

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
12	06/13/11	Open	Action	06/08/11

Subject: Delegating Authority to the General Manager/CEO to Approve the First Amendment to the Contract for Transit Vehicle Advertising with Clear Channel Outdoor, Inc.

ISSUE

Whether or not to delegate authority to the General Manager to approve the First Amendment to the Contract for Transit Vehicle Advertising with Clear Channel Outdoor, Inc..

RECOMMENDED ACTION

Adopt Resolution No. 11-06-____, Delegating Authority to the General Manager/CEO to Approve the First Amendment to the Contract for Transit Vehicle Advertising with Clear Channel Outdoor, Inc.

FISCAL IMPACT

The annual License Fee under the Contract is composed of three elements: (1) a Minimum Annual Guarantee (MAG) or 51% revenue share, whichever is higher; (2) an Annual Administrative Fee (\$200,000); and (3) an annual paint repair fee (\$25,000).

At the time Clear Channel Outdoor submitted its proposal, RT anticipated an active fleet of 211 buses available for advertising throughout the Contract term and option years. Based on that assumption, Clear Channel offered a MAG of \$625,000 for Option Year 1 (July 1, 2011 through June 30, 2012).

The Contract provides a formula to reduce the MAG, on a pro rata basis, if fewer than 211 buses are available. Due to bus service reductions implemented in June 2010, the fleet size is currently 175 buses. Based on the formula in the Contract, the MAG would be reduced to \$518,365 for Option Year 1. As discussed further below, Clear Channel Outdoor has asserted that the pro rata methodology does not adequately reflect the impact to its advertising opportunities and revenues caused by the service reductions. Clear Channel Outdoor has requested that the MAG be reduced to \$510,000 for Option Year 1, unless RT experiences a fleet increase during the year.

DISCUSSION

On June 23, 2008, the RT Board of Directors approved a three-year Contract with Clear Channel Outdoor to provide advertising on RT buses. The third year of the Contract ends on June 30, 2011. The Contract included a unilateral RT option to renew for two 1-year periods. To exercise its option for the fourth year, RT was required to provide written notice to Clear Channel Outdoor, no later than 45 calendar days prior to the end of the initial 3-year Contract term, of its intent to exercise the option, subject to ultimate approval by the RT Board of Directors. RT provided written notice to Clear Channel Outdoor of its intent to exercise the option on May 6, 2011. Upon

Approved:

Presented:

Final 6/8/11
General Manager/CEO

AGM of Marketing and Communications
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the exercise of an option by RT, RT and Clear Channel Outdoor must execute an amendment to extend the term of the Contract.

The MAG has been adjusted throughout the Contract years based on fleet size, in accordance with a formula set out in the Contract. With the current operation of 175 buses, the MAG for Option Year 1 would be \$518,365. Since the service reductions last June, Clear Channel Outdoor has been in communication with RT periodically regarding the effect of the service reductions on its revenue potential. In response to RT's May 6, 2011 letter regarding exercise of the option, Clear Channel Outdoor sent a letter, on June 2, 2011, stating that it is willing to commit to the additional year only if the MAG is reduced to \$510,000 (from \$518,365). With the proposed reduction of \$8,365, the total revenue for Option Year 1 would be \$735,000.

Staff has not had an opportunity to meet with Clear Channel Outdoor to discuss the \$8,365 "gap" or the possibility of fleet increases during the option year. Given that the Contract terminates June 30th and in the interest of preserving RT's option, Staff is requesting that the Board delegate authority to the General Manager/CEO to execute a First Amendment to the Contract, provided that the amendment includes revenue of at least \$735,000 for Option Year 1.

Staff recommends that the Board delegate authority to the General Manager/CEO to execute the First Amendment to extend the term of the Contract with Clear Channel Outdoor for Transit Vehicle Advertising, if the amendment will provide at least \$735,000 in License Fees to RT during the extension term.

RESOLUTION NO. 11-06-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

June 13, 2011

**DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO APPROVE THE
FIRST AMENDMENT TO THE CONTRACT FOR TRANSIT VEHICLE ADVERTISING
WITH CLEAR CHANNEL OUTDOOR, INC.**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT the Board hereby delegates authority to the General Manager/CEO to approve and execute the First Amendment to the Contract for Transit Vehicle Advertising by and between the Sacramento Regional Transit District (therein "RT") and Clear Channel Outdoor, Inc. (therein "Advertiser") to exercise RT's option to extend the Contract for an additional 1 year, provided that said First Amendment will provide License Fees of at least \$735,000 to RT during the option year.

DON NOTTOLI, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary