



STATE OF ILLINOIS
PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

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

Minutes – June 13, 2008 Meeting

Room 2-201 at the James R. Thompson Center in Chicago

Connected via video to

Room 349C at Stratton Building in Springfield

Present in Chicago: Terry Healy
Rick Morales
Carmen Triche-Colvin

Present in Springfield: Ed Bedore
Mike Bass

The Board started the meeting by confirming attendance at 11:06 a.m.

Approval of the minutes of the May 5, 2008 meeting were moved for approval, with the correction of the small purchase threshold reference for construction to reflect \$70,000, which was the amount voted by the Board, by Member Rick Morales and seconded by Member Bedore. The minutes were unanimously approved.

Next on the agenda was CMS – Deputy Director of Property Management, Mr. David Vaught gave a brief summary with a handout on the IDOT Annex and its rates and costs. Mr. Vaught broke down what the expenses would be for the building and ended up with an annual billing rate of \$25.31 sq. / ft. Chairman Healy asked if the utilities are unusually high for this building. Mr. Vaught replied the utilities have gone up statewide and does not think that they are especially high for this building. Chairman Healy asked again if it was high for Springfield. Mr. Vaught replied that it is but each building is unique. Chairman Healy asked about the costs of overhead and CMS management fees included in the lease being included in all leases. Mr. Vaught replied that most leases have a total cost of ownership that includes these costs. Chairman Healy stated that this Board approved this lease in years past and the statements to the media is that this lease is too high because of overhead is like saying the Board approved a lease that was too high. The Board has never considered such overhead. Member Bedore expressed his concern about that rate and how it is disclosed to the Board and wanted to know if that \$25.31 was the total cost of ownership. Mr. Vaught replied that it was. Chief Operations Officer Marcia Armstrong stated that CMS will start including the T.C.O. on each of their white sheets in more detail for each of the leases up for approval in the future.

Member Bedore wanted to know if the IDOT Annex lease was a bad lease because of the real estate escalator. Mr. Vaught replied that this is an expensive lease and the real estate escalator is one of the cost issues, but you do have to look at the whole situation too. Member Bedore stated that press spokesman flagged this as a bad lease. He stated that these are the administration's words not his. Mr. Vaught replied that he knows that this is an expensive lease. Member Morales wanted to know what the base rate was. Mr. Vaught replied that is \$16.95 not including

janitorial. Member Bedore asked if the leases that are pending before the Board include the additional costs. Mr. Vaught replied that CMS has not been doing that. Chairman Healy stated that it is frustrating when the media is provided data that this Board is not receiving. He asked if CMS thought the tax escalators were bad. Mr. Vaught replied that it depends on the lease. Chairman Healy again asked if he thought tax escalators were bad. Mr. Vaught said he did not think that was true. Member Bedore asked for him to answer yes or no. Mr. Vaught responded no but it is always considered in the context of an actual lease. Member Bedore asked if the IDOT lease was bad because of the escalator. Mr. Vaught confirmed that this is an expensive lease. Member Bedore wanted to make a request that before the next Board meeting that CMS provides a report showing all of the vacated space by State Police going to AIG and what the anticipated uses for those spaces is. Mr. Vaught replied that he will try to get that to the Board before the next meeting.

Next on the agenda was lease #5476 15115 S. Dixie Highway in Harvey – Mr. Vaught replied that this lease was tabled at the last meeting and gave a brief summary of the lease. Mr. Vaught stated that this is a renewal and originally built to suit in 2000 and the rationale for renewing it was because CMS was able to get a rate that stays flat for the five year term of the lease and a slight decrease in rent as indicated in the white sheet given to the Board. They have a 1% decrease in rent in year one that stays flat for the term of the lease. Mr. Vaught stated that CMS did not mention at the last meeting that the current lease has an amortization in it that is not complete and if CMS vacates this property before the full amortization is paid in 10 years there is a penalty associated with that. In the negotiation of the new lease CMS was able to get that waived for the next term. Chairman Healy perceived that this amounts to a 10 year lease from its origin because of the forcible penalty. Member Bedore wanted to confirm that the T.C.O. was not presented with this lease. Mr. Vaught replied affirmatively. Member Morales wanted to know if that was included the market range. Ms. Armstrong replied that BOMA comparison rates would not include indirect management fee when CMS does market analysis. The indirect fees are the cost that CMS uses to administer consolidated properties. They are not new costs, but a shift in the way they bill for them and pay them. Member Bedore asked if that would also apply to IDOT Annex in Springfield. Mr. Vaught replied yes. Member Bedore stated that CMS cannot have it both ways. If you are going to throw in the costs for the IDOT building then he would like to have the cost on leases before the Board. Ms. Armstrong added that one of the overhead issues is security cost. There is security cost in their T.C.O. and believe that security is a variable cost because it depends on if they have clientele. Some client service offices might have more security than others and she realizes that they have an issue with the comparison when security costs are high. CMS is considering breaking them up separately in their new terms and conditions for leases that CMS is working on. CMS is also working on some of the comparison issues valuing variables versus fixed.

Member Bedore stated that just a few minutes ago it was stated that \$25.31 sq. ft. was a very expensive lease. Now on this Harvey lease we were presented a base cost of \$26.13 without CMS management expense. So you are telling me that it is \$26.13 plus CMS management expense, which could bring this lease to \$27 or \$28 per sq. ft. Yet it was told to this Board five minutes ago that \$25.31 was a very expensive lease. So what does that make this lease? And this must be a bad lease because of the escalator. Mr. Vaught replied that if he said very expensive he misspoke and meant expensive and expensive was in relation to other leases in the Springfield market. Mr. Vaught stated that they are now talking about a market 100 miles away and market values are different in other areas. Chairman Healy stated that he is current negotiations on a lease here in Chicago in a pretty good area and advised Mr. Vaught to be careful of representing the value of Harvey, Illinois opposed to Chicago or Springfield. This lease is at least, according

to your figures, minimum of \$26.22 in Harvey plus CMS's expense. \$28 does not seem like an in-expensive lease in Harvey, Illinois. Mr. Vaught replied that sounded accurate and would not disagree. Ms. Armstrong wanted to add that there is a \$3.83 per sq. ft for security costs in this lease, which was the point she was trying to illustrate and don't believe that it should be reflected as an apples to apples comparison because she does not believe that the IDOT building has those same costs. If CMS backs that out now the operating cost would be below \$26.13. Member Bedore wanted to discuss the square footage of this lease. In this lease in Harvey and he understands that is it for DCFS client service it is 395 per sq. ft. per employee. Real estate experts state that 250 sq. ft. per employee is a realistic number, but with some of these agencies it would be 300 sq. ft. and this is almost 400 sq. ft. Knowing there is space for children, conference rooms and things of that nature, he knows that is the argument that CMS is going to come back with. Member Bedore wanted to go to the next lease for DHS in Rockford, Illinois for a moment just for reference and have the Board look at those pictures. You can see that there are waiting areas, conference areas, which is the same type of services that we would have in Harvey. Their square footage per employee is 278, which is 120 sq. ft. less than Harvey and at a much lower price. Member Bedore stated he does not understand how they can justify this Harvey lease. Mr. Vaught explained that this is a different lease than Harvey. This is a build to suit that was done in 2000 and nice building in Harvey, which the State built with good standards back then and is proposing to renew an existing facility that is one of the higher quality facilities CMS has and believe that it puts it in a different category. It is not as tight as CMS would like to see it on space standard, but when you are renewing a built to suit facility you are renewing what is there. Member Bedore asked that since it is there does the State have to use it? Mr. Vaught stated that he was answering the question why and restated that CMS has tried to re-negotiate lower rents and tried to get out of the penalty on the amortization and tried to get a flat rate of rent and made an attempt to address all of those occupancy issues. Chairman Healy stated that the State is really not getting out of the amortization, which goes away over the five years. Mr. Vaught replied that they are doing it at a flat rate. Chairman Healy stated that we are doing it at a flat rate, but basically in 2000 when they did the original lease on this they put the State in a box so we would have to do a 10 year lease on it. The Board certainly cannot ok for the citizens of Illinois to pay an extra million dollars because we pull out on this lease unless there is another facility were we can save a million dollars on that lease. Mr. Vaught stated that was a correct assumption. Chairman Healy asked if there is security in the lease at Rockford. Mr. Vaught stated that he thought so, but he would have to get back to him on that. Member Bedore wants to know where the space standard is that the Board has been hearing about. Member Bedore stated that the Board has been asked about these space standards since 2004 and wanted to know if they were ever going to get them.

CMS responded on the security at Rockford and Chairman Healy announced for the record that Rockford does not have security. Member Bedore asked at 395 square foot per employee can you rent out some of the space to another agency or lease it. Mr. Vaught replied that is currently part of their planning process on every request they get from an agency to see if there are any opportunities to do that. Chairman Healy wanted to make a request to CMS on any lease that has an amortization that goes for review that the lease has been put on the table with a footnote on the white sheet for the Board to look at. Member Bedore made the comment that this build to suit is why this lease didn't come before the Board four years ago. Chairman Healy asked for a motion for approval. No motion was made. Member Bedore wanted to make a motion to table lease #5476 until the next meeting to give CMS the opportunity to come up with a complete detail of how they can justify the 395 or what agencies they could move into this building and reconfigure this layout and justify spending the tax payer's money at this high rate. This motion was seconded by Member Bass. Member Triche-Colvin stated that she agreed with the motion,

but we cannot justify rejecting the lease causing the agency to move and having a minimum of \$600,000 plus the amortization. Member Bedore stated that his motion is not to reject the lease, but to give CMS another month to come up with a justification. Member Triche-Colvin understands that, however, in the final analysis the Board is going to be forced address this issue, because the State is either going to pay \$1 million on the front end or \$1 million on the back end. This is not a win/win situation, it is a lose/lose situation no matter how we figure it. So as a Board member she thinks the Board cannot only look at the lease, look at the issues which are addressed with the lease, which have been looked at for years, but try to come up with some real answers and real solutions so the Board is not having the same conversation in the next administration. Member Bass wanted to know if there was any way of renegotiating a reduced rate for this lease. Mr. Vaught replied that CMS could certainly go back and try to renegotiate a lower rate. Additionally Member Bass stated that CMS does not have to answer this now, but to have it presented in written form to the Board at the next meeting. He asked what is CMS's process for checking out the lessors that the State is engaging in business with. How do they do it, what are the criteria looked at, what sort of checks are done, etc. Mr. Vaught replied that they will have a written response for that.

Next was lease #3523 1111 N. Avon in Rockford – This lease is for DHS with 27,000 sq. ft. The term is 60 months with a termination clause after the 36th month with a 90 day written notice. The base rent is at \$9.01 and \$9.74 and the end of the five years. Since no questions were asked a motion to accept the lease was made by Member Bedore and was seconded by Member Bass. The lease was unanimously approved.

Next on the agenda was lease #77363-2 2535 Milliken Parkway and 2525 Federal Dr., Decatur – In attendance was Bob Baker, Chief Executive Officer, IPHEC, Wayne Mosser representing the University of Illinois College of Agricultural Consumer and Environmental Sciences Business Office, Paul Merriman, the extension unit educator and facility coordinator for the Macon County extension office, Bruce Walden, the Director of University of Illinois Real Estate Services Office and Wesley Curtis representing the University of Illinois legal counsel. Mr. Baker stated that they are here to request a certificate of no objection for a one year lease renewal for the Macon County extension office. The lease is only being extended for one year to provide time for the Macon County office to relocate their quarter to Richland Community College in Decatur. The present location is at 2535 Milliken Parkway and 2525 Federal Dr. in Decatur. There has been a reduction in square footage from the current lease. There is an early termination clause with a 90-day written notice and also an option to purchase. Member Bass stated that he would have to be recused from this vote. Member Bedore made a motion to approve lease 77363-2 and was seconded by Member Triche-Colvin. The lease was unanimously approved Member Bass abstaining.

Next on the agenda was HFS Private Process Servers – Director Matt Brown stated that HFS is here to discuss a contract under review that was proposed earlier in the month. The proposal to award was not evaluated based on criteria established in the solicitation identifying the intent to issue multiple awards. The department elected to issue a single award based on price only as this was an invitation for bid. That did raise some concern at the staff level because of the indication of multiple awards and after consultation with CMS, DHS revised the award in which a multiple scenario provided primary, secondary and tertiary arrangements. According to rules this is allowed only if the solicitation establishes the multiple award criteria allowing vendors to provide a response that is to the highest and best qualifications that the State requires. This was a simple omission, but in the end causing complications in the award process. HFS has decided to

cancel the award and re-bid. Director Brown asked Mr. Tom Meirink, SPO for HFS, if this was a correct summary. Mr. Meirink replied yes. No questions were asked.

Next on the agenda was the Execution of Renewal Options Resolution – Director Brown stated that he has had conversations with CMS about their concerns with the language in the resolution. They changed some of the terms so they were more reflective of the intentions. Ms. Lynn Carter, legal counsel for CMS, stated that they are in concurrence with Director Brown on the language changes. Member Triche-Colvin made a motion to approve as presented and was seconded by Member Morales. The motion was unanimously approved.

Next on the agenda was legislation-Sanctions and Criminal Penalties – Director Brown stated that this summary was created at the request of Member Bedore and Member Triche-Colvin on what penalties and sanctions exist in the procurement environment as well as a response to heightened levels of inquiry from members of the General Assembly and individuals who consistently follow procurement operations. In response to that inquiry, Director Brown asked Mr. Todd Turner, Legal Counsel for the Board, to provide a summary statement on what currently exists in statute. Mr. Turner stated that when preparing this he looked at the Procurement Code and the Criminal Code. He was focused on the vendor side on what kind of penalties of sanctions or violations of Procurement Code by vendors. In general the penalty for violation for certain statutes of the Procurement Code is a suspension or debarment from further State business. Chairman Healy stated that the Board has to be careful. It is not the Board's position to decide what a criminal act is or what its not. It is not the Board's job to determine whether a particular situation should fall into this classification or not. The Board intends to use this analysis to develop thoughts on this issue. No further questions were asked.

Director Brown gave a brief summary of the legislative report. At this point in time there are a few Bills that have passed the General Assembly but have not been sent to the Governor for signature. One of pieces of legislation the Board focused on was clarification on the limitation of terms for contracts to be inclusive of proposed renewals. This has passed both houses of the General Assembly and is in transition to the Governor. The majority of the legislation out there stalled and didn't see much action. No questions were asked.

The PPB Website was next on the agenda – Director Brown stated that the PPB Website and Clearinghouse are in the final stages at this point. They are currently waiting on some infrastructure on where to house this website in the network and how we test and validate the lines of communication and if links between the clearinghouse and the CPO agencies will support the data. Jerry Bethard with CMS Enterprise Business Applications walked through a live demonstration of the PPB Website and Clearinghouse site. Chairman Healy asked who has access to the administrative part of it. Mr. Bethard replied Matt Brown, Will Blount and Deanna Rossetto; all PPB staff. Director Brown stated that the legislative requirement was to create a searchable and sortable database where we could identify transactions by date, vendor, amount, who the purchasing agency was and what item was being procured. The concept of this clearinghouse would be active in a pre-execution environment. As long as these agencies post on a daily basis and coincide with their bulletin postings the clearinghouse will demonstrate un-executed contracts for a minimum of seven days, which is the standard protest period. Chairman Healy encouraged the Board to go to the website and look around and see it in more detail. No further questions were asked.

Next on the agenda was Purchases for Boards approval. Director Brown gave a brief explanation of each of the items on the list of high use items with in the office. Also is the authorization for

payment of the NIGP memberships that the PPB pays for on behalf of all State agencies and Universities. The last on the list is an option for a new laser jet printer for the office for about \$1,500 with the exception of finding one on master contract for less money. The existing laser jet is nine years old and has exceeded its duty cycle and has had parts replaced to maintain operation. In the last four months there has be five to six service calls on the machine. No further questions were asked. A motion for approval was made by Member Triche-Colvin and was seconded by Member Morales. The motion was unanimously approved.

The next Board meeting is scheduled for July 10 at 11:30 a.m. in Chicago.

As no other items of business were to be considered, a motion was made to adjourn at 1:10 p.m. by Member Bass and was seconded by Member Morales. The motion was unanimously approved.