



STATE OF ILLINOIS PROCUREMENT POLICY BOARD

David Vaught, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – January 22, 2009 Meeting

Room 9-036 at the James R. Thompson Center in Chicago

Connected via video to

Room 115 at State Capital Building in Springfield

11:30 a.m.

Present in Chicago: Terry Healy
Rick Morales
Mike Bass

Present in Springfield: Ed Bedore

Absent: Carmen Triche-Colvin

The Board started the meeting by confirming attendance at 11:30a.m.

A motion to approve the minutes of the December 12, 2008 was made by Member Morales and seconded by Member Bedore. The minutes were unanimously approved.

Next on the agenda was CMS – In attendance was Acting Director of Property Management Nick Kanellopoulos and James Sledge the Director of CMS. Director Sledge wanted to take a moment to introduce himself and gave a brief summary of his work history.

Director Sledge wanted to update the Board on what has occurred recently. Seven leases have been terminated in Springfield, LaSalle, and Chicago saving about \$940,000 annually. CMS has also terminated five parking leases in Springfield saving the State about \$32,000. Today a termination letter was sent to the landlord at 300 W. Adams in Chicago, which is a space that IDOT currently occupies. IDOT will be moving into the James R. Thompson Center in Chicago and will save the State about \$619,000. In addition CMS has sent out an RFI on a DCFS lease in Harvey. Director Sledge stated that there have been some improvements, but he knows more still need to be made.

Chairman Healy stated that the Board appreciates him attending and introducing himself. He mentioned that the Board has also through questions on leases over the years saved the State quite a bit of money over the years. Although the Board has done what they feel is part of their job they also feel that those leases should not have even come to the Board. It should have been CMS to save that money before coming before the Board.

Member Bedore asked for clarification that the Harvey lease was being done as an RFI and has already hit the street. Mr. Kanellopoulos replied yes that it hit the street on Friday. Member Bedore wanted to know if it would have been wise to sit down with the Board to go over the specs before CMS put it out. Member Bedore stated that he has specific questions as the Board has not seen the

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RFI. Is CMS doing 150 parking spaces, are you doing more space than what is needed because the County pulled out. Is this spec only going to come back with the present owner? The Board does not know these things because CMS did not share this information. Mr. Kanellopoulos replied that he gave notice to Director Matt Brown of the Procurement Policy Board on Friday that it had hit the street and that it was on the Procurement Bulletin and all the documentation was there. Mr. Kanellopoulos stated he would like to answer some of Member Bedore's questions. The current space is about 49,000 sq. ft. The bid that hit the street requested 35,000 sq. ft., which is a considerable reduction in space. The boundaries for the bid are about a 12-13 mile radius. Mr. Kanellopoulos wanted to assure the Board and Member Bedore that this was not just done quickly. It was done through extensive consultation with DCFS regarding their true needs and to cut space wherever possible and believe that the 35,000 is an acceptable parameter considering there are 146 employees at that location. Member Bedore asked if CMS put on the RFI 35,000 sq. ft. and we currently occupy 49,000 sq. ft. Mr. Kanellopoulos replied that he did not have the exact square footage and believes it to be 49,500. Member Bedore wanted to know if the a recent issue will arise that the current lessor will come back and say that they have 40,000 sq. ft. What would CMS do in that particular situation as in Fullerton was done? Mr. Kanellopoulos replied that the 35,000 CMS has asked for will come out to 239 sq. ft per person and is the least they intend to present to the Board once an acceptable bid comes in. Chairman Healy wanted it on record that it is Fulton not Fullerton.

Mr. Kanellopoulos wanted to give an update on housekeeping matters before moving on to the leases. At the previous meeting there were a few requests by Board members. Member Morales asked about site evaluations and Mr. Kanellopoulos stated he brought the Board a site evaluation for review. If the Board would like further discussion on the whole procedure it could be added to the next agenda for discussion. The other matter was an issue on a lease last month in which in the renewal of a lease CMS had found out that they were paying for scavenger services where the lease provided that the landlord was suppose to pay. It is currently in the hands of one of CMS' attorneys who are going to get their money back. It has not been resolved as of today. Mr. Kanellopoulos also wanted to bring up a few more matters; one is the free space at Fulton. Mr. Kanellopoulos stated that in current economic times that are affecting our landlords and also the perception the economics of the State, CMS is getting numerous solicitations where landlords are saying they will do a five years lease and give you free rent for the first year. They perceive the State does not have money and they really want a lease and are making solicitations like that. Mr. Kanellopoulos stated that he and Director Brown both agreed that they will sit down and develop a policy. Chairman Healy stated that he personally looks at it differently when a landlord is giving the State one year free rent as opposed to a landlord saying they will give the State an additional 10,000 sq. ft. of space free.

Mr. Kanellopoulos also wanted to talk about a lease that was presented last month, which is the 9th Street IDES lease. CMS has put issues like repairs to the facility as TI – temporary improvements. In this case the idea was to put all of it into TI. CMS knows it will be negotiated and we will have to pay for this in some manner so getting it negotiated under TI so it will fall off after five years and going to an extremely low base rent was presented to the Board. CMS has reworked the lease. In this case all the general repairs and improvements have been removed and will be done at the lessors sole cost. Mr. Kanellopoulos knows that CMS put itself in this situation and are trying to get themselves out. Also in recent months there have been questions from the Board regarding the cost sheet CMS provides with their white papers about CMS indirect costs. It did not work out to have this presentation ready for this meeting, but at next month's meeting the CFO for Bureau of Property Management Bill McCarty will give a brief presentation to explain what that means and why it is appropriate to add as a line item to the cost to the agency of a lease.

Member Bedore asked if there was two years left of paying off the improvements in Harvey. Mr. Kanellopoulos replied no. He stated that is the lessors argument. Chairman Healy asked if CMS

would leave right now, CMS would not be responsible for it? Mr. Kanellopoulos replied the State would not be responsible. Before CMS put this RFI out on the street they have done considerable amount of work on this issue and is certain that the statement is correct. Member Bedore's commented that if the State is not obligated for that then why are we paying the higher rate right now? If that is the case, then CMS should be reducing the rate today. Mr. Kanellopoulos replied that the only way to change the rate is to enter into a new lease with the current landlord. Originally CMS did not break out the improvements versus the base rent. It is all base rent on that lease. Member Bedore stated that there was a break out of \$7.76. Mr. Kanellopoulos replied that is the description of it but the rent schedule is only base rent. There is not a separation of TI that would fall off and that is the trick bag CMS is in and believes that issuing this RFI is the best way of getting out from under this issue. Member Bedore stated that in other words the State is paying for something the State should not be paying for. Mr. Kanellopoulos replied that CMS is paying the holdover rate of rent that the lease provides for. Member Bedore replied, which includes \$7.76. Mr. Kanellopoulos replied affirmatively. Member Bedore replied that it was illegal to paying for something the State should not be paying for. Mr. Kanellopoulos replied that unfortunately it is referred to as base rent and at that time there was no consideration done and that is the holdover rate CMS is stuck with. Member Morales asked since it is in holdover there is nothing that can be done? Mr. Kanellopoulos replied the only way to change that is to enter into a new lease since the contract is expired CMS is not able to amend the current lease. Chairman Healy stated that from what is being told to the Board it appears that it was put into the base rate at that time and should not have been. Mr. Kanellopoulos replied that today CMS handles things differently.

Member Bedore wanted to make a comment about the comment made by the Governor's attorney at the impeachment trial who stated that this lease was just a clerical error and will be taken care of the next meeting of the Procurement Policy Board and believes that the Governor's attorney was incorrect in stating that is was a clerical error and stating that Member Bedore is making something out of nothing. Member Bedore wanted the record to show that the Board has made something out of something and it is going to be a large savings because of this Board and is going to be into the millions of dollars over the life of the next lease issued by the State of Illinois.

