

Transportation Committee

Meeting date: June 22, 2020

For the Metropolitan Council meeting of July 8, 2020

Subject: Amendment # 3 to Intersection LLC., Contract #14R038 – Transit Advertising Sales

District(s), Member(s): All

Policy/Legal Reference: 3-2 Sources of Revenue and 3-2-2 Income/Grants Policy

Staff Prepared/Presented: Wes Kooistra, General Manager
 Bruce Howard, Director Marketing and Transit Information
 Maria Cone, Manager Market Development
 Steve True, Senior Manager Finance
 Laron Weddington, Principal Contract Administrator

Division/Department: Metro Transit/Marketing and Transit Information

Proposed Action

That the Metropolitan Council authorize the Regional Administrator to approve an amendment to the Intersection Media LLC contract based on the attached term sheet providing temporary relief for the contractor from the monthly minimum annual guarantee (MAG) payments owed the Council.

Background

Intersection’s contract authorizes exclusive sale, implementation and maintenance of advertising space on Metro Transit’s assets including bus and train vehicles, station kiosks, and shelters. The current contract runs through April 30, 2022 and requires Intersection to pay the Council 65% of advertising revenues or a MAG payment at the end of each contract year, whichever is greater.

In March, Intersection notified Metro Transit staff that due to the COVID-19 pandemic advertisers were significantly reducing ad spending or pausing ad spending altogether. Stay at home orders were keeping customers away from many businesses and several industries were simply shutting down. This is expected to significantly reduce Intersection’s revenues and its ability to meet the minimum annual guarantee payments to the Council in 2020.

Rationale

Staff engaged Intersection in discussions and reviewed various alternatives before agreeing on the attached terms sheet. The proposed contract amendment would modify the existing contract in two ways:

- The 2019-2020 contract year will be shortened to an 11-month term (May1, 2019 to March 31, 2020) for calculation of the MAG. For that period 65% of net ad revenues due the Council was \$4,142,223 compared to a MAG of \$4,629,167. The true up for that 11-month MAG will happen in six monthly installments of \$81,157 starting June 20, 2020.
- For the months of April – December 2020, Intersection will pay the Council 65% of advertising revenues collected. There will be no MAG payment due the Council.

Intersection estimates they may experience a 50% reduction in advertising sales revenues in Q2 of 2020 and more uncertainty for the rest of 2020. Based on this information staff estimates the financial impact to the Council of about \$1.4 million less in advertising revenues in 2020 using revenue share only.

Staff did consider leaving the existing terms of the contract in place. However, Intersection indicated that if they were not able to receive temporary relief from the MAG payments for much of 2020 that there was a high likelihood they would default on the contract. Rebidding and awarding the contract to another vendor would take an estimated four to six months for a new vendor to establish a local sales team and begin generating revenues. During this time, Metro Transit would receive little or no advertising revenues.

Additionally, Metropolitan Council legal staff advised that the contract requires Metro Transit to provide a specific number of buses, trains and shelters available and in service for advertising. Since the March 17 service reductions, the number of buses and trains on the streets each day has been reduced by about 40%.

Staff concluded that amending the existing contract provided the best approach for the Council to manage the immediate economic downturn and be prepared to grow revenues as business returns.

Thrive Lens Analysis

Approval of this amendment would have no significant impact on Thrive Outcomes.

Funding

Metro Transit budgets annual advertising revenues below the contract MAG so a reduction in advertising revenues below the MAG is partially offset by this conservative approach to budgeting advertising revenues.

Known Support / Opposition

No known support or opposition

Term Sheet
Metropolitan Council – Intersection Amendment 3
May 26, 2020
FOR DISCUSSION PURPOSES ONLY

The terms set forth below represent Intersection Media LLC’s (“Intersection’s”) proposal to amend the existing Contract No. 14R038 between the Metropolitan Council (“the Council”) and Intersection. This term sheet is not intended to create any legally binding obligations, and no such obligations shall be created unless and until Intersection and Metro Transit enter into a definitive Agreement containing such terms.

Category	Proposal
2019-2020 Contract Year	<ul style="list-style-type: none"> ● The 2019-2020 contract will be shortened to an 11-month term (May 1, 2019 - March 31, 2020) ● Contract terms remain in place for current year with the following two amendments to allow for the remaining true-up payments to be made over time: <ul style="list-style-type: none"> ○ Intersection will true-up to 11 months of MAG, based on net billings through March 2020. Revenue Share of sixty-five (65%) of net billings for May 2019-March 2020 amounts to \$4,142,223 compared to the MAG of \$4,629,167. The remaining payment to true-up to 11 months of the MAG amounts to \$486,944 and will be paid in six (6) monthly installments of \$81,157 on the 20th of each month starting on June 20th. ○ As of the end of the 2019-2020 contract year, \$635,410 is the balance of revenue share payments owed to the Council that has yet to be collected. Intersection will continue to pay this amount as accounts receivable cash is collected by Intersection.
April 2019-2020 Contract Year	<ul style="list-style-type: none"> ● For the month of April (2019-2020 contract year), Intersection will pay revenue share on collections only. There will be no MAG for April 2020. Intersection will make the regularly scheduled payment based on sixty-five (65%) percent of the net billings actually collected, going forward, on the 20th of each month.
2020-2021 Contract Year: Revenue Share	<ul style="list-style-type: none"> ● Starting May 1, 2020, Intersection will pay revenue share on collections only (as per the contract) for the months of May through December 2020. Intersection will make the regularly scheduled payment based on sixty-five (65%) percent of the net billings actually collected on the 20th of each month. The MAG will be forgiven during this period.

2020-2021 Contract Year: Timing	<ul style="list-style-type: none">● As of January 1, 2021, the originally contracted MAG of \$429,167 per month will be reinstated.● Given the uncertainties of the economic recovery following the Covid-19 crisis, the parties agree to convene in Q4 2020 to mutually determine whether further relief will be required for the remainder of the 2020-2021 contract year.
2020-2021 Contract Year: True-up	<ul style="list-style-type: none">● The Annual True-Up calculation will only be based on the months when the MAG is reinstated. Therefore, for the 2020-2021 contract year, assuming that the MAG is reinstated, the true-up will be based on 4/12ths of the annual MAG, which is \$1,716,668.