LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, January 31, 2003

3:15 p.m.

The Washington Court Hotel
525 New Jersey Avenue, N.W.
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Nancy Rogers, Chair (by telephone)
Douglas S. Eakeley (ex-officio)
John N. Erlenborn
Edna Fairbanks-Williams
Thomas F. Smegal, Jr.

BOARD MEMBERS PRESENT:

Maria Luisa Mercado
Ernestine P. Watlington

STAFF AND PUBLIC PRESENT:

Victor M. Fortuno, Vice President for Legal Affairs, General Counsel & Corporate Secretary

STAFF AND PUBLIC PRESENT (con'd):

Mauricio Vivero, Vice President for Governmental Relations and Public Affairs
John Eidleman, Acting Vice President for Compliance and Administration
Leonard Koczur, Acting Inspector General
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel
David L. Richardson, Treasurer and Comptroller
Mattie C. Condray, Senior Assistant General Counsel
Linda Perle, Senior Attorney, Legal Services, Center for Law and Social Policy
Frank Strickland, Attorney, Strickland Brockington Lewis, L.L.P. (Nominee)
Robert Dieter, University of Colorado (Nominee)
Michael McKay, McKay Chadwell (Nominee)
Florentino Subia (Nominee)
Alice Dickerson, Director, Office of Human Resources

C O N T E N T S

P R O C E E D I N G S

MR. RICHARDSON: Hi, Nancy.

CHAIR ROGERS: Hello, David.

MR. RICHARDSON: Sorry for the delay.

CHAIR ROGERS: Oh, that's all right. Shall we call the meeting? Oh, is Tom there?

MR. EAKELEY: No, but I think we have a quorum.

CHAIR ROGERS: Okay. Well, you have before you the agenda for the Finance Committee meeting. I am calling that meeting to order, and ask that those who are present state their names.

MS. WATLINGTON: Ernestine Watlington.

M O T I O N

MS. FAIRBANKS-WILLIAMS: Edna Fairbanks- Williams, and I will move the agenda.

MS. MERCADO: Maria Luisa Mercado.

MR. EAKELEY: Doug Eakeley, and I second the motion to approve the agenda.

CHAIR ROGERS: Great, you are so efficient.

All those in favor of approving the agenda say aye.

(Chorus of ayes.)

CHAIR ROGERS: Approved today.

And is there a motion on the approval of the minutes?

M O T I O N

MR. EAKELEY: So moved.

CHAIR ROGERS: Second?

MS. FAIRBANKS-WILLIAMS: Second.

CHAIR ROGERS: In favor?

(Chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: All right.

CHAIR ROGERS: And, next, I assume we have the temporary operating budget, is that correct?

MR. EAKELEY: Right. Say hi to John Erlenborn, too, Nancy. He just walked in.

CHAIR ROGERS: Hi, John.

MR. ERLENBORN: Hi, Nancy. How are you?

CHAIR ROGERS: I'm just fine. We're on item 3 on the agenda, John. And that's the temporary operating budget.

MR. ERLENBORN: Thank you.

MR. EAKELEY: Though I think the record should reflect that it's for the -- it's dated January 22, 2003.

CHAIR ROGERS: Pardon me?

MR. EAKELEY: The memo that's attached to the agenda is dated 2002.

CHAIR ROGERS: Through agenda. It's through December 31st, 2003. We'll correct the agenda, if there is no objection.

MR. EAKELEY: No, no, Nancy, I'm sorry.

CHAIR ROGERS: No, no.

MR. EAKELEY: The memo from David to you is dated January 22, 2002. But it ought to be January 22, 2003, since it's for the fiscal year 2003, temporary operating budget.

CHAIR ROGERS: Okay.

MS. MERCADO: But even though I am not a member of the committee, but the expenditures are a summary of expenditures through December 31st, 2002?

MR. RICHARDSON: That's correct.

MS. MERCADO: Okay.

MR. RICHARDSON: Okay. Let me go ahead and start with the presentation that I have. The budget is shown in the board book on page 184, and I'll walk through some of the major items there. And if you do have any questions, do feel free to stop me at any time.

The budget for the year adopted by the board -- and this is the temporary operating budget -- is $335,903,994. And that was adopted at a meeting in September. We are not able to come to you at this time with a consolidated and operating budget because we do not have appropriation as yet.

There is another continuing resolution that was put forth yesterday, and I understand will be signed by the president for either today or tomorrow which will provide funding through Presidents Day.

And, at that point, the hope is that we will have annual appropriation, and that we can then go to work and finalize a consolidated operating budget for you from the next meeting. The monies that we have before you is based upon the $329,300,000 budget that was appropriated in 2002.

There is a slight modification, if you'll recall, between the technology grants and was reduced and money was transferred or given then to the management administration. That information is not in your book. I'm just trying to recall a little bit of what we went over last time.

MR. EAKELEY: Well, just remind me, the column for revised budget is the budget revision approved by the board?

MR. RICHARDSON: That is correct, sir. So what we have is the lines that are shown is the appropriation, the projected carryover, interest, monies that have been put in here. And that's how we come up with $335 million versus the $329,300,000 appropriation.

Within the basic field you'll see that there is a $310 million budget there. And there is expenses of $303 million. The amount that is shown there is the amount of contracts that have been awarded to date.

And what we normally do, just as a reminder, is we award the money in December. We pay two-twelfths in January, and then it's paid out one-twelfth each month until November, and then there is no check in November, and then there is a check in December.

So this represents the full contract that has been awarded to those grantees, and then we'll pay the money out during the year. There is $6.8 million in grant funds that are for grantees. They are designated to a specific area.

But there is, for whatever reason, there is a competition going on in those particular areas, or there is an issue where they have not received full funding for the year. And those decisions will be coming -- the majority of those will be coming in March, when there is a review of those.

Within the U.S. Court of Veterans Appeals, we do not have the exact amount of money that we are getting this year. We have carryover of $68,000 there, anticipate a grant somewhere in the 879 to 900 range.

And that money then will be -- we're a pass-through for that conduit, which will then go to the different program that has been -- that will receive that award. The $310 in expenses that you see there is staff costs for going to a meeting, and making some funding decisions with the consortium.

So there is just a small amount of reimbursement money that comes back to the corporation from that. The grants from other funds available, you see it's a $114,000. We have not used any of that money thus far this year. And that, of course, is for emergency or special one time grants.

The technology initiative money, $8.2 million, and we have awarded monies this year of $3,300,000. You heard a little bit of a report this morning from Glenn Rawdon about an October technology meeting that they had where some of these announcements were made.

And they will have another round of competition this summer with grants being made either late in the year, or much like this 300 -- or $3,300,000 here is actually 2002 money that was not awarded until October. So that's the reason it's expensed in this year.

Within the corporate grants and administration, you'll see that the total budget is $17,500,000 that's broken out into two different categories, main categories: management administration, $14.2; and the inspector general, $3,200,000, almost $3.3 million.

Thus far, management administration has spent 21.6 percent of their budget; and the inspector general has spent 14.69 percent of his budget. You see the breakout there of the board of directors, $377,725 of money that was budgeted for the temporary budget. And we spent 35 -- $37,000 there.

The reason that that is a very low percentage is, if you will recall, there is $125,000 sitting there for presidential and IG search for the incoming board.

Within the executive office, we have a budget of $948,000. And spent today, there is $191,000. And they are at 20 percent of their annual budget, and they're right on target with their spending.

Within the legal affairs, the budget is $1.1 million, spent $327,000. Let me refer -- I'm just a little bit back and forth because I want to bring forth just a couple of items in this particular budget on page 186.

This particular budget, it's at 29 percent. And the reason that it is a little high is because of the outside counsel costs. So when we do look at doing an annual budget, we'll have to take a closer look at this particular budget to see if additional money is warranted there.

It's something that we monitor very closely. It's one of those situations that it is sort of out of our control. It is sort of react instead of being proactive here. So we have to shift funds and resources to accommodate the needs there.