Next on the agenda was lease #6269 DHS 2650 West Fulton St., Chicago. Mr. Kanellopoulos stated that CMS posted this lease and it was put under review by the Board at last month's meeting and there was a long discussion regarding the fact that when this was bid out there was one bid by the incumbent. That bid was comprised of 32,000 sq. ft., which is what the RFI asked for. Plus the landlord offered 7,000 sq. ft. for free. He reminded the Board that this is the space the agency is currently in, which is 39,000 sq. ft. There is no new space. It is just the existing space. After the discussion at the last Board meeting CMS has had numerous discussions with the landlord and CMS has decided to reduce the sq. ft. to the 32,000 sq. ft. which was bid out so it is consistent with the offer any other landlord in the area that would have the opportunity to bid on. On the other hand the removal of the 7,000 sq. ft. of free space did not save the State any money on the overall base rent. So what was \$19.75 for 39,000 sq. ft. goes up to \$24.07 when it is prorated to the 32,000 sq. ft. There is a net savings to the State because there is still the reduction of space. Add the 32,000 sq. ft. you come out to 438 sq. ft. per employee. We are in discussions and do intend to move additional headcount into the facility and bring the sq. ft. per employee down.

Chairman Healy wanted to clarify that this lease came in on the RFI at 39,000 sq. ft. Mr. Kanellopoulos replied that it was 32,000 sq. ft. at a particular cost plus 7,000 sq. ft. at zero cost. Chairman Healy said that now if CMS goes back and takes that 7,000 sq. ft. and does move another part of the agency in there the State will pay an additional \$24.07 per foot. Mr. Kanellopoulos replied that CMS has had no discussions on that. The landlord is willing to give an expansion option to keep it open for 6 months where the landlord will give CMS the 7,000 sq. ft. at what he bid. Member Bedore asked if the net to the owner the same. Mr. Kanellopoulos replied affirmatively. Member

Bedore stated that he did not understand then because the 7,000 sq. ft. is not free if the rate modifies. You add the 39,000 sq. ft. at \$19.00 a sq. ft. and now for 32,000 sq. ft. at \$24.07 a sq. ft. so the owner is walking away with the same amount of money and when CMS moves someone into the 7,000 sq. ft. we will pay \$24.07 again. Member Bedore wanted to know if CMS understands basic addition and subtraction. The State is going to get hosed on this. Member Bedore stated that he believes that this bid is illegal and the lessor actually bid higher square footage on his best and final offer so that should throw this RFI out the window. He repeats that this is wrong and illegal. When you add this all up and is all said and done the landlord will be charging the State more and is going to line his pockets. Wake up CMS. Mr. Kanellopoulos replied that in the best and final offer the landlord offer \$25.00 sq. ft. for the 32,000 sq. ft. and then zero for the 7,000 sq. ft. CMS then negotiated down for the 32,000 sq. ft. to \$24.07 and that is what is on this lease and there is an option to up in the expansion option for 6 months to add that 7,000 sq. ft. for free if CMS wants to move in additional people in there. Member Morales asked if Mr. Kanellopoulos sees the Board's point and understands why it was being questioned at last month's meeting and asked if he agreed with any of it. Mr. Kanellopoulos replied that he sees the point and does not believe CMS violated the Procurement Code to enter into a 39,000 sq. ft. lease in this situation and understands that a policy that CMS should do things differently and that is what they are trying to do to fix this situation, but the only way to fix it is to remove the 7,000 sq. ft. Member Bedore said that Mr. Kanellopoulos stated earlier that IDOT was moving out of 300 W. Adams and moving into the Thompson Center. Mr. Kanellopoulos replied affirmatively. Member Bedore stated that the Board raised an objection on the square footage and raised the questions on \$25 a sq. ft., but that was downtown Chicago. So why is the State going to pay this gentleman \$24.07 sq. ft. for the West side of Chicago. Member Bedore stated that he has no objection if CMS wanted to put it down to 32,000 at \$19.75 if fine, but now CMS is upping it and he is going to end up with the net amount the same as the other way, so nothing has been changed. If \$25 is too high for downtown Chicago don't you think that \$24.07 is too high for the West side of Chicago? Member Morales wanted to know what the initial pre-negotiated rate was. Mr. Kanellopoulos replied that it would have been close to \$24 for the pre-negotiated rate presented to the Board. Director Sledge stated that CMS would be willing to look at the Board's recommendation and see what the consequences would be to re-RFI if that is the Board's suggestion. Chairman Healy asked if CMS would like to put this lease on hold until next month to see what can be done with the lease. Mr. Kanellopoulos replied affirmatively.

