

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: February 17, 2010

SUBJECT: LEASE AGREEMENT - FREE DAILY NEWS INC.

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the terms and conditions of a new four-year and four month agreement with Free Daily News Inc. (Metro) as outlined in this report.

FUNDING

The TTC will receive \$1,300,000 (a 27% annual increase) in cleaning contributions from Metro Newspaper over the 4-year and 4 month period. The annual cleaning contribution from Metro will increase from \$236,000 to \$300,000.

In addition, the TTC will continue to receive free advertising in the Metro Newspaper valued at \$1,960,000 over the term of this agreement. The annual net media value of this is \$453,000.

In addition, it is estimated that Gateway Newsstands will pay approximately \$25,000 in additional revenue to the TTC on an annual basis (\$108,000 over 4 years and four months).

BACKGROUND

At their April 6, 2005 meeting, the Commission approved a five-year agreement with Metro. The agreement expired on December 31, 2009.

The agreement allowed the TTC to obtain a cleaning contribution, free advertising and complete indemnification with respect to claims related to the paper. In return, the agreement provided Metro News with the ability to distribute the newspaper within the subway system based on the terms and conditions contained in the agreement.

The TTC received \$1,115,000 in cleaning contributions from Metro News over the 5-year period. In addition, the TTC received free advertising in Metro News valued at \$1,900,000. This agreement resulted in total value to the TTC over the 5-year period of over \$3,000,000 from Metro News and approximately \$125,000 (\$25,000 per year) from Gateway for a total TTC value of \$3,250,000 over the life of the agreement. This excludes any potential savings in legal and claims costs which are fully born by Metro News.

Metro has entered into an agreement with Gateway Newsstands as a result of Gateway's exclusive right to distribute printed material in the subway. Our current agreement with Gateway entitles the TTC to 12% of earnings resulting from their agreement with Metro.

DISCUSSION

In negotiating this new agreement, the intention was to obtain a cleaning fee which was closely tied to janitorial costs (estimated to be \$373,000 for collecting all paper products from the system) and to continue to receive free advertising. Agreement has been reached on a new 4-year and four month agreement commencing January 1, 2010 and terminating on April 30, 2014 that achieves the following objectives:

- The annual cleaning fee will increase 27% on January 1, 2010 from \$236,000 to \$300,000. Total value to the TTC is \$1,300,000 over the term of this agreement.
- The TTC will continue to receive the 2,500 lines of free colour advertising for a specific number of weekday advertisements. Total value of the free advertising to the TTC is estimated to be \$1,963,000 over the term of this agreement.
- The TTC will continue to receive complete indemnification from claims and legal costs related to distribution of the newspaper
- The agreement will continue to provide for the TTC to be able to cancel or suspend the agreement for a specific period of time, at our sole discretion, for security purposes.
- The matter of getting the newspapers off of the subway station floors is being addressed by having Metro/Gateway install up to two new racks (see attached) at each Gateway newsstand location. Distribution of the Metro paper will be deployed in a manner so as to optimize better distribution and management of the paper. Metro will be solely responsible for filling the racks and removing any papers left in the racks at the end of the day.
- All other terms of the current agreement remain in full force.

In the absence of an agreement with Metro, the newspaper would likely be distributed from newspaper boxes and/or "hawkers" outside our station. The TTC would likely continue to incur cleaning costs if this were the case, but without the offsetting cleaning contribution and value of free advertising. The indemnification and security clauses are of strategic benefit to the Commission and the increase in the cleaning fee is an improvement compared to the existing agreement. Metro continues to be a good vehicle for TTC advertisements for various events, service changes or promotions. In the absence of free advertising from Metro, the Commission would have to purchase advertising from the most appropriate print media outlet.

JUSTIFICATION

The proposed agreement with Metro has significant financial, advertising, legal and security benefits for the Commission and approval of the terms and conditions to implement a new 4-year and four month agreement is recommended.

February 17, 2010

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Attachment – Photograph: New Metro Racks