



# STATE OF ILLINOIS PROCUREMENT POLICY BOARD

Chairman: David Vaught

Members: Michael Bass, Ed Bedore, Ricardo Morales

## **Minutes – March 10, 2011 Meeting**

Present in Springfield: David Vaught  
Ed Bedore  
Mike Bass  
Rick Morales

The Board started the meeting by confirming attendance at 11:00 a.m.

Member Bedore made a motion to have a resolution thanking Member Ferrer for his service and time on the Board. The motion was seconded by Member Morales. The motion was unanimously approved.

Member Bedore made a motion to approve the minutes of January 13, 2011. The motion was seconded by Member Bass. The motion was unanimously approved.

Next on the agenda was CMS Facilities. In attendance was Mr. Nick Kanellopoulos, Acting Director of Property Management. Mr. Kanellopoulos asked if the leasing presentation could be placed on the agenda for next month because of a lease that has not yet been posted. Chairman Vaught replied that would be fine. Mr. Kanellopoulos stated that since the Governor took office CMS has consolidated 111 leases throughout the State of Illinois and have eliminated 1,080,000 sq. ft. of leased space throughout the State. The total cost of leases that have been terminated or consolidated is \$17.27 million. CMS has also re-bid and re-negotiated 160 leases throughout the State and has reduced the square footage of those leases by 446,000 square feet and reduced the cost of the leases through re-bid and re-negotiation by \$12.23 million. In total CMS has eliminated 1.53 million square feet of lease space and has a total cost reduction of \$29.5 million. Member Morales asked what the time period was. Mr. Kanellopoulos replied since January 29, 2009 when the Governor took office, but for the re-bids and re-negotiation the date is July 1, 2009. Chairman Vaught asked if those were annual lease costs or total cost. Mr. Kanellopoulos replied that it was annualized.

Member Bedore asked if Mr. Kanellopoulos could answer a few questions on some leases that were not on the agenda. Mr. Kanellopoulos replied affirmatively. For the DHS lease at 2753 West North Avenue, Chicago, Member Bedore wanted to know why bid out for 21,000 sq. ft. and end up with 25,000 – 30,000 sq. ft. of space. Mr. Kanellopoulos replied that the lease is for 21,000, but there is an expansion option for 14,000 sq. ft. The RFI that went out allowed for the proposer to bid not only on the 21,000 sq. ft. requested, but if the building had additional space they could offer that at the same terms and conditions that they were offering for the RFI. This is put into the lease that the expansion option is available to CMS if necessary. It is not being paid for and is not part of the lease, but there is an expansion option available that expires after 6 months to a year of lease execution. Mr. Kanellopoulos stated that the only way for CMS to take advantage after the expansion option is to amend the lease, which would come before the Board.

Member Bass asked if Mr. Kanellopoulos could explain the drive behind CMS' strategy for having the expansion option in the RFI. Mr. Kanellopoulos replied, for example, CMS posted a lease in Peoria where CMS went out on a bid for the IDOT building. The winning bid was the incumbent lessor and based on the new space standards the square footage required for IDOT was a lot smaller so there was additional square footage available that the landlord offered as an expansion space. CMS had numerous leases in Peoria that had favorable termination options that were all less than 10,000 sq. ft. and were able to house into that 58,000 total. They would share space and conference rooms. Together they took up a lot less space than they would if CMS did each individually all over Peoria. The total savings was over \$900,000 in the first year because of the termination of those leases and the better rate that was achieved. This is one strategy. Mr. Kanellopoulos stated that another strategy would be, for example, that there is a lease out for bid in Springfield for 40,000 sq. ft. and a lessor gives CMS the lowest bid and offers up that 40,000, but also has an additional 40,000 and offers that at the same terms and conditions for 6 months to a year. For that period of time when going out for bids CMS knows that they have this price for this period of time from this landlord, assuming that the landlord will bid that price or a better price. CMS could use that price against any other proposals to get a better deal for the State. Member Bass stated that essentially you give yourself an insurance reserve for the space for future negotiations. Mr. Kanellopoulos replied affirmatively, but there could also be an emergency situation. Mr. Kanellopoulos stated that he is not saying that the space is built out and ready to be taken advantage of, but is there for a period of time if needed. Member Bass wanted to know if the RFI articulated that. Mr. Kanellopoulos stated that CMS gives no value to the expansion option when they were evaluating the RFI. CMS will take the lowest cost proposal or the best site for that agency. The expansion option is fine, but CMS does not base a decision on the expansion option. Member Bass wanted to clarify that someone could have produced a response that only dealt with what the agency needed from a hard space need and they would get the lease if they were the best deal regardless of the expansion. Mr. Kanellopoulos replied affirmatively. Member Bass wanted to make sure that if responding to the solicitation that it is clear that the bidder is not required to offer an expansion option in order to qualify the bid to be the one chosen. Mr. Kanellopoulos replied affirmatively.

Mr. Todd Turner, Legal Counsel for the Board, asked to clarify that if CMS did not exercise the expansion option within the year time period, then you cannot exercise it. Mr. Kanellopoulos replied affirmatively.

Next on the agenda was CMS Leasing Workbook. In attendance was Mr. Ron Wheeler, State Architect for CMS. Mr. Wheeler stated that he is going to give the Board a walk-through of how CMS evaluates offers. When CMS publishes an RFI there is a document that explains all the particulars about that specific lease acquisition. There is also a document that explains all the improvements that they expect standards of the building and the spaces that are to be constructed for use. CMS gives the proposers the lease for them to complete and make the offer to CMS. From that lease and from the other information that the bidders give CMS they get an abstract so they have a concise set of terms that are being provided to CMS. This abstract shows what improvements they are doing, prices being charged, who is responsible for what services in the lease, if it is a cost that CMS is going to pay then they need to know that so it could be added in. Also, a location map is provided to ensure they are within the RFI boundaries. Mr. Wheeler showed the Board a box full of offers that were from one RFI. Everything in the box is gone through and input into the workbook to analyze the information and compare offer to offer and provide a fair assessment of what those offers are to the State.

Mr. Wheeler provided a step by step overview of the workbook and how CMS evaluates how the winning bidder is selected. Member Bass asked if CMS was required to submit an ad in the newspaper. Mr. Wheeler replied that they do place an ad in the local newspaper and also use the Official State Paper. Member Bass asked about the big packet of information that is required for them to fill out. Mr. Wheeler replied that in the ad they tell them to go to the website and register to get all the information and where all of the documents can be downloaded. This is to ensure that everyone receives the same information. Member Bass asked if there was an overview. Mr. Wheeler replied affirmatively that there is a short overview to let them know that it is commercial office space and to direct them to the website to register so every proposer has the same information to work with.

Mr. Wheeler stated that the first spreadsheet is a cut sheet out of the FMRF, for this specific lease that CMS is using in the acquisition. This is the historical information on direct costs that are being paid for that specific lease and has a three year history here. Today there is now four years of history. This gives CMS actual dollar values of each service applicable to that lease. It gives the dollars and whether it has increased or decreased so it can be used to factor in what can be predicted for 10 years for any lease that comes before CMS. In the evaluation CMS is looking for the 10 year total cost for each offer to compare to every other offer. For the first time it allows CMS real information to have a projection for 10 years. Mr. Wheeler stated that the next spreadsheet is an administrative view of all of the offers. This will show if any proposal is missing any of the documents that were requested. This also shows if they are in a historic district or in a central business district. Other things that are tracked are if the proposals are on time and are signed. Member Morales stated that sometimes there is reference that it is in a certain area. Why is that? Mr. Wheeler replied that by rule CMS is supposed to take note of that and include it in the evaluation. Mr. Wheeler stated that it is their goal to get the best lease for the State. If someone didn't sign a disclosure CMS doesn't want to eliminate them if they are the lowest offer. It is not as critical. It would be nice if everything was provided and then CMS could just counter sign the lease after the evaluation was complete, but if CMS held people to that standard they would not have the inclusive process that they have today. If a bidder would give CMS a letter instead of a lease then CMS would consider that non-responsive and not evaluate it further.

