid.

Other recent bids from around the country indicate the same trend of lower revenue shares and lower MAGs from what was being paid just a year ago. However, Titan continues to win bids despite their contract restructurings including new contracts won in Chicago (CTA), San Francisco (Muni), Seattle (Community Transit), Oakland (AC Transit), and Long Beach in 2009.

Funding

The proposed Titan contract amendment would increase the Metro Transit revenue share compared to the current contract from 60% to 63.5% in 2010 and 65% in 2011 the last year of the contract. It would reduce the MAGs from $4.4 in 2010 and $4.7 in 2011 to $2.8 million and $3 million respectively.

Metro Transit has budgeted $3.6 million in advertising revenue in 2010 and $3.7% in 2011. Titan will need to grow net sales revenues between 3% and 4% in 2010 and about 5% in 2011 in order to meet the budgeted advertising revenues. Staff believes this is a realistic scenario with an improving economy and the addition of two new LRT stations, including Target Field Station generating additional sales revenues.

Known Support / Opposition

No known support or opposition.