Within Office of Government Affairs, you'll see that there is a budget there of $719,000. We spent 132. That's 18 percent of the budget, where you'll see it's certainly well within its budget. There is one line item that is a little bit more.

That's for the Equal Justice magazine. And that will sort of even out during the year, as we forward in the year. And the percentage will -- well, it remains constant, comes more into line with the target that we're looking at for, as we move forward.

Within the Office of Financial Administrative Services -- or excuse me -- Human Resources, we have a $516,000 budget. There is an amount spent thus far of $108,000. And that is -- I have got the percentage here. It's well within the budget. It's 21 percent of the budget.

Within financial administrative services, the budget is $2.978 million. We spent $659,000 thus far. The majority of the money there comes from your rent. That's where the total rent is charged for the corporation.

There is one other item that appears to be a little bit over. And that's because there is $101,000 for the other operating expense because we have paid our annual insurance costs for directors and officers liability and commercial package. That's a one time cost.

So, again, as we move through the year, we feel that this will come in line. So it's not overspent, even though it may look that way at this point.

Within the Office of Information and Technology, $1.2 million, spent $213,000, and that budget is certainly within spending parameters. They're running about 17 percent of their budget.

Program performance, there is a budget there for the program operations of $3.2 million. They have spent $700,000 thus far. Again, that is 22 percent. It is within the budget that we have set for them.

I would note that in this particular one, you'll see that there is travel -- again, referring to page 186, travel of $150,000 there. There is a refund coming to that one due to the technology conference, and what the attenders will be reimbursing the corporation for some travel and hotel costs there. So that money will actually go down and will even help the budget that much more.

Within information management, it's $801,000 for the budget; and they have spent $166,000. And that is 20.8 percent of their budget.

Compliance and enforcement, $2.3 million budget, they spent thus far about $126,000. That's 22 percent of the budget. And there is no lines within their budget that are over.

Referring to page 185, just to come back to the interesting, which is something that we have seen in the IOLTA programs that is drying up because interest rates are going down, and continue to go down. This week the feds didn't reduce it, but they have left the fed rates unchanged for the next few months. So we are sort of stabilizing that.

Somebody was telling me this morning that they had read an article that their money market funds was paying .25 percent of their money. So interest rates have really hit rock bottom.

MR. EAKELEY: But, David, what is a negative $100,000 mean on the revised budget for other funds available?

Is that a negative carryover?

MR. RICHARDSON: As to what we have done is we are projecting $100,000 there in interest for this year. Thus far, we have collected 90,000 -- 19,000. So we're saying that we have got to collect an additional 80,000 to break even with the projection that we have made.

I hope that answers your question. I could have reversed it, but it's just a matter of that's how much was budget. And this line has been added to the top.

MR. SMEGAL: It would probably be easier to read if the 100,000 wasn't in the brackets, but the 80,000 was to show how much more we need to get to the 100.

MR. RICHARDSON: I could certainly change that. That's not a problem.

MR. EAKELEY: That was Tom Smegal, Nancy, who slipped in after we started.

MR. SMEGAL: I was here all the time, Nancy, but I was trying to remain anonymous.

CHAIR ROGERS: Hi, Tom.

MR. SMEGAL: Hi, Nancy.

MR. RICHARDSON: The last item there is the miscellaneous item, and I'm going to break that out. I just realized, as I was reviewing for this presentation, the majority of that money, about $5,000 is money from the Equal Justice magazine.

And I'll put in a separate line item, so that you will see how much money is being raised through the Equal Justice magazine through the fundraising or sponsorship of the magazine that is going on.

As you see, we're well within budget. Everything has been moving very smoothly. And, with the exception of the few little items that I had noted that we have overspent in, we are paying particular attention to those.

And once we do come back to the board with the final appropriation, we incorporate an additional amount of carryover that was identified. Just remember in September, we had done a projection of carryover.

We actually ended up with about $130,000 additional money that will help support this budget, and we have identified some other needs that will need to be budgeted at a future point. So we'll do that and we'll come back to you with a consolidated operating budget, hopefully, at the next meeting.