The next spreadsheet is where they make the notations if everything was included in the bid proposal. The next spreadsheet is the scope of work where someone could offer a full set of improvements or a full set of operating expenses and CMS would cut one check and it will be done. CMS didn't want to eliminate anyone who might have a facility that they think is ready to be occupied day one, which has happened. This means that the bidder is not proposing improvements because they believe that none is needed and meets CMS needs. This sheet will show if any improvements will be done. Will they renovate an existing building, build a new building or propose it as-is. CMS has learned to accept bids as-is, unless they give space planning services and electrification services furniture because CMS does not want to contract separately for that. CMS will make the determination in a site suitability search on whether CMS thinks they can fit into this space and might take them looking at a plan and taking some time to determine whether it will work or not. The next spreadsheet is the accumulation to get to the 10 year cost. It tells what the original offers that were recorded. It shows what is being covered or not covered. If one bidder offers improvements and another does not then the costs are backed out so you can compare like offers to like offers. There is a site suitability search after the offers have been ranked to determine what the best offer is and price to meets their needs. This spreadsheet makes the comparison of cost, add in all of the costs that are not included in the lease and then look at the variation of the offers so you can compare like to like. Mr. Wheeler

stated that once the 10 year costs have been determined and they have been ranked from lowest to highest then CMS looks at the average square foot rate that is being paid over 10 years. Then they look at the 1<sup>st</sup> years cost and compare it to what the cost is currently and could determine if they are getting a savings over the term of the lease. CMS doesn't not select based on that, but instead on the 10 year cost to begin the ranking. On the next spread sheet once CMS has the ranks it is simpler to see one offer compared to the other, what the 10 year costs each are offering and this is the spreadsheet where the potential cost of moving would be added. This would reduce the savings of some of the offers. This is also the spreadsheet that would note if more area was being offered that is over and above what was requested that could be used as an expansion option. Then they would go to each site with a set of questions to be answered on whether the site would with the requirements requested. On the next spreadsheet it has the rankings and areas you can input your results from the site visits. Then if the number one ranked site didn't meet the needs then the offer would be rejected and would go to the next ranked offer and visit the site and answer the same questions if the site would fit the requirements and needs. This would continue until a suitable site was found. The next spreadsheet shows CMS can record the negotiations that are required to finalize the transaction and there is a tab for the leasing rep to use to make notations after looking at the workbook and the offers in detail what things you want to negotiate with the owner. Member Bedore wanted to know who makes up the task force to visit each site. Mr. Wheeler replied it is the leasing rep, possibly he and one or more representatives from the agency. Communications and computer services people attend those meetings as well. After everything is said and done the leasing rep makes a recommendation to management and justifies it with the support of the workbook. This then leads to the posting of the selection to the IPB. Mr. Wheeler stated that before the CPO signs the lease they could look at the workbook to see how the proposal was selected and how it was justified. Mr. Wheeler stated that CMS is always open for suggestions for making this process smoother.

Member Bedore asked if a leasing rep is negotiating with an owner do they need to report the communication? Mr. Wheeler replied that CMS records it in their workbook and are still in the process of clarifying the procurement reports to the system. Mr. Wheeler stated that as he understands it that they must record things up to the point of selection. During the process if you give information to one proposer you are bound to give the information to all to maintain the level of fairness. Beyond that point where CMS is having negotiations with them, he doesn't believe it is something that needs to be made public, because during the negotiations if someone pushes the button that recorded conversation is made public then it negates the confidentiality of the negotiations. Up to until the point where CMS makes a selection, yes those conversations are recordable in the procurement system. Mr. Wheeler stated that this is just his understanding. No further questions were asked.

Next on the agenda was HB1450. Director Aaron Carter stated that HB1450 gives the Board review upon receipt of any proposed lease of real property of 10,000 or more square feet or any proposed lease of real property with annual rent payment of \$100,000 or more. The Procurement Policy Board shall have 30 days to review the proposed lease and if the Board does not object in writing within 30 days then the proposed lease shall become effective according to the terms as submitted. The leasing agency should make any and all materials available to the Board to assist in the review process. Member Bedore stated that the Board should set out some rules for this. Chairman Vaught stated that if any Board member has a question on a lease they can request it be put on the next Board meeting agenda. However, a special meeting could be called to discuss any issues of a lease that was posted within a 10 day period before the Board meeting date and the 30-days would run out before the next Board meeting. Mr. Todd Turner, Legal Counsel for the Board, suggests a rule or policy that the Board adopt where any Board member has the power

to put a lease on the Board's next agenda, as long as it is within the 30-days. Under HB1450 the 30-days starts the day of filing. Mr. Kanellopoulos stated that in 6 months that will not be a problem, but for right now there is more of an issue. Today CMS has not had a lease expire on them and are proud of that, but are running to lease expirations where they need to post today and need to have executed that lease on day 31 so the lease doesn't expire. Mr. Kanellopoulos stated that he believes in 6 months that CMS will be ahead enough that will not matter. He stated that they are going to set up some type of structure, but there will be issues come up that will need quick action.

Member Bass commented that since he deals with the Procurement Code on a daily basis that the Board make it clear to everyone that they deal with that they are expected to follow HB1450, what it is that you need to put into your process in order for the Board to effectuate the power that was given to them. If you are in leasing and negotiations and want it done in a certain time frame, then it needs to get posted so the Board can review it before the 30-days runs out. Mr. Steve McCurdy with CMS stated that he will work with the CPO, PPB and the Board and if CMS is running into a situation it will be incumbent upon CMS to let Director Carter know that there is a lease coming that will fall under this time restraint. Member Bass wanted to know if the CPO had to sign off on the lease to be published or if it was done in the end. Mr. Kanellopoulos stated that Mr. Matt Brown, CPO for the State, gives his ok to publish the lease, but doesn't sign it until it has been posted for the 30 days on the Bulletin. Mr. Brown stated that it is twofold when the leases are through the evaluation and apparent award had been made the lease has to come before him so he can hit the award button. At the time when it is published not all paperwork is available so he reviews the final workbook before signing and executes the lease to make sure that the lease document is consistent with the award. Chairman Vaught asked for legal counsel to prepare a draft for the Board's review at the next meeting. No further questions were asked.

Next on the agenda was Legislation. Director Aaron Carter stated that outside of the normal legislative report there are a few specific procurement bills that are out there. Director Carter believes the Board should discuss HB89, which creates Public University Procurement Act and makes them exempt from the Procurement Code. Member Bedore stated that in his opinion with SB51 not sure why the Board would support a bill that would take Higher Ed out. Member Bedore believes that the Board needs to be on record if they are for or against it. Member Bass stated that as a Board that he advises that someone make a motion on recommendation and take a vote. Member Bedore made a motion regarding HB89 that the Board is not in favor of this bill and was seconded by Member Morales. With a vote of 3-1 the motion was approved.

Chairman Vaught stated that there is still a concern on the reporting condition and is still a pending issue. He said that the Governor's Office is conferring with EEC and JCAR and suggested several changes to that rule. Member Bedore wanted to know if the EEC has ignored the PPB. Director Carter stated that the EEC had communicated the negotiations with the Governor's office on a second draft of rules and there has also been some mention of some legislative relief on this topic as well. Member Bedore wanted to know if the rules rejected by JCAR were eliminating the PPB in any way. Director Carter replied that he has not heard of anything like that. Mr. Turner asked the Board if they had some type of recommendation on the policy statement on inter agency communications. The Board suggested that Director Carter work with legal counsel and come back at the Board at the next meeting with some policy. No further comments were made.

The next scheduled meeting for the Procurement Policy Board will be set for Thursday, April 7, 2011 pending Board confirmation.

With no further business to discuss a motion to adjourn at 1:00 p.m. was made by Member Bedore and was seconded by Member Bass. The motion was unanimously approved.