Member Bedore stated that he looks at this in a different way. He suggested putting out an RFI at 29,000 sq. ft. That would give the agency 400 sq. ft. per employee even though that is well over standard. So why go out for re-bid at 39,000 sq. ft. CMS should be going out for 25,000-29,000 sq. ft. to get space per employee around 400. At 400 sq. ft. per employee it is 29,000 sq. ft. So why bid 32,000 or 39,000. Maybe going out at 25,000-29,000 CMS might get some new bidders and buildings that now qualify in this area. Member Bedore stated that he is not in agreement with 39,000 sq. ft. because the Board knows what is going to happen; nothing will happen and will end up paying this \$24.00 a sq. ft at 32,000 sq. ft., which is way over the standard. Chairman Healy stated that the point is well taken. Member Bedore just wanted to state that 400 sq. ft. is 29,000 for the building and not 39 and not 32.

Mr. Kanellopoulos stated that the DOC leasing rep for lease #5136 has another meeting at 1:00 p.m. and requested the Board review that lease next. A motion was made to change the agenda by Member Morales and was seconded by Member Bass. The motion was unanimously approved.

DOC lease #5136 is located at 601-613 Main St. in Peoria. This lease is for a renewal of a lease in holdover. The current lease went into holdover in 2006. It is 35,000 sq. ft. facility. The proposed lease is a five year lease with the first year base rent at \$11.94. This is an adult transition center, which is made up of 2,500 sq. ft. of office space and 32,500 sq. ft. of living quarters where at any time approximately 200 DOC inmates are housed at that location. It provides all their living

requirements. The new lease provides at the lessor cost to replace the carpet throughout the facility and provide paint. The inmates do the painting and janitorial work at the facility. A motion was made to accept this lease by Member Bedore and was seconded by Member Morales. The motion was unanimously approved.

Next on the agenda was DHS lease #4221 at 100 Martin Luther King Dr. in Springfield. Mr. Kanellopoulos stated that this lease was presented to the Board last month. There were questions the Board had regarding the cost of security at the location. After last month's meeting CMS met with DHS and their program staff and decided to remove the security fund as part of this lease. It still does leave the \$3.47 per sq. ft for security. Security is still provided by a statewide contract that was bid by CMS. DHS program staff feels that the appropriate security at that facility is two armed guards Monday – Friday from 7:30 a.m. to 6:00 p.m. When you take the cost of those guards it comes out to the cost of that square foot rate. This is a very high traffic location. There are 1,000 new applications a month and 7,000 walk-ins per month. This is where they get their D-link cards loaded with cash. A motion was made by Member Bedore to accept this lease without the security fence as presented and was seconded by Member Bass. The motion was unanimously approved.

Next on the agenda was DES lease #4385 at 1300 South Ninth in Springfield. Mr. Kanellopoulos stated that this lease was also presented at last month's meeting and was questioned on what was included in its temporary improvements. The lease was re-done and re-negotiated and those improvements with the landlord and have removed all the general repairs and items that were questioned last month and will be paid solely by the landlord, which will save the State \$10,600 in the first year and \$53,000 over the five year term of the lease. Member Bedore asked if there was a list of improvements the State was paying for. Mr. Kanellopoulos replied that he will provide a list to the Board. A motion was made to approve this lease on the condition that a detailed list is provided to the Board to show who is paying for what improvements by Member Morales and was seconded by Member Bass. The motion was unanimously approved.

The next future Board meeting date falls on Thursday, February 5.

A motion was made to adjourn at 1:06 p.m. by Member Bass and was seconded by Member Morales. The motion was unanimously approved.