CHAIR ROGERS: Thank you. David. Are there questions?

MS. MERCADO: Yes. Nancy, this is Maria Luisa. I just had a question of our treasurer on -- you said that there was a larger amount. And I guess it's the consulting firm and legal affairs, $122,000?

MR. RICHARDSON: That's correct.

MS. MERCADO: Do we anticipate that we're going to have a significant amount of legal fees this year, since we're only not even a third of the way through?

MR. RICHARDSON: That's the reason I say we're sort of reactive there. We don't know. We certainly have a couple of cases that are going on. There are some issues that our outside counsel is involved with.

And it's something that if we end up needing additional money, we've got budgeted $270,000 in there for the year. And this is about -- not quite half -- about 45 percent.

But if we do need additional money, we'll come back to the board and we'll identify a source of funds and ask for a reallocation here.

MS. MERCADO: Okay. And on the -- I'm sorry, just one more. And on the line item of program performance, you had said that on the travel and transportation, you would receive some reimbursements from travel.

Do you know what, if any, your estimate is, and what that reimbursement would be?

MR. RICHARDSON: It's about $45,000.

MS. MERCADO: How much?

MR. RICHARDSON: $45,000.

MR. ERLENBORN: Madam Chair?

CHAIR ROGERS: Yes, yes, John.

MR. ERLENBORN: Let me ask a question of you, David. I was given the information that may or may not be applicable to this.

The bill that recently passed, the appropriation bill that recently passed the Senate, have a couple of items in there for across the board reductions which may or may not stay in the bill when it goes through Conference Committee.

Does that have any bearing on what you have told us today?

MR. RICHARDSON: I have seen only one item that dealt with reductions, and that was to provide us an additional $19 million in the basic field funding. And the Senator who had brought that forward identified items to cut to make up that $19 million.

That money would go to our basic field programs in an attempt to hold harmless those programs that would receive a reduction because of the census shift. So the impact there would be beneficial to us. I have not seen any other information to that.

MR. ERLENBORN: The other thing I'd like to comment on is the refunds for legal services. We have had quite a number, unfortunately, of disputes with former programs, who don't want to return to the corporation the property that we gave them the funds to buy the property for.

And we have a couple of cases that are already in the courts, and others that may very well appear there. We have, as I say, very unfortunately, quite a bit of value of property that the corporation rightfully should recover. And, unfortunately, again, we are not getting the cooperation from all of our former grantees.

MR. FORTUNO: And, if I may, Madam Chairman, this is Vic Fortuno. Nancy?

CHAIR ROGERS: Oh, yes, Vic.

MR. FORTUNO: Oh, hi. Just to help put things in perspective, one instance, for example, in Scampia County, where there was a dispute concerning some property the corporation recently recovered, something well in excess of $900,000.

So there was an investment, in terms of litigating their case, certainly far short of that amount of the 900-and-some-odd-thousand dollars recovered.

That $900,000 does not go back into the litigation line, instead it goes into the basic field line; so that there has been an expenditure, but the expenditure has generated additional funds for a basic field. So I thought I would offer that as just an illustration as to how this is all interacting.

CHAIR ROGERS: Thank you. And was that you, Maria Luisa?

MS. MERCADO: Yes, that's pretty good vision. It just sort of brought up a quick question, as far as the budgetary item.

If, in fact, we brought in $900,000, and then that goes back into the field, in this particular budget that you have presented to though us, it doesn't include the $900,000, right? It does?

MR. FORTUNO: What's come in this quarter.

MS. MERCADO: Oh, okay.

MR. FORTUNO: I think the document you are looking at reflect the finances as of the quarter ending December 31st. The funds that I'm talking about, the 900-and-some-odd thousand dollars actually comes in this quarter.

MR. EAKELEY: But they're not funds that are then applied to the management and administration line of the budget.

MR. FORTUNO: That's correct.

MR. EAKELEY: They're funds that pull back to the field.

MR. FORTUNO: That's correct.

MR. EAKELEY: Do we net out the costs of recovery before we send them back to the field?

MR. FORTUNO: No.

