

Transportation Committee

Meeting date: November 23, 2020

For the Metropolitan Council meeting of December 9, 2020

Subject: Amendment # 4 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:

- 1) negotiate and execute an amendment to the Intersection LLC., contract based on the attached term sheet that continues to provide relief from the minimum annual guarantee (MAG) payments owed the Council.
- 2) extend the term of the Intersection contract to April 30, 2023.

Background

The Intersection contract authorizes exclusive sale, implementation and maintenance of advertising space on Metro Transit 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.

Earlier this year Intersection notified Metro Transit that due to COVID-19 advertisers were significantly reducing ad spending or pausing ad spending altogether. This would significantly reduce Intersection's revenues and its ability to meet the MAG payments in the contract. In June, the Council amended the contract to temporarily suspend MAG payments for the months of April - December 31, 2020 and continue with the revenue sharing only in which Metro Transit receives 65% of advertising revenues. It was also agreed the current advertising environment would be reviewed in late 2020 to discuss the viability of returning to MAG payments in 2021.

Rationale

Metro Transit and Intersection staff met and agree that advertising spending did not improve much in Q2 and Q3 of 2020 and is not expected to return to near pre pandemic levels until at least the middle of 2021. Intersection estimates sales will be down about 40% in 2020 generating Metro Transit ad revenues of about \$3 million. This would be about \$2 million less than if MAG payments were being made.

Staff did consider returning to the existing contract terms in 2021 which would reinstate a \$5.2 million MAG for 2021. However, Intersection indicated that it is estimating only a slightly better sales year for 2021 and needs continued relief from the MAG payments or there is a high likelihood it would default on the contract. Rebidding and awarding the contract to another vendor would then take an estimated four to six months and recent transit agency contracts awarded around the county indicated vendors were not including any MAGs in bids at this time.

Additionally, due to the pandemic, in March, Metro Transit service was reduced to 60% of pre pandemic levels and is budgeted to be at only 80% for 2021. This means that fewer vehicles have been and are expected to be made available for advertising by Metro Transit then required in the contract.

Staff concluded that amending the existing contract provided the best approach for the Council to maximize ad revenue during this difficult economic time.

Furthermore, staff is recommending extending the current contract one year through April of 2023 in order to allow the economy and advertising spending to more fully recover. The contract would then be put out for competitive bid in the fall of 2022 with a new contract start date of May 1, 2023.

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
Metro Transit - Intersection Proposal for 2021 and Beyond
November 2, 2020 (REVISED)
FOR DISCUSSION PURPOSES ONLY

The terms set forth below represent Intersection Media LLC's ("Intersection") proposal to amend the terms for the existing contract for Transit and Railroad Advertising, Contract No. 14R038, ("Agreement") 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 the Council enter into a definitive agreement containing such terms.

Category	Proposal
Effective Date	<ul style="list-style-type: none"> ● The Effective Date of the Amendment shall be January 1, 2021.
Payment Terms	<ul style="list-style-type: none"> ● Due to the ongoing impacts of Covid-19, the Council agrees to extend the Impacted Period as defined in the Third Amendment to include the remainder of the contract term, thereby waiving the contracted MAG through April 30, 2022. Intersection will continue to pay 65% of Net Revenues Collected monthly, without a MAG applied to those months.
Letter of Credit	<ul style="list-style-type: none"> ● Starting on the Effective Date of the Amendment, the Letter of Credit shall be reduced to 50% of the amount set forth in the Agreement , through the remainder of the contract term.