



April 16, 2020

To: Legislative and Communications Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Amendment to Agreement for Bus Advertising Revenue Program

Overview

On June 22, 2015, the Orange County Transportation Authority's Board of Directors approved an agreement with Outfront Media Group, LLC, to sell, place, and maintain advertisements on its bus vehicles. Due to the current coronavirus pandemic, which has resulted in a significant decrease in the Orange County Transportation Authority's operating bus fleet size and has also created a substantial decrease in advertising sales revenue, Outfront Media Group, LLC, is requesting to amend the payment terms of the contract to be solely based on a revenue-sharing arrangement, eliminating the minimum annual guarantee for the remainder of the first option term.

Recommendation

Authorize the Chief Executive Officer to execute Amendment No. 2 to Agreement No. C-5-3076 between the Orange County Transportation Authority and Outfront Media Group, LLC, to eliminate the annual minimum guarantee and adopt a payment term based solely on a revenue-sharing arrangement for the remainder of the first option term beginning April 1, 2020 through August 31, 2020.

Background

The Orange County Transportation Authority (OCTA) has historically contracted with an outside bus advertising sales firm to sell, place, and maintain advertisements on the interior and exterior of its buses, which provides considerable revenue for OCTA to support its bus operations. OCTA has contracted with Outfront Media Group, LLC, (Outfront) for these services with an initial term from September 1, 2015 to August 31, 2018, with two, two-year options. The agreement is currently in its first option term, due to end on August 31, 2020. OCTA receives revenue from Outfront based on either a minimum guarantee amount of \$4 million or 70 percent of gross advertising sales

revenue, whichever is the greater amount. To date, OCTA has received the annual minimum guarantee of \$4 million.

Discussion

OCTA entered into an agreement with Outfront in September 2015, for the sale, placement, and maintenance of advertisements on its bus vehicles. Since the inception of the agreement, Outfront has performed in accordance with the provisions in the agreement and provided timely payments of the minimum guarantee every month. However, the current novel coronavirus (COVID-19) pandemic (pandemic) has drastically impacted the economy, including transit advertising sales. With Governor Gavin Newsom's stay-at-home executive order limiting the public's ability to travel, advertising sales have significantly declined, and an unprecedented number of advertising contract cancellations are taking place.

The following chart outlines the impact of the pandemic on Outfront's bus advertising sales. The pre-pandemic agreements are based on sales prior to the crisis, and the current sales agreements reflect the advertising revenue projected by Outfront after multiple advertising contract cancellations, which reflects a substantial loss in advertising revenue anticipated through the end of the current contract term.

| Sales Month (2020) | Pre-Pandemic Sales Agreements | Current Sales Agreements | Percentage Decrease |
|-----------------------|----------------------------------|-----------------------------|------------------------|
| April | \$371,450 | \$175,949 | 53% |
| May | \$335,110 | \$191,595 | 43% |
| June | \$312,540 | \$120,011 | 62% |
| July | \$289,450 | \$97,810 | 66% |
| August | \$197,520 | \$85,111 | 57% |

The pandemic has also had a significant impact on OCTA's bus ridership. OCTA began running a Sunday service schedule seven days a week on all OC Bus routes on March 23, 2020, reducing its fixed-route in-service fleet from 419 to 206. The current agreement with Outfront provides the annual minimum guarantee or 70 percent of revenue share based on OCTA's full fleet running in-service. As a result, Outfront is seeking short-term relief from OCTA, as well as all of its other transit clients, to eliminate the annual minimum guarantee. Outfront's proposed payment term would be based solely on a revenue-sharing arrangement whereby OCTA would receive 70 percent of the revenue share through the end of the current first option term, beginning April 1, 2020 through August 31, 2020.

A similar situation occurred during the recession in 2010. At that time, OCTA's Board of Directors (Board) made the decision to accept the former vendor's request to eliminate the annual minimum guarantee and increase the revenue-sharing percentage from 60 percent to 67 percent. While the situation is similar with Outfront's request to eliminate the minimum guarantee, staff is not requesting an increase in revenue share due the substantial reduction of OCTA's in-service vehicle fleet. Additionally, in comparing OCTA's revenue sharing arrangement with Outfront's current transit clients, shown in the chart below, OCTA has the highest revenue sharing percentage at 70 percent.

| | Annual Minimum Guarantee | Pre-Pandemic Revenue-Sharing Arrangement | Post-Pandemic Revenue-Sharing Arrangement |
|--|--------------------------|--|---|
| OCTA | \$4,000,000 | 70% | 70% |
| Los Angeles County Metropolitan Transportation Authority | \$23,500,500 | 55% | 55% |
| Long Beach Transit | \$675,000 | 60% | 60% |
| Santa Clara Valley Transportation Authority | \$2,200,000 | 65% | 65% |
| Metropolitan Atlanta Rapid Transit Authority | \$3,840,000 | 65% | 65% |
| Miami-Dade Transit | \$3,650,000 | 60% | 60% |
| Ann Arbor Area Transportation Authority | \$104,167 | 50% | 50% |

Fiscal Impact

Pending approval by the Board, OCTA will receive 70 percent of the actual bus advertising sales revenue instead of the minimum guarantee for the balance of the current contract period beginning with April 1, 2020 through August 31, 2020. The potential loss in revenue is estimated to be approximately \$1 million. Per the Federal Transit Administration's guidance currently available, advertising revenue is not an eligible item under the Coronavirus Aid, Relief, and Economic Security Act.

Summary

Authorize the Chief Executive Officer to execute Amendment No. 2 to Agreement No. C-5-3076 between the Orange County Transportation Authority and Outfront Media, LLC, to eliminate the annual minimum guarantee and adopt a revenue-sharing arrangement for the remainder of the first option term beginning April 1, 2020 through August 31, 2020.

Attachment

None.

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