MR. ERLENBORN: Is there a good reason for us not to do that? Are we unable to do that?

MS. MERCADO: Well, I hadn't finished my comment.

MR. ERLENBORN: I'm sorry.

MS. MERCADO: Okay. My comment goes to the issue of that because it was property, and, more than likely, it was property in which the grantee had their offices where they run their program from.

Does that money then go back to pay for what we will call shelter or office space for that particular new grantee or new entity?

CHAIR ROGERS: David.

MR. FORTUNO: Typically, the way this occurs is that the new grantee would like to have the property, so that they could locate their offices in there. In the few cases where this does occur, we see the former grantee holding onto the property and forcing us to litigate over the property.

During that period of time, the new grantee ends up having to find alternative office accommodations. So what they end up having to do is lease offices from a landlord in that vicinity.

When we conclude a matter such as this one -- and I'm thinking of one in Florida -- what then happens is the money goes back in the basic field and there is a general presumption that it will go back into that same service area. But it's not necessarily the way it will go.

There is a determination made as to where the funds are most needed. But the presumption, although a rebuttable presumption, is that it would go back in the same service area. And there is no netting out, so that the funds that we expend from M&A to generate this return are not netted out, we incur that expense.

And that's why you see here our legal fees being what they are because we have to litigate cases all over the country, and are required to have local counsel for these. But the return goes into basic field.

As to why that happens, I think it's because of a general understanding that since it's basic field money because it was property purchased with a basic field grant.

And since what we are doing is we are recovering the proceeds from a sale, maybe a forced sale of the property, the property is viewed as being derivative income from a basic field grant, so that what we do is we put into the basic field pot, so as to not run into issues of whether we are transferring funds from one line to another; that is, from the basic field line to the M&A line.

MR. EAKELEY: But, Nancy, can I just follow up on this?

CHAIR ROGERS: Yes, Doug.

MR. EAKELEY: First, we're almost invariably dealing with appreciated property.

MR. FORTUNO: Yes.

MR. EAKELEY: And the proceeds from this sale represent income only to the extent that they are net proceeds. And by foreclosing, litigating, securing additional assets that go back to the field, we're expending additional funds that are not available to other program support areas.

And I'm just wondering whether or not that's advisable. At least they are just expenses in order to generate additional resources for the field.

MR. FORTUNO: Yes.

MR. SMEGAL: Are you concerned, Doug, that as a consequence of this there is a disparate distribution of these funds?

MR. EAKELEY: Well, we're running up -- I don't understand why --

MR. SMEGAL: We're charging all the field programs for --

MR. EAKELEY: Yeah, we're charging all, exactly. I don't know why we shouldn't net out the costs of recovery and distribute the net proceeds of recovery back to the field.

CHAIR ROGERS: Well, I'm having trouble. To me there might be a more difficult situation. That's the situation that Vic suggested, where the prior program and a new program, the new program is ready to move on, and the litigation establishes their right to do so.

Then to say, when they don't really have any cash sitting around, that they need to pay for the corporation's legal fees would make it pretty impossible for the new program to move in I would think.

MR. SMEGAL: Nancy, that's a different situation. In that situation, we don't get any money. They just moved in.

CHAIR ROGERS: Well, they --

MR. SMEGAL: It's only where that we liquidate the property do we get money.

CHAIR ROGERS: Right. But there must be some -- how many situations do we liquidate the properties?

MR. FORTUNO: Right now, we have maybe a half dozen of those going on at best. It may seem like a lot because they take a lot of time and effort.

But, in fact, in the overall scheme of things, when you figure that we have in excess of 200 programs and we're talking about litigating maybe a half dozen of these, it takes a lot of our time because we're a small shop. But it's not the norm, it's the exception, I would say.

MR. ERLENBORN: Let me say, if I might, I don't think that this has been a problem in the somewhat distant past. But it developed as a result of reconfiguration where we cut down from maybe 10 or 12 programs down to only one, and they may not then utilized all of the properties that had been utilized before.

