

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
13	06/27/11	Open	Action	06/21/11

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., and/or to Release a Request for Proposals for Transit Vehicle Advertising

ISSUE

Whether or not to delegate authority to the General Manager/CEO to approve the First Amendment to the Contract for Transit Vehicle Advertising with Clear Channel Outdoor, Inc., and/or to Release a Request for Proposals (RFP) for Transit Vehicle Advertising.

RECOMMENDED ACTION

- A. 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.; and/or
- B. Adopt Resolution No. 11-06-____, Delegating Authority to the General Manager/CEO to Release a Request for Proposals for Transit Vehicle Advertising.

FISCAL IMPACT

Approval of Option Year 1 would provide a total annual payment of \$704,223, of which \$50,000 would be provided to RT in advertising media. If the Board approves the release of an RFP for Transit Vehicle Advertising, the fiscal impact would be identified when the item is brought to the Board for award of a contract.

DISCUSSION

On June 23, 2008, the RT Board of Directors approved a three-year Contract with Clear Channel Outdoor ("Clear Channel") 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 one-year periods. To exercise its option for the fourth year, RT was required to provide written notice of its intent to exercise the option to Clear Channel, no later than 45 calendar days prior to the end of the initial three-year Contract term, subject to ultimate approval by the RT Board of Directors. RT provided such written notice to Clear Channel on May 6, 2011. Upon the exercise of an option by RT, RT and Clear Channel must execute an amendment to the Contract.

The Option

Under the terms of the Contract, the total revenue (License Fee) for Option Year 1 would be a minimum of \$850,000. 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).

Approved:

Presented:

Final 6/22/11

General Manager/CEO

AGM of Marketing and Communications

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At the time Clear Channel 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 adjust the MAG on a pro rata basis if fewer than 211 buses are available. Due to bus service reductions implemented in June 2010, the available 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. This amount was communicated to Clear Channel in writing in early May as part of preliminary discussions regarding the option. With this adjustment of the MAG and the addition of the Administrative Fee and the Paint Repair Fee, the total revenue due to RT was estimated at approximately \$743,365 for Option Year 1. Clear Channel subsequently raised concerns regarding this figure.

On June 13, 2011, RT staff requested that the Board delegate authority to the General Manager/CEO to exercise the option. In its comments, Clear Channel requested that the Board forego the option and approve the release of a new RFP. Clear Channel expressed the view that the service reductions implemented in June 2010 severely impacted transit vehicle advertising sales, and proposed a reduction of the total guaranteed revenue to \$510,000 (from \$830,000) for Option Year 1. Clear Channel has asserted that the pro rata methodology does not adequately reflect the impact to its advertising opportunities and revenues caused by the service reductions and constitutes a material change of conditions.

At the June 13, 2011 meeting, Clear Channel distributed an email to the Board further stating its position. RT Planning staff has since reviewed the calculations and determined that Clear Channel's asserted service reduction calculation of 28 percent appears overstated. To clarify statements made regarding "reach" (the number of times a message is seen), it has been determined that the reach throughout the overall service area has declined by approximately 4.3 percent. In addition, Clear Channel cited elimination of bus service on various corridors during the Contract period (including American River Drive), which RT had eliminated prior to the start of the Contract.

The Board directed RT staff to continue negotiations with Clear Channel Outdoor and return to the Board with a recommendation on June 27, 2011. RT and Clear Channel representatives met on June 17, 2011, and reached a tentative agreement.

RT will apply the adjustment formula contained in the existing Contract (based on a reduced fleet size) to all three elements of the License Fee, all of which ultimately relate to the number of vehicles committed to the program. The MAG would be reduced to \$518,365; the Administrative Fee would be reduced to \$166,000; and the Paint Repair Fee would be reduced to \$19,858. With these adjustments, the total revenue for Option Year 1 would be \$704,223, which is a reduction of

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\$30,777 from the previous RT staff recommendation of \$735,000. Reductions to the Administrative Fee and the Paint Repair Fee were not included in the staff recommendation on June 13, 2011.

The payment would be comprised of \$654,223 and a minimum of \$50,000 in advertising media, which would likely be a combination of billboard space and radio ads, provided by Clear Channel at scheduled market rates. In return, RT would not exercise Option Year 2 (July 1, 2012 through June 30, 2013) and request that the Board release an RFP during the course of FY 2012 for a new agreement beginning July 1, 2012. Assuming a restored fleet size of 211 buses, the guaranteed revenue for Option Year 2 could have been a minimum of \$905,000.

Request for Proposals

Should the Board direct staff to immediately release an RFP, RT staff would work to expedite the procurement process and ask the Board to award a contract in October 2011. During this transition period, with no Transit Vehicle Advertising contract in place, the loss in revenue would be approximately \$234,000. Any new contract will ensure consistency with the advertising policy and reservation of space for RT and community use, as previously adopted by the Board.

Alternately, in the event the Board approves the exercise of the option and execution of the amended Contract by the GM/CEO, a follow-up advertising contract will ultimately still be needed beginning July 1, 2012. Given the long lead-time for a follow-up procurement, the Board could simultaneously delegate authority to the GM/CEO to release an RFP for such a contract.

Recommendation

Staff recommends that the Board 1) 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, and 2) delegate authority to the General Manager/CEO to release a new RFP for a follow-up Transit Vehicle Advertising contract no sooner than January 1, 2012 .

RESOLUTION NO. 11-06-_____

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

June 27, 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 one year, provided that said First Amendment will provide License Fees of \$704,223 to RT during the option year.

DON NOTTOLI, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary

RESOLUTION NO. 11-06-_____

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

June 27, 2011

**DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO RELEASE A
REQUEST FOR PROPOSALS FOR TRANSIT VEHICLE ADVERTISING**

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

THAT, the General Manager/CEO is hereby authorized to release a Request for
Proposals (RFP) for Transit Vehicle Advertising.

THAT, the RFP for Transit Vehicle Advertising shall be advertised in the manner set
forth in the Procurement Ordinance.

DON NOTTOLI, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary