



Chairman: David Vaught  
Members: Ed Bedore, Ricardo Morales, Larry Ivory, Bill Black

## **Public Hearing for Pacific Management, Inc.**

### **Minutes – February 9, 2012**

Present in Chicago: David Vaught  
Rick Morales

Present in Springfield: Larry Ivory

Absent: Ed Bedore  
Bill Black

The Board started the hearing by confirming attendance at 10:15 a.m.

Senator Susan Garrett gave a brief opening statement.

Thank you for inviting me to testify today. Senator Garrett stated that the reason she requested this hearing, is that she read a newspaper article that claimed the State still has contracts involving William Cellini, now a convicted felon. Illinois law prohibits such arrangements, as you all know. The newspapers set off a fire storm with Cellini attorneys claiming that Bill Cellini's, New Frontier companies are no longer doing business with the State and that Pacific Management, Inc. (PMI), who currently does manage several State facilities, no longer has any ties to William Cellini. Senator Garrett continued that Pacific Management is part of the Cellini conglomerate. While it's easy to get caught up in the "who owns what" debate, a more serious concern is why is the State providing for special arrangements and contracts for outside vendors to develop and manage at least 14 State facilities without any oversight, disclosure, re-bidding or basic transparency? This unique arrangement is unacceptable, unaffordable and unprecedented, by any State standard. Over the last two decades, the State has allowed developers to construct buildings to be used for State business. These developers were all asked to respond today to a set of questions sent to them by the Procurement Policy Board and, to date, have collectively not responded, even though the State pays them millions of dollars a year. This is because of the special and unique arrangements we currently have in place, these developers are not required to respond to questions like: (1) providing a list of the current owners of the following property. These are the different State occupied facilities that the developers oversee and there were no responses. (2) Property listed above has been identified as being managed by Pacific Management. For the property listed indicate details of the following: was the contract with PMI competitively bid? If not, how was the contract procured? What was the monthly fee, etc? Senator Garrett stated that she has not seen any responses to these questions. These developers have dictated the terms of these contracts with little or no options for the State to make any changes. These decades old contracts are expensive and void of any enforcement powers from the State even though the State pays these developers-landlords millions of dollars. The developer-landlords of these State occupied facilities get to choose the management company of their liking with no input from the State, no bids necessary, no vetting, no transparency, and the State pays for management services, either directly or indirectly to the developers or landlords, who the State has absolutely no relationship or information on. Millions of dollars a year and the State is on the outside looking in, paying the fees to who knows who. Because of this unique lease-management relationship, the State has abdicated its responsibility to unknown investors and partners. We are clearly not in the driver's seat and its costing taxpayers too much money.

Senator Garrett wanted to talk a little more about the newspaper articles when the Sun Times came out and stated that it appeared that William Cellini still has an arrangement through New Frontier with some of the State occupied

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facilities. The next article that came out stated that “no” that wasn’t the case and CMS made a mistake and that in fact those contracts with New Frontier no longer exist. Then yesterday Senator Garrett called and asked to see that documentation so she could understand what happened with these leases where New Frontier was originally involved in, but were later found out not to be involved anymore. She believes that this is of particular interest because this whole web is so confusing that not only would legislatures not be able to understand this, newspapers can’t understand this and even CMS was a little confused as to how it works. Senator Garrett stated that what she can tell, for example, CMS lease 4299 from 2002 to 2007, which was for the Department of Public Aid and the lessor is Government Property Fund, LLC. They were sent a letter and didn’t respond. At that time, in addition to the lessor, they also had an agent, which was New Frontier. New Frontier was a part of this lease where they got a percentage of whatever the monthly rent was. They got a fee for participating. That is how they were on the lease when it was FOIA’d by the Sun Times, but what you don’t see in this lease is that we paid \$245,000 a month. Included in that \$245,000 a month is the management contract that we didn’t see and we really don’t know how that works. It is all taken care of by Government Property Fund, LLC. It is not known out of this \$245,000 a month how much is attributed to the management of that particular building. In this contract it doesn’t state who the management company is. In addition when the State pays their rent the fee goes directly to Government Property Fund, LLC. Then they take that money and divide that up. In this case it does look like they paid New Frontier a fee for just being on this contract. It is confusing and there is no oversight and we don’t have the ability to go in there and understand how that management fee is being utilized. Now, this same contract was updated in 2008 and the same lessor, Government Property Fund, LLC, but instead of having New Frontier it is now in care of Pacific Management. Which is part of the Cellini conglomerate, but he has no ties according to State records. This fee has now gone from \$245,000 a month to \$256,000 a month and the State now pays Pacific Management instead of Government Property Fund, LLC and they distribute the fund how they see fit. For all we know New Frontier could still be getting a cut and we have no way of knowing that.

Senator Garrett stated that her recommendation is to subject these unique arrangements that have been set up by outside vendors, to the subcontracting laws of the State. Re-negotiate these contracts, re-bid and demand disclosure, transparency and accountability. The current system is unethical and unfair to the State and our taxpayers.

Chairman Vaught thanked Senator Garrett for coming and bringing this to the Board’s attention and appreciates her work on this. Member Morales stated that the purpose of today’s hearing is that Senator Garrett would like for the arrangements and processes to be looked at because she feels that they need more disclosure. Senator Garrett replied affirmatively. Member Morales stated that we are not specifically targeting any individual. Senator Garrett replied that all she can say is that the majority of the State owned buildings have these unique relationships with a Cellini conglomerate. For someone who has to work on the budget on a daily basis to expend a quarter of a million dollars a month for leasing and managing a State occupied building is unacceptable. Member Morales replied that this is always a concern for the Board of what the State spends and the Board is always scrutinizing CMS about. He doesn’t disagree that we need to look at arrangements and processes to make sure that there is 100% fairness for the good of the State, but again that is what we are focusing on and what this hearing is for and we are not focusing on an individual as stated before. Senator Garrett replied that it is hard to separate the two unfortunately. She believes that William Cellini does not have ties to the New Frontier Companies, but what she doesn’t know is if New Frontier is somehow being reimbursed through these unique relationships. Member Morales stated that this could be the case for any management company then so we would need to look at all of them. Senator Garrett replied that they should look at any of them that have an unusual relationship where the State has no connection. Right now she feels that the State doesn’t have a connection with the lessor or the management companies and believes that these contracts should be put back out to bid, re-negotiated and get disclosure on who is who. The fact that the Procurement Policy Board put out a letter to these developers/landlords and asked them questions and not one of them responded is extremely troubling. Chairman Vaught stated that looking at page 135 Section 20-120 of the Procurement Code on subcontractors, he believes that this section was amended or added in SB51. With the leases you are referring to all are prior to the enactment of this subcontract section and it says that any contract under this Code shall state whether the service of a subcontractor will or may be used. Chairman Vaught asked if the Senator is concerned either that the definition of subcontractor or the non retroactive effect of this law is really part of the problem here. Senator Garrett replied yes exactly. She printed out the amendment of subcontracting that really defines the role of subcontractors and how they have to disclose relevant and pertinent information. Senator Garrett believes at the very minimum has in place these developers would have had to respond to the questions that were asked of them. She doesn’t know to the extent of authority the PPB has to insure that this happens but would highly recommend that the State take immediate steps to do that. This is a slap in the face that these developers chose not to respond to any of the

questions and imagine paying millions of dollars a year and getting no responses as to who the owners of the company are. By using the subcontracting provision they would not have that ability to ignore the State. Chairman Vaught replied that is a very good point. Chairman Vaught stated that he doesn't believe that the Board has any authority on these installment purchase contracts. Generally those have been authorized by law probably back in the 1990's, but the Board does have authority when there are existing leases such as the HFS lease. If that would have come up for renewal where there had not been a competitive bid the Board has a binding authority on whether to approve those renewals. The Board in the past has turned down the renewal of several leases, which they felt were too expensive or found other problems with them. If they have not come up for renewal then it does not come before the Board. Chairman Vaught stated that the Board has been viewed by the four caucus as a source that makes recommendations on procurement issues and has some ability to make recommendations. Chairman Vaught stated that it sounds like Senator Garrett wants the Board to make a recommendation or think about making a recommendation on subcontractor disclosures and perhaps there might be some of these disclosures retroactive and be required by law not just when a new contract is entered into, but whether existing contracts could be subject to that requirement. Senator Garrett replied that she does not want the Board to do this, but is asking and begging the Board to do this. She stated that she does not stand alone in this.

Member Morales commented that he thinks it is great that Senator Garrett has taken the time to find these things out, which is something this Board has been doing for many years. He cannot recall the millions of dollars the Board has helped the State save and the things that they have found during the procurement process and is glad that they are on the same page about doing that. Member Morales stated again for clarity that this should be the main focus and glad that the Senator brought up the arrangements and procedures that are in place by the State that we need to take a look at. He wanted to be clear that it was not about the first issue that was brought up, but about the processes that are in place. Senator Garrett replied that she wanted to be clear that this should not be a witch hunt for William Cellini. What this does is expose the fact that the Cellini conglomerate has a strong-hold on not just the landlord lease issues, but also the management of 14 State occupied facilities with no oversight. So, no disrespect to William Cellini, but it is not just a fly-by-night company, it is an empire.

Member Ivory stated that this is a very important issue in terms of transparency and clarity. In terms of the Procurement Policy Board side whether to make a recommendation that may give the Board greater clarity so that if an issue like this should ever surface again there will be a process in place to deal with it. No further comments or questions were made.

Next on the agenda was Deputy Director for Property Management with CMS, Nick Kanellopoulos. Mr. Kanellopoulos stated that all of the leases that are being talked about were procured by CMS. Chairman Vaught stated that not all of them are leases, but installment purchases. Mr. Kanellopoulos replied that is correct there are four installment purchases. Mr. Kanellopoulos stated that CMS, at the time, was involved in all of the transactions; however, today only three of the four payments are made through CMS. The fourth one is handled by the Illinois Student Assistant Commission (ISAC). Mr. Kanellopoulos stated that the Senator is absolutely correct about many things. The State does not have any contracts directly with Pacific Management and as we sit here today these management companies do not fall under the definition of a subcontractor. He has had this conversation with the CPO's office as well. Today there is no requirement on behalf of a lessor at the time the State does a lease for their vendors to be disclosed and the ownership structures of those companies to be disclosed. When CMS focuses on competitive bids their focus is to get the lowest price possible and therefore in most all cases CMS accepts the lowest bid possible. In accepting the lowest bid if there is a management fee being paid out of that rent or other fees being paid to other vendors out of that rent CMS cannot look at that. CMS is required by the Procurement Code to take the lowest bid unless there is a justification for not taking it and that has to be posted to the Procurement Bulletin and in most cases there is no justification for not taking the lowest bid. Mr. Kanellopoulos stated that he would also add that it is not unique for buildings of the size that are being talked about for the owners to not maintain those buildings but to hire a management company. Mr. Kanellopoulos stated that he would be happy to answer any questions.

Member Ivory asked if CMS had lost any competitive bids at any point in time. Mr. Kanellopoulos replied that at his time at CMS there was a long period of time where a large part of their portfolio leases were expired and CMS needed to eliminate that issue. When CMS eliminated all of the expired leases they would renew a lot of their leases directly with the landlords in the building in which they were in. Those are the leases that were mentioned before by the Chairman where the Board would have to approve or reject that lease up until about June 2010. Since then in almost every case CMS competitively bid their leases. They would go out with an RFI and the leases have been

awarded to the lowest bidder in probably every case. Mr. Kanellopoulos also stated that since September 2010 that every contract that CMS does has to be signed off on by the CPO's office. Mr. Kanellopoulos stated that he thinks that the process of how CMS procures a lease is much more transparent today than it was several years ago and the EEC and the PPB get and have access to all the information they get when they procure a lease. Chairman Vaught stated that it was his understanding that his division of CMS has a responsibility to service and provides a facility management role of their own. Mr. Kanellopoulos replied that they are the facility managers for the State and do manage facilities whether they are state owned or state leased.

Chairman Vaught brought up the installment purchase agreement for the Sangamo Building where EPA is that was entered into in 1996 and is still in effect. Chairman Vaught stated that on page 9 of the information given to the Board that during the term of the agreement the purchaser (the State) agrees to pay additional installment payments and administrative expenses. Mr. Kanellopoulos replied affirmatively. Chairman Vaught asked if that would include these potential payments that Senator Garrett is concerned about that would go to others. Mr. Kanellopoulos replied affirmatively that the way those payments work is the State pays the bank that is retiring the bonds and then the bank keeps their money and then pays out to the management company that was assigned at the time these transactions were entered into, which was New Frontier at the time. Chairman Vaught stated that his concern is on page 8 and 9 of the agreement, which says that the purchaser agrees to pay additional installments for administrative expenses. That is not just the lease purchase amount. Mr. Kanellopoulos replied affirmatively that CMS pays for the management of the building, which is separate and apart from the retirement of the bonds to pay the bill. Chairman Vaught stated that there is a statement in here in the same area that those have to be reasonable. How does CMS determine that those additional expense payments are reasonable? Mr. Kanellopoulos replied that CMS gets an estimate budget every year for each of the three buildings that are under CMS' control and that goes through a review process with the staff and see what has been budgeted and what work needs to be done. Since CMS does not own these buildings they don't have complete control over them. Chairman Vaught asked when CMS gets those certifications of administrative expenses do they come from Pacific Management. Mr. Kanellopoulos replied that Pacific Management is the one who sends CMS what they believe is the budget for the following year on what the costs are going to be for the operating expenses. Chairman Vaught asked if they knew of the additional expenses where PMI was spending that money. Mr. Kanellopoulos replied that there is a line item for all operating expenses.

Senator Garrett wanted to thank the Chairman for making the point that there is an additional fee that no one knows who is getting that fee and she feels that it needs to be clarified and that the State is giving this bank all the responsibility to make these payments to who knows who and we don't know who those people are. Mr. Kanellopoulos replied that he believes that there are trusts involved where the payments go to the bank to pay off these arrangements; however, he doesn't believe from their document that they don't have the right to look into who those people are. Senator Garrett stated that she doesn't know any State that has a 21 year lease when the taxpayers have no say into how those dollars are spent or any oversight or accountability. We don't even know who we are dealing with. Mr. Kanellopoulos replied that the method used to purchase these buildings was repealed back in 2004 to prevent future transactions without specific legislative authority to do so. No further questions or comments were made.

Next was Pacific Management. In attendance representing Pacific Management was Attorney Bill Roberts. Mr. Roberts stated that he didn't have a formal presentation to make except to say that PMI has cooperated with this Board and has submitted two packets of information to the Board and to Senator Garrett. The genesis of this, as he sees it, was an erroneous article in the Sun Time for which they subsequently apologized. Mr. Roberts wanted to make it clear that Bill Cellini has no relationship with PMI. Further, PMI has no contract with the State of Illinois. Not that they couldn't. PMI is owned by Bill Cellini Jr. and Claudia Cellini, neither of whom have been charged or convicted of anything. Furthermore, none of the New Frontier companies have a contract with the State of Illinois. Mr. Roberts stated that he has listened to what the members of the Board and Senator Garrett have said and there does seem to be some confusion and would encourage the Board and Senator Garrett to sort out this confusion and not rely on speculation. Mr. Roberts stated that he would also urge caution trying to go behind contracts or legal documents that have been in existence for a long time. Both Federal and State law clearly recognizes the sanctity of some proprietary information and thus protected from public disclosure. If we are going to do it for everybody fair enough, but it would be unwise to single out one or two or three groups who someone perceives as an empire to try and do a unique investigation as a result of a policy.

Senator Garrett stated that this is not erroneous information that the newspapers put out. The newspapers put out what was given to them by CMS and then CMS came back and said that they found additional information that shows that Frontier Management on paper has been taken out of some of these leases. What these newspaper articles pointed out is how confusing this process is and the reason why there may have been some mistakes made is because nobody can get to the real information. Senator Garrett did receive letters from the Cellini company attorney asking her to withdraw her request because it would cost the State too much money. How much more money can we spend when we are spending a quarter of a million dollars one month with one agency paying it to people who we don't know. Should we stand by and let this happen without looking at ways to modify it? Mr. Roberts replied that it is legal and moving forward the State can do what they wish, but again underscore the fact as far as he knows there is nothing illegal about it.

Chairman Vaught commented that the role of this Board is that they do have some oversight authority to approve lease renewals, but they also have this primary responsibility to try and consider the effect of the procurement system and how it can work better. We have had a pretty substantial change in the procurement system in SB51 and had made reference earlier to this section of the Procurement Code that requires some disclosure on new matters/contracts from subcontractors and have heard from some in the business community that some of these provisions might make it harder to bid and participate in the procurement system. The Board has a policy interest here in trying to see that we have a procurement system that is competitive and produces a good reasonable cost services for the State and also have some interest in disclosures and physical controls and what is really happening out there. Chairman Vaught stated that he is interested in Mr. Roberts' views as a person representing someone that is involved in this about whether he thinks that subcontractor disclosures is a good thing or a bad thing or whether it helps us or hurts us in terms of the overall goal of the procurement system. Mr. Roberts replied that he does not own any buildings and is not in a position to comment on that. It is a complex issue and he does think that the State benefits from a competitive market and there are needs for competitors to maintain proprietary information.

Member Morales summarized on why the Board was here. Initially this started as an inquiry by a Sun Times article, which was later corrected or withdrawn stating that it was incorrect information. That led the Board to ask to continue with a hearing to look at the processes which this State has and which we all know is not perfect. If the request to not have the hearing was because of the cost involved is not because of the Board members because they do not get paid for this. The Board is here for free to make sure that these procurement policies are adhered to. The Board is not here as a witch hunt, but are here to recognize that we need to continue to look at these procurement policies and make sure that they are correct for everyone involved in the State of Illinois.

Senator Garrett wanted to add that the misinformation that was in the Sun Times article really wasn't misinformation. It was information that is difficult to get who the participants are in these types of lease management arrangements. CMS sent a bundle of these leases and in that bundle New Frontier was included. Looking further they did find that New Frontier was not included. These articles just opened up the debate on how these leases and special arrangements have been taking place over the last two decades. It is not a witch hunt, but the factual information is hard to get and we have to be vigilant and get it right. Member Morales stated that he doesn't disagree with that. Member Morales re-stated the article correction statement – "Administration said it incorrectly provided the Sun Times with outdated records showing that a company led by Bill Cellini managed 18 State leased buildings. Administration said in a further review it shows those buildings are managed by Pacific Management Company partly owned by Cellini's daughter and son-in-law. We apologize for the confusion Quinn spokesman said". That was the correction that was placed in the paper. Chairman Vaught stated that everything the Board has will be posted to the Procurement Policy Board website at [ppb@illinois.gov](mailto:ppb@illinois.gov). Mr. Roberts stated that the word confusion floats around here and wanted to make it abundantly clear that Bill Cellini has no interest in Pacific Management and Pacific Management has no contract with the State of Illinois although they could legally do so. Senator Garrett stated that Mr. Roberts was correct that PMI does not have a contract with the State and it is disturbing. If they had a direct contract with the State we would know who the players are and would be able understand, justify and provide oversight on these unyielding costs, but it doesn't make it right. The State should have oversight and that contract should be directly with the State. Senator Garrett wanted to know what the next steps are going to be. Chairman Vaught replied that from the Procurement Policy Board point of view the Board likes to consider those things and decide if they want to make recommendations on a legislative response is the typical procedure. No further questions or comments were made.

With no further business to discuss a motion to adjourn was made by Member Morales and was seconded by Chairman Vaught. The motion was unanimously approved.