



March 8, 2014

**The Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place, Room 244
San Francisco, CA 94102**

***SUBJECT: Agreement for Advertising on SFMTA Vehicles and Other
Property between the City and County of San Francisco and Titan Outdoor LLC***

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA or Agency) requests that the San Francisco Board of Supervisors authorize the SFMTA to enter into an agreement with Titan Outdoor LLC (Titan) for advertising on SFMTA vehicles and other property. The current agreement for these services, also with Titan, expires on June 30, 2014.

The proposed Agreement for Advertising on SFMTA Vehicles and Other Property (the Agreement) is a revenue contract that will bring significant additional funds to the SFMTA from advertising to meet its operational needs and will not require the expenditure of funds. The SFMTA Board of Directors and Parking Authority Commission approved Resolution #14-037 on March 4, 2014 recommending this matter to the Board of Supervisors for approval.

Background

In 2009, the City entered into an Agreement for Advertising on SFMTA Vehicles and Other Property with Titan for a term of five years. That agreement expires on June 30, 2014.

On October 15, 2013, the SFMTA Board of Directors adopted Resolution No. 13-232 and the Parking Authority Commission adopted Resolution No. 13-233 authorizing a Request for Proposals (RFP) for a new agreement for these services. The SFMTA issued the RFP on October 16, 2013. The SFMTA received three proposals, two of which conformed to the minimum qualifications set forth in the RFP. The minimum qualifications included a minimum of three years of experience in the transit advertising business, advertising contracts worth over \$10 million per year for each of the last three years, a corporate net worth of at least \$25 million for the last three years and a demonstration of financial stability through a commitment to provide the required letter of credit and security fund and submission of bank references and financial statements. The SFMTA conducted a thorough evaluation of Titan and CBS Outdoor, the proposers that submitted the responsive proposals. Further criteria included experience and qualifications, quality of the proposals and offers of compensation. A selection panel rated Titan as the higher bidder with 383 out of a possible 400 points. CBS Outdoor received 334.1 points.

New Agreement

We have completed negotiations with Titan and the SFMTA Board of Directors and Parking Authority Commission approved a resolution on March 4, 2014 recommending this matter to the Board of Supervisors for approval. The major provisions of the proposed Agreement, which is attached, are as follows:

Term

The Agreement is for a five-year term, plus two five-year options to extend the contract in the SFMTA's sole discretion.

Revenue; Payments

- Titan will pay the SFMTA the greater of (i) 65 percent of its gross revenues from advertising under the contract or (ii) a Minimum Annual Guarantee (MAG) of revenue, as set forth in the tables below:

Initial Term

Fiscal Year	MAG	Percentage of Revenues
2014-15	\$5,400,000	65%
2015-16	5,550,000	65%
2016-17	5,700,000	65%
2017-18	5,850,000	65%
2018-19	6,000,000	65%
Total	\$28,500,000	

First Five-Year Option Term

Fiscal Year	MAG	Percentage of Revenues
2019-20	\$6,150,000	65%
2020-21	6,300,000	65%
2021-22	6,450,000	65%
2022-23	6,600,000	65%
2023-24	6,750,000	65%
Total	\$32,250,000	

Second Five-Year Option Term

Fiscal Year	MAG	Percentage of Revenues
2024-25	\$6,900,000	65%
2025-26	7,050,000	65%
2026-27	7,200,000	65%
2027-28	7,350,000	65%
2028-29	7,500,000	65%
Total	\$36,000,000	

- Titan will also pay the SFMTA an annual administrative fee of \$150,000 and annual marketing support of \$150,000; these payments will escalate annually according to the Consumer Price Index of the Bay Area.

Window Wraps and Non-Window Coverings

- The SFMTA currently allows full wraps of vehicles with windows covered (but not vehicle numbers or SFMTA insignia) on not more than 15 vehicles at any one time.
- The Agreement provides that full wraps of vehicles with windows covered may be applied to no more than 30 Vehicles, provided, however, that the Director of Transportation shall have discretion to fix the number of such window wraps during any fiscal year at no less than 15 and no more than 30. If the SFMTA decides to change the number of window wraps allowed, then the SFMTA will notify Titan of its intent to change this number of window wraps no later than September 30 of the prior fiscal year. The number of window wraps for the first fiscal year of the Agreement (July 1, 2014 – June 30, 2015) will be 30.
- The revenue described in the tables above assumes the continuation of a minimum of 15 such window wraps. If the Board of Supervisors does not approve a program of at least 15 window wraps then, as provided in Titan's proposal, the MAG will be decreased by \$325,000 for each fiscal year of the Agreement, including the option terms.
- Titan stated in its proposal that the window wraps program generated \$1,091,966 in revenue in fiscal year 2012-13 and that it expects to continue to generate that level of revenue if the window wraps program continues.
- The SFMTA also intends to continue a program of non-window coverings, which are advertisements that cover the body of the vehicle but not windows, vehicle numbers or SFMTA insignia.
- The total number of such window wraps and non-window coverings together will not exceed 20 percent of the SFMTA's transit vehicles at any one time.
- Cable cars and historic vehicles will not receive any window wraps or non-window coverings.
- The SFMTA has received a minimal number of complaints since the window wraps program was initiated in August 2011.
- Window wraps also help with the cleanliness of the SFMTA's transit vehicles, and to decrease maintenance costs, since Titan is responsible for cleaning and/or replacing all advertisements that are vandalized.
- The number of window wraps and the approval of a window wraps program does not affect the number of advertisements on transit vehicles that can partially cover windows, which are not limited.

Central Subway

- The Agreement includes a clause that enables the SFMTA to include an advertising program in the new Central Subway stations and tunnel after their completion.
- If exercised, the SFMTA and Titan will negotiate the actual amounts to be added to the MAG over the remaining term of the Agreement near the time of the Central Subway Project's completion and the beginning of revenue service. Any agreement regarding such an addition to

the MAG shall be reflected in an amendment to this Agreement, which will be subject to approval by the SFMTA Board of Directors and the Board of Supervisors.

Rights Granted

- Titan will have the right to advertise on a wide range of properties under the jurisdiction of the SFMTA and will provide related infrastructure, such as ad panels for the vehicles and parking garages.
- The Agreement ensures that Titan's rights are incidental to the SFMTA's transportation services, which may undergo changes affecting the advertising rights granted in the Agreement.

SFMTA Property; Other Property; Limitations on Advertising Displays

- The following SFMTA property is available for advertising under the Agreement: transit vehicles, parking garages, transit stations, other SFMTA facilities, and fare and parking media.
- The property covered under the Agreement will include parking garages under the jurisdiction of the Recreation and Park Department. The SFMTA will enter into a Memorandum of Understanding with the Recreation and Park Department related to those garages.
- Only interior ads are allowed on historic streetcars; all ads on cable cars and historic vehicles must be in conformity with the character, style, and design of such vehicles.
- Titan may place digital advertising on up to 20 percent of the SFMTA's transit vehicles at any one time, excluding cable cars and historic streetcars. The SFMTA will be able to override digital advertising with emergency signage.

Quality of Advertising

Titan will be required to comply with the provisions of the SFMTA Advertising Policy.

Maintenance Responsibilities

- Titan will maintain the advertisements that it installs and any infrastructure that supports such advertisements in a clean, safe and first-class condition. Titan will use "green" maintenance products that present the least potential threat to human health and the City's natural systems.
- Titan will inspect and, if necessary, clean each advertisement at least once per week. Titan will inspect more often if conditions warrant.
- Within 24 hours of notification, Titan must repair any damage to any advertisements or infrastructure, including damage of a hazardous nature.

Performance Requirements and Security Deposits

- Titan will provide a letter of credit for 75 percent of the MAG each fiscal year for the duration of the Agreement, including any option terms. The SFMTA may draw on the letter of credit in the event of a failure to make the annual required payments due under the Agreement, a failure to replenish the Security Fund (see below) or termination of the Agreement due to a default by Titan.
- Titan has provided the SFMTA with a bid security check for \$1 million to secure its proposal. If Titan fails to execute the contract and furnish the required letter of credit and insurance

certificates, then the SFMTA will keep the \$1 million as compensation for damages sustained by the SFMTA.

- Liquidated damages ranging from \$500/day to \$5,000/day may be imposed for maintenance breaches, failure to submit an annual financial statement, failure to cure audit deficiencies or failure to comply with the SFMTA’s Advertising Policy. Titan will provide a Security Fund of \$150,000 that SFMTA may draw on to pay for liquidated damages and other obligations not covered by the letter of credit.

First Source Hiring Program

Titan will comply with the City’s First Source Hiring requirements and has committed to hiring a minimum of two trainees during the term of the Agreement.

Termination

The SFMTA may terminate the contract for default or convenience. The SFMTA may also partially terminate advertising rights with respect to any category of advertising space, other than transit vehicles, that Titan does not sell over a period of 60 days unless Titan demonstrates that it intends to sell advertising on that space but has been unable to do so.

Differences between current contract with Titan and the proposed Agreement

All contract requirements remain the same except as follows:

Requirement	Current contract	Proposed Agreement
Contract Term	Five years	Five years, plus two options to extend at SFMTA’s discretion
Minimum Annual Guarantee (MAG)	\$4,000,000 for first year, escalates by 5% per year	\$5,400,000 for first year, escalates by \$150,000 per year
Administrative Fee	None	\$150,000 per year
Marketing Support	None	\$150,000 per year
Window Wraps	15 at any one time	15-30 at discretion of the Director of Transportation
Central Subway advertising program	None	To be negotiated before opening of Central Subway as an amendment to the Agreement
Corporate Sponsorships/ Naming Rights	If exercised, would be a contract amendment	None
Letter of Credit	100% of MAG	75% of MAG
Security Fund	\$250,000	\$150,000
Hire Trainees	None	Minimum of two trainees

The Director of Transportation will be authorized to make any necessary modifications, changes or additions to these documents as long as they are within the parameters of the attached resolution.

Recommendation

The SFMTA requests that the San Francisco Board of Supervisors authorize the SFMTA to enter into an agreement with Titan for advertising on SFMTA vehicles and other property.

Thank you for your consideration of this proposed agreement and for your continued support for the SFMTA. Should you have any questions or require more information, please do not hesitate to contact me at any time.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Reiskin", written over a light gray background.

Edward D. Reiskin
Director of Transportation

