
Idaho State Capitol Commission

Official Minutes September 22, 2003

A meeting of the Idaho State Capitol Commission was held on this date in the Senate Caucus Room #350, 3rd Floor, Statehouse. Pam Ahrens, Commission Secretary, called the meeting to order at about 9:20 a.m.

Attendees

Members Present:

Pam Ahrens, Director, Department of Administration, and Secretary/Ex-Officio Member
Carl Bianchi, Director, Legislative Services Office, and Ex-Officio Member
Andrew Erstad
Evan Frasure (via teleconference)
Stephen Hartgen (via teleconference)
Sandy Patano

Members Absent:

Steve Guerber, Director, Idaho State Historical Society, and Ex-Officio Member
Will Storey

Others Present:

Rick Thompson, Administrator, Div. of Internal Management Systems, Dept. of Administration
Jan Frew, Design and Construction Manager, Division of Public Works, Dept. of Administration
Tim Mason, State Facilities Manager, Division of Public Works, Department of Administration
Jan Cox, Administrator, Division of Purchasing, Department of Administration
Diane Blume, Management Assistant, Department of Administration
Randy Tilley, Analyst, Division of Financial Management
Bobbi Viker, Administrative Support Manager, Idaho State Historical Society
Jason Hancock, Analyst, Legislative Budget Office
Eric Milstead, Analyst, Legislative Budget Office
Matt Haertzen, Manager of Investments, Endowment Fund Investment Board
Liza Carberry, Investment Manager, State Treasurer's Office

Approval of Minutes

MOTION: Commissioner Erstad moved and Commissioner Bianchi seconded that the minutes of the July 10, 2003 Idaho State Capitol Commission meeting be approved as written. The motion passed unanimously.

Presentation to Skip Smyser

Commissioner Ahrens presented a framed architectural rendering of the Statehouse to Mr. Smyser for his service and participation on the Commission over the past five years, including its inaugural events.

Budget and Funding; Design/Construction Issues

Overview of Commission Funds

FY04 Operating Budget Report: As of August 31, Mr. Thompson explained, the Commission had spent \$2,546 of its appropriated operating budget. The largest expenditure (\$1,179) was for administrative support.

Cash Flow Statement: He pointed out that as of August 31, the cash balance in the Commission's Income Fund was \$5,534,659, and the Capitol Permanent Endowment Fund Cash balance was \$3,338,971. In addition, the cash balances of the two Funds administered for the Commission through the Community Foundation totaled \$1,012 in the Restoration Fund, and \$1,008 in the Endowment Fund. Pursuant to direction from the Commission, the two Funds were recently closed-out, and balances deposited into the Capitol Income Fund.

Report from the Finance Committee

Commissioner Bianchi recalled that former Commission Chairman Eiguren asked him to serve as chair for the Finance Committee, convened to look at options for funding some of the most critical maintenance projects for the Capitol. Commissioners Storey and Frasure also served as members on this Committee with assistance from Commissioners Erstad and Ahrens.

Existing Capitol Endowment Funds Statutes and Income Sources:

Since Idaho's Admission Act was enacted, he reported, the state's Public Building Funds have been held in the State Controllers Office. These funds were

designated for the purpose of construction and maintenance of public buildings at the Capitol. At the time the Capitol Commission was created in 1998, a new section of code, 67-1610, created the *Capitol Permanent Endowment Fund*, which consisted of the public building funds plus any future legislative appropriation. The Endowment Fund Investment Board manages the Fund, and all realized earnings are credited to the *Capitol Income Fund*.

Created at the same time via Idaho Code Section 67-1611, the *Capitol Income Fund* is managed by the State Treasurer and consists of earnings from the *Capitol Permanent Endowment Fund*, proceeds from the sale of timber on capitol endowment lands, proceeds of leases of capitol building endowment lands, proceeds from interest charged upon deferred payments on capitol building endowment lands or timber, interest off of this fund, and all public and private donated funds. All expenditures out of this fund require legislative appropriation.

When all of the state's endowment funds were set-up, he said, each endowment fund had three separate funds—a permanent endowment fund, an income fund, and an earnings reserve fund. Earnings from the permanent endowment funds go into the earnings reserve funds for the purpose of paying for expenses incurred as a result of managing the particular fund. When the *Capitol Permanent Endowment Fund* was created, there was not a *Capitol Earnings Reserve Fund* established. Therefore, expenses for managing the Capitol Funds are not an offset against investment earnings, but must be paid from some other source.

Projected Capitol Endowment Income Fund Balances, Available for Expenditures/Transfers

Commissioner Bianchi pointed out that the current *Capitol Endowment Income Fund* projected balance beginning in FY04 was \$5,345,800--\$100,100 was appropriated to the Commission for operating expenses in FY04 leaving a balance of \$5,245,700. This balance reflects \$213,800 of carryover spending authority from past appropriations the Commission had not expended.

Capitol Building Repairs – Committee Recommendation & Funding Sources

As requested by the Commission earlier this year, the Division of Public Works consolidated a listing of, and costs for the most immediate and critical projects required to prevent further deterioration of the Capitol Building. This list originated from an itemization of projects provided as part of the Capitol Restoration Final Report from 3DI, the Commission's Construction Manager.

The Finance Committee agreed upon a philosophy that recommends the Commission advocate for maintenance of the Statehouse, and it came up with a finance strategy to accomplish eight of the most critical projects identified to protect the integrity of the building's structural shell.

First, Commissioner Bianchi reported, the Committee identified the following three projects that would complete the exterior maintenance work--the first phase was done over a year ago.

Upper Dome and Parapet Repair	\$ 941,535
Replace Skylights	988,875
Complete Exterior Stone Repairs	1,017,958

The Committee proposed that funds for work on the dome be requested as part of the Permanent Building Fund FY05 Alterations and Repairs Budget. Commissioner Erstad noted that the first phase of the exterior work accomplished a great deal, but did not complete all the needed repairs. Completing the three additional exterior projects would protect the building from leakage and further deterioration. The Committee recommended funding for the skylights and exterior stone work be requested from the Capitol Endowment Income Fund, which would require legislative appropriation, Commissioner Bianchi added.

As mentioned earlier, the Capitol Commission also has carryover authorization to expend unused funds from previous years. That money is currently held in the Capitol Endowment Income Fund, but because it has previously been authorized for expenditure, would not need legislative appropriation; therefore, work could begin right away. The Committee recommended using a portion of those carryover funds to accomplish the following two critical projects:

Repair Elevated Patio Drain	\$ 15,745
Repair Areaways (Railings)	43,564

About three years ago, in an effort to initiate work on the restoration process, the Commission had approved expending \$175,000 of its available funds to replace some light fixtures in the Capitol corridors. Later, it was determined to defer that project until the entire restoration work could be done at the same time. With the restoration project now on hold, and since there are now more immediate maintenance needs, the Committee recommended utilizing those funds for the following projects, which could also be initiated immediately:

Foundation and Drainage Repairs	\$ 80,000
Interior Plumbing Repairs	50,000
Plaster & Ceiling Repairs	45,000

MOTION: Commissioner Bianchi moved and Commissioner Erstad seconded that the Commission authorize the recommended actions presented by the Commission's Finance Committee including requesting \$941,535 from the Permanent Building Fund Advisory Council for the Capitol dome and parapet repairs; requesting the expenditure of \$2,006,833 from the Capitol Endowment Income Fund for skylight replacement and completion of the exterior stone work; authorizing expenditure of carryover moneys totaling \$59,300 for patio drain and areaway repairs; and re-directing interior lighting moneys totaling \$175,000 of Commission funds to be used for foundation, drainage, interior plumbing, plaster and ceiling repairs. The Commission passed it unanimously.

Commissioner Bianchi introduced Eric Milstead from the Legislative Budget Office, who will replace Jason Hancock as the Commission's legislative analyst.

Current and Proposed Alternative Investment Models—Committee Recommendation

In addition to the Committee's recommendation to reduce the Capitol Endowment Income Fund by \$2,066,833 for skylight and exterior stone repairs, Commissioner Bianchi noted, it is also considering expending \$141,000 for billings from the Department of Lands for fees associated with administering the Capitol Endowment lands and timber. The Finance Committee then recommended that the remaining balance of the Income Fund, \$3,038,567, be transferred into the Capitol Permanent Endowment Fund.

The *Current Capitol Endowment Fund Flow Model*, he pointed out, begins with the Capitol Endowment Land Trust, which includes 7,222 acres of timber land. The Capitol Permanent Endowment Fund receives land sales and mineral royalties, and is currently managed on a 20% equity/80% fixed basis by the Endowment Fund Investment Board. The Fund retains its capital gains, but its interest earnings go into the Capitol Endowment Income Fund. Receipts from timber sales and land leases are also deposited into the Capitol Endowment Income Fund, which is managed by 100% fixed income by the State Treasurer.

If we were to proceed with our current investment model for the next 30 years, Commissioner Bianchi said, considering the Commission agrees to transfer the remaining \$3 million from the Income Fund to the Permanent Fund, the Capitol Permanent Endowment Fund would have a beginning market value of \$5,767,304. After 30 years the Fund would probably grow to about \$12,943,566, based on available historical information. Land receipts would be about \$15,331,770 and interest payout to the Income Fund another \$16,874,341 for a total amount deposited to the Income Fund of \$32,206,111.

At its last meeting, he recalled, the Commission asked Matt Haertzen, Endowment Fund Investment Board Manager, to make changes to the Capitol Permanent Endowment Fund investment model utilizing some less expensive index funds. Those changes have been made.

Committee Proposed Alternative Investment Structure

The Finance Committee considered several different alternative investment proposals, Commissioner Bianchi said, and it decided to recommend a structure that would include the following 6 elements:

1. The structure would transfer by appropriation the existing surplus balance from the Capitol Income Fund (\$3 million) to the Capitol Permanent Endowment Fund during FY04.
2. The Commission would request the Endowment Fund Investment Board to set a percentage payout from the Capitol Permanent Endowment Fund to the Capitol Income Fund. Rather than the income fluctuate based on timber sales, there would be a set average payout at about 7.5%, and would allow the Commission to better plan for repairs and remodeling to the Statehouse.
3. The lands income that is deposited directly into the Capitol Income Fund would instead be paid into the Capitol Permanent Endowment Fund. This would help provide a set amount to which the Endowment Fund Investment Board could plan its investments.
4. Overall, this proposed structure would produce higher distributions to the Capitol Income Fund and greater market value to the Capitol Permanent Endowment Fund. To do so, lands income from the Capitol Endowment Land Trust would go into the Capitol Permanent Endowment Fund and would be managed on a 70% equities/30% fixed basis by the Endowment Fund Investment Board. The Board would pay out about 7.5% or another percentage to the Capitol Income Fund each year, which would continue to be managed by the State Treasurer on a 100% fixed basis.

This new investment plan would accomplish the following, he said. First, land receipts would remain about the same at \$15 million, but there would be a big difference in the Permanent Fund market value based on investing timber receipts and allowing for a different investment portfolio. The Permanent Fund market value would climb dramatically, even after the distributions. Payouts from the Capitol Permanent Fund would be \$51 million to the Capitol Income Fund versus \$32 million. The Capitol Permanent Fund value, even after all of the distributions, would rise to about \$43 million as opposed to \$12.9 million that is projected under the current investment model.

In summary, he said, the Finance Committee is considering a proposal that would result in more income for the activities of repairing the Statehouse while also increasing the market value of the Capitol Permanent Fund and maintaining a Fund that will be adequate to take care of the Capitol in perpetuity. It would also provide a more predictable level of income on an annual basis so that in planning for repairs, or should the Commission go forward with a bond issue to help retire the debt service, there would be a predictable source of annual income.

5. In order to accomplish this plan, a statutory change in Idaho Code Section 67-1610 and Idaho Code Section 67-1611 would be necessary. He presented a draft piece of legislation to the Commission, which redirects the funds. The bill itself would amend statute to revert the deposit of earnings, the proceeds of timber sales, proceeds of leases, and proceeds of interest charged upon deferred payments from the Income Fund to the Capitol Permanent Endowment Fund.

New language would be added that says on July 1 of each new fiscal year, the Endowment Fund Investment Board shall distribute to the Income Fund an amount equal to a percentage approved by the Endowment Fund Investment Board of the value of the Capitol Permanent Endowment Fund that is calculated to provide a stable source of moneys to allow for the maintenance, repair and restoration of the Capitol while still preserving an increase over time of the value of the Capitol Permanent Endowment Fund. This language leaves open the exact annual percentage amount to carry out those goals.

6. Finally, a transfer of \$3 million from the Capitol Income Fund to the Capitol Permanent Fund would need to occur. This can be accomplished as part of the Commission's appropriation bill, he proposed.

MOTION: Commissioner Bianchi moved and seconded by Commissioner Patano that the Commission submit legislation to adopt the alternative investment structure recommended by the Finance Committee and seek to transfer \$3 million from the Capitol Endowment Income Fund to the Capitol Permanent Endowment Fund through its regular appropriation process. The Commission passed it unanimously subsequent to the following discussion.

Mr. Hancock commented that the distribution data from the Department of Lands and used in the plan design, went back 15 years and included a good mix of some high and low years that will be experienced. Since most of the acres of land include timber, there will be years when the timber is cut yielding higher returns, and years when no timber is cut and the yield is low.

Mr. Haertzen, Investment Manager, Endowment Fund Investment Board, reported that in his analysis, the past 30 years was considered, as well as an average annual return. Both good and bad markets were experienced over the past 30 years,

which gives a good indication of the level of volatility of the market in a more equity-weighted portfolio.

Commissioner Frasure noted even though the projections are not guaranteed in the new investment structure, what is certain is the trend of the old investment model, which would likely result in a downward direction. Taking into account the timber mills that have been shut down in Idaho, the bidding process that occurs on those timber sales, and the move toward environmental issues, the current model could be dramatically impacted. A move toward the equity model, he feels, is best for the Commission.

Commissioner Bianchi indicated that since the Commission has approved going forward with the legislation proposing an alternate investment structure, he will meet with the Legislative Council at its Fall meeting to seek approval to present legislation to the Legislature on its behalf and on the behalf of the Commission. Commissioner Ahrens asked Mr. Randy Tilley, Division of Financial Management Analyst, to make sure that the Governor is aware of the Commission's plans.

Idaho Investment Fund Endowment Board Expenses & Reports

Since the Capitol Commission does not have an Earnings Reserve Fund, Commissioner Bianchi said, when one of the organizations that is investing funds on the Commission's behalf incur expenses, it must go to the Commission for payment rather than to the Earnings Reserve Fund.

Mr. Haertzen was asked to come up with a schedule of fees for the Commission, and consequently has proposed that the Endowment Fund Investment Board charge a total of \$1,821 annually beginning in Fiscal Year 2005, which the Finance Committee felt reasonable.

Mr. Haertzen also reported that the most recent audit report has been completed on the Endowment Funds and there are no findings or questions about how the money is being handled.

MOTION: Commissioner Bianchi moved and seconded by Commissioner Erstad that the Commission include \$1,821 in fees to the Endowment Fund Investment Board in its FY05 appropriation request, and in future requests. The motion passed unanimously.

The Finance Committee also recommended, he said, that the Endowment Fund Investment Board provide the Commission with reports on an annual basis on the status of its investments.

Payments to the Department of Lands – Committee Recommendation

The Finance Committee is working with the Department of Lands regarding retroactive land management fees charged the Commission. At its next meeting, the Commission will be asked to address the assessed fees of \$65,000 for FY04, retroactive fees from FY01 and FY02 of \$129,359.62, and FY03 fees of \$76,000.

Recommended Future Considerations

Finally, Commissioner Bianchi reported, the Finance Committee suggests the Commission consider changing the investment model for the Capitol Permanent Endowment Fund by having the Commission's funds managed by the Endowment Fund Investment Board as part of a pool of larger endowment funds.

Additionally, the Commission may seek to encourage the Land Board to examine the sale of Capitol Endowment lands, which would result in a greater investment return in capital appreciation for the Capitol Permanent Endowment. The Land Board is examining these types of issues and questions in regard to all of the Endowment Funds.

Access Use and Administration

Commission Guideline on Public Space Use

At its previous meeting, the Commission reviewed its two sets of updated guidelines—one that addresses the use of public space, and one regarding memorials, exhibits, and displays in the Capitol Building.

At that meeting, State Facilities Manager, Mr. Mason recalled the Commission asked that the guidelines be made available for public review and comment, as well as sent to those agencies and organizations that utilize the Capitol on a regular basis. This was accomplished, and the only comment received was from the Idaho State Police (ISP) regarding the *Capitol Use Guideline*.

Prior to being sent out for public comment, the *Use Guideline* was modified to include the grounds of the Capitol as part of its scope, and the text was reorganized for ease in reading.

Of the five comments submitted by the ISP, the Department of Administration recommends four, he said. The first suggestion is to add three words to the opening paragraph of the guideline..."to promote the use of the Building and Grounds while preserving their dignity, beauty, **safety, and security**". The next three recommendations, which he recommends all be approved, fall within the category of "Safety". One is to add the line, "**Items such as packages,**

briefcases, and backpacks are subject to search.” The second is that **“Interior stairs, hallways, floors or exterior stairs and aprons may not be used by individuals on skateboards, roller skates, bicycles, or similar conveyances.”** The third is that **“Users may not carry placards or signs attached to wood or metal posts of any type, within the building.”** This reflects concern that metal or wood posts could be utilized as weapons, he said.

The fourth ISP suggestion, that is not recommended by the Department, is the statement that **“Persons violating these guidelines or performing illegal acts would be subject to arrest.”** This is a redundant statement, he explained, and unnecessary for the *Use Guidelines* because if a person is performing illegal acts, he/she is automatically subject to arrest. ISP agreed with this assessment.

Commissioner Hartgen expressed concern about the proposed addition that deals with the exclusion of signs attached to wooden or metal posts. He feels it threatens free expression and has not been proven to be a problem in the past.

MOTION: Commissioner Hartgen moved and seconded by Commissioner Bianchi to approve the inclusion of those ISP recommendations approved by the Department of Administration with the exception of the item that prohibits placards or signs attached to wood or metal posts of any type within the building. The motion did not pass subsequent to the following discussion.

In her experience in dealing with parade permits, Commissioner Patano commented, she has learned of a number of City Councils across the state that have passed ordinances that prohibit wooden or metal stakes for carrying placards in parades. Local law enforcement agencies have also made those recommendations in various communities across Idaho. Commissioner Ahrens noted that staff research shows in the US Capitol, no signs are allowed into the building or surrounding buildings within the Capitol Mall. In the states of Washington and Oregon no signs are to be brought into the building or any state building within the Capitol Mall, and in the state of Utah, no signs are to be brought into the Capitol that are attached to metal or wood posts of any type.

SUBSTITUTE MOTION: Commissioner Patano moved and seconded by Commissioner Frasure that the Commission adopt the guidelines for public space use at the State Capitol with the inclusion of the four ISP proposals, approved by the Department of Administration. The motion passed by majority vote.

Guideline on Objects of Art, Memorials, Statues, and Exhibits at the Idaho State Capitol and Grounds

At the last Commission meeting, Mr. Mason explained that the only substantive change made to this guideline was the addition of deaccession language to identify a process whereby items removed from the Statehouse would be turned over to the Historical Society and processed according to its guidelines. Secondly, an acknowledgement of the Visual Artists Rights Act was added, which is a federal law protecting the rights of artists. No public comment was received regarding these two additions.

Commissioner Patano noted that under Section II, Item 3, the guideline refers to the “Capitol Architect”, of which there is no position at this time. The Commission agreed to remove this reference from the guideline.

Commissioner Erstad also pointed out that Item 3 in Section III recognizes the policies of the master plan. He suggested that the master plan be identified by specific publication date.

MOTION: Commissioner Erstad moved and seconded by Commissioner Patano that the Commission approve the draft Guidelines for Objects of Art, Memorials, Statutes, & Exhibits at the Idaho State Capitol and its Grounds with the changes to Item 3 in Section II, and to Item 3 in Section III. The motion passed unanimously.

Commissioner Ahrens asked that the minutes reflect that both sets of guidelines will be reviewed on an annual basis.

Upcoming Meeting Date

Commissioner Ahrens noted that by statute, the Commission is to meet on a quarterly basis, and suggested that perhaps it schedule its next meeting on or near the time that the Commission is scheduled to present its FY05 budget request to the Joint Finance and Appropriations Committee, in either late January or early February. Subsequently, a quarterly meeting schedule will be proposed for the remainder of the year.

MOTION: Commissioner Erstad moved and seconded by Commissioner Patano that the Commission schedule the next meeting as identified and that the subsequent meeting dates be set in advance. The Commission passed it unanimously.

Adjournment

The September 22, 2003 Idaho Capitol Commission meeting adjourned at about 10:50 a.m.

Pamela I. Ahrens, Secretary
Idaho State Capitol Commission

Diane K. Blume, Management Assistant
Department of Administration