

Motion No. M2021-58

Contract Modification with Intersection Advertising for Transit Advertising Services

Meeting:	Date:	Type of action:	Staff contact:
Rider Experience and Operations Committee	10/07/2021	Final action	Geoff Patrick, Acting Chief Communications Officer Tim Healy, Marketing Director

Proposed action

Authorizes the chief executive officer to execute a contract modification with Intersection Advertising to extend the term of the contract from 10 to 13 years, add digital advertising services to the scope of work, and reduce the minimum annual guaranteed revenue amounts for the remainder of the original contract term.

Key features summary

- This action adds digital advertising to the scope of work under the contract between Sound Transit and Intersection and extends the contract term so that it is commercially feasible for Intersection to invest the capital necessary to provide the requested digital advertising services. This action further reduces the minimum annual guaranteed revenues due to Sound Transit for the remaining term of the original contract and establishes the minimum annual guarantee amounts for the extended term.
- Under the modified contract, Sound Transit would have the opportunity to receive up to a total of \$11,655,663 in revenue from two digital display installations: Phase 1 and Phase 2.
 - Phase 1 revenue can be achieved through the existing contract upon the addition of digital advertising services to the contract without the need for a term extension.
 - Phase 2 revenue, estimated at approximately \$4,337,816, is contingent upon the proposed contract extension, which would allow Intersection to recover its initial capital investment in digital advertising infrastructure over the remaining life of the contract.
- The proposed contract extension is a proactive initiative aimed at ensuring a seamless revenue stream.
- This is a revenue contract, so there is no cost to Sound Transit.
- Committee approval is required for this action because this is a sole-source contract where the anticipated revenue exceeds the CEO's \$250,000 authority.
- The contract extension is appropriate for a sole-source procurement because it avoids a significant advertising revenue shortfall that would otherwise occur if Sound Transit were to competitively bid a new digital advertising contract.

Background

In September 2014, Sound Transit signed a ten-year advertising contract with Intersection pursuant to which Intersection sells advertising on Sound Transit vehicles and transit facilities. The contract includes a minimum annual revenue guarantee to Sound Transit, which increases each year. After the minimum annual guarantee is met, Sound Transit receives 64 percent of the revenues from advertising sales.

The contract amendment would reduce the minimum annual revenue guarantee from \$1.725 million to \$1 million for year 8 of the contract, October 2021 to September 2022, from \$1.75 million to \$1.4 million for year 9, and from \$1.775 million to \$1.7 million for year 10 to account for reduced revenue resulting from the COVID-19 pandemic. The minimum annual revenue guarantee would then increase by \$50,000 per year during the three-year term extension.

The contract also includes an option for digital advertising services, which option Sound Transit now desires to exercise. In order to provide digital advertising to Sound Transit, Intersection must make an initial investment in digital advertising infrastructure on Sound Transit's facilities. A three-year contract extension is necessary to allow Intersection to recoup its capital costs associated with Phase 2 of this investment which, in turn, is necessary to make the installation of digital advertising infrastructure for Phase 2 commercially feasible. The extension will, in turn, allow Sound Transit to generate an additional \$4,337,816 in revenue.

Because this is a sole-source extension of the original contract for which anticipated revenue would exceed the CEO's authority, Committee approval is required.

Procurement information

The services were originally procured through a competitive RFP in 2014, which resulted in a baseline 10-year contract expiring in 2024. The substantive services and deliverables in this contract amendment remain within the originally-competed scope of the contract. However, the contract amendment extends the expiration date of the existing contract by three years, to 2027. This extension exceeds the scope of the original contract, classifying it as a sole source modification.

The proposed extension is appropriate for a sole-source procurement because if Sound Transit were to instead competitively procure a new contract for digital advertising services, there would be a two- to three-year delay before Sound Transit would be able to receive revenue from the contract based on the required initial capital outlay for providing such services. By contrast, extending the existing contract with Intersection allows for the uninterrupted provision of digital advertising services. Accordingly, the proposed amendment to extend the existing Intersection contract is appropriate for a sole source procurement.

The extension is expected to generate a total of \$4,337,816 in revenue, which is above the CEO's authority for sole source procurements. Accordingly, this matter is being brought to the appropriate Board Committee for approval.

The duration and value of this modification is determined to be fair, reasonable and in the best interests of Sound Transit.

Fiscal information

The proposed action is estimated to generate Phase 2 advertising revenues of \$4,337,816 for the period 2026-2044. Together with Phase 1 advertising revenues of \$7,317,847 for the period 2024-2044 under the existing contract, total digital advertising revenues are projected to be \$11,655,663 for the period 2024-2044, and are assumed in the upcoming proposed 2022 budget and financial plan.

These estimates are based on the above-described minimum annual guarantee amounts, which are assumed to increase by 5% each year after expiration of the Intersection contract. Sound Transit will receive 64% of any revenues beyond the minimum annual guarantee amount. Additionally, Sound Transit will share 50% of advertising revenues with King County for digital advertising at the Downtown Seattle Transit Tunnel stations.

Disadvantaged and small business participation

Participation by small businesses and disadvantaged business enterprises (DBEs)

Sound Transit promotes and encourages small business participation, which also includes disadvantaged business enterprises (DBEs). Small business and DBE goals are based upon an examination of subcontracting opportunities contained in the work of this contract and the number of small businesses/DBEs available to perform such subcontracting work.

Sound Transit determined that there were few small business and DBE subcontracting opportunities based upon the work described in this contract, so small business/DBE goals were not established.

Time constraints

A one-month delay in the approval will not adversely affect the Phase 2 scope of work.

Environmental review – KH 9/22/21

Legal review – NM 10/5/21

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A motion of the Rider Experience and Operations Committee of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to execute a contract modification with Intersection Advertising to extend the term of the contract from 10 to 13 years, add digital advertising services to the scope of work, and reduce the minimum annual guaranteed revenue amounts for the remainder of the original contract term.

Background

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The contract amendment would reduce the minimum annual revenue guarantee from \$1.725 million to \$1 million for year 8 of the contract, October 2021 to September 2022, from \$1.75 million to \$1.4 million for year 9, and from \$1.775 million to \$1.7 million for year 10 to account for reduced revenue resulting from the COVID-19 pandemic. The minimum annual revenue guarantee would then increase by \$50,000 per year during the three-year term extension.

The contract also includes an option for digital advertising services, which option Sound Transit now desires to exercise. In order to provide digital advertising to Sound Transit, Intersection must make an initial investment in digital advertising infrastructure on Sound Transit's facilities. A three-year contract extension is necessary to allow Intersection to recoup its capital costs associated with Phase 2 of this investment which, in turn, is necessary to make the installation of digital advertising infrastructure for Phase 2 commercially feasible. The extension will, in turn, allow Sound Transit to generate an additional \$4,337,816 in revenue.

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This action adds digital advertising to the scope of work under the contract between Sound Transit and Intersection and extends the contract term so that it is commercially feasible for Intersection to invest the capital necessary to provide the requested digital advertising services. This action further reduces the minimum annual guaranteed revenues due to Sound Transit for the remaining term of the original contract and establishes the minimum annual guarantee amounts for the extended term.

Under the modified contract, Sound Transit would have the opportunity to receive up to a total of \$11,655,663 in revenue from two digital display installations: Phase 1 and Phase 2.

- Phase 1 revenue can be achieved through the existing contract upon the addition of digital advertising services to the contract without the need for a term extension.
- Phase 2 revenue, estimated at approximately \$4,337,816, is contingent upon the proposed contract extension, which would allow Intersection to recover its initial capital investment in digital advertising infrastructure over the remaining life of the contract.

The proposed contract extension is a proactive initiative aimed at ensuring a seamless revenue stream.

This is a revenue contract, so there is no cost to Sound Transit.

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Motion

It is hereby moved by the Rider Experience and Operations Committee of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized to execute a contract modification with Intersection Advertising to extend the term of the contract from 10 to 13 years, add digital advertising services to the scope of work, and reduce the minimum annual guaranteed revenue amounts for the remainder of the original contract term.

APPROVED by the Rider Experience and Operations Committee of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on October 7, 2021.



Paul Roberts
Rider Experience and Operations Chair

Attest:



Kathryn Flores
Board Administrator