So this I think is what has generated the activity in trying to protect the asset for the corporation. And I work very closely with Vic and his people on trying to see that we do this.

It's to the advantage of the corporation obviously. There is no reason why somebody should wind up with a free piece of property because we failed to exercise the rights that we have..

MR. FORTUNO: The president is absolutely right. The incidents of these occurrences has increased with the advent of competitive grant making and reconfiguration. What the situation, just to illustrate it, would be a former grantee purchased property with LSC grant funds.

It ceases, for whatever reason, to be an LSC grantee. In its place is a new program. The LSC directs the former grantee to transfer the property to the new program. The former grantee says, "No, if you want it, come and get it."

We're then, to simplify things, left in the position where we either look to the new grantee to try to litigate it to recover that property. They would have to litigate that out of their grant funds.

Secondly, their case might not be as strong as ours. We might be in a stronger position to litigate that case. And if we don't litigate it, and the successor grantee doesn't litigate it, then by default the former grantee would be allowed to keep the property, which opens the corporation up to possible criticism for allowing a former grantee, now possibly engaged in activities are prohibited to LSC grantees, that we allow that grantee to retain the property.

So we have to be mindful that there might be criticism leveled against a corporation for what might appear to be subsidizing former grantees now possibly engaged in activities that are impermissible for current grantees.

But the bottom line is, either we let the property go, or we litigate it. If it's litigated, it's either by LSC or the new grantee. Query who has the stronger case, whether it's LSC, or the new grantee. And if we're concerned about depleting the resources of the new grantee, then that would speak to LSC doing the litigating.

It did occur to us early on that this was going to cost a bit of money. But it seems that by setting the precedent, it's less likely that this will occur. It has occurred a number of times.

We think that it will recur with lessening frequency, as the body of caselaws develop which supports.

In fact, we have not lost any of these, we have won them all.

So we are confident that there will come a time when people will be less apt to litigate these, although even that's a stretch, because there is a lot at stake.

For example, if it's a million dollar piece of property, folks might not be willing, in some instances, to turn it over at the very outset, and might be willing to engage in a dispute of some sort that would increase the likelihood they could retain the property. After all, it's a million dollars worth of property.

MR. EAKELEY: We should get back on the budget agenda. But that you, Vic.

CHAIR ROGERS: Any more questions or comments, or are we ready to have a motion on -- or I guess there is no action.

Are there any more questions or comments on the report on the operating budget -- temporary operating budget?

MR. EAKELEY: Thank you.

CHAIR ROGERS: Next item on the agenda is, "Consider and act on amendments to the 403(b) Thrift Plan for Employees of LSC."

A PARTICIPANT: Not this again.

MS. DICKERSON: This again, and this is Tom's favorite.

A PARTICIPANT: Well, now we changed it, though. It's different this time. It used to be GAAT, not it's GUST.

MS. DICKERSON: It's still GUST, but it still includes --

A PARTICIPANT: Oh, wonderful.

MS. DICKERSON: Let me get this mike. For the record, I'm Alice Dickerson, director of Human Resources.

CHAIR ROGERS: Welcome, Alice.

MS. DICKERSON: Thank you. Hello, Nancy. How are you?

CHAIR ROGERS: Fine.

MS. DICKERSON: You have before you in your board book, Resolution No. 2003-001. It's on page 189. And the purpose of this resolution is to grant staff the authority to take appropriate action to make some technical corrections to the 403(b) related to the GUST amendment.

In May of 2002, you probably will remember that you did pass resolution adopting a special GUST amendment. At that time, we had presented to you only some of those provisions required by GUST legislation, because in 1997 LSC had restated the pension plan. And, at that time, some of the GUST requirements were already in effect. And so, they were incorporated in the restated plan.

In 2002, Diversified Investment Advisors sent to us another document entitled, "Special GUST Amendment," which incorporated all the changes that were already in our plan, as well as some additional ones that became effective between 1997 and 2002.

So the resolution that we had you pass in May, was a resolution that simply included the ones that were not already in the plan. Unfortunately, recently we heard from DIA.

And what they're saying is that in order for our plan document to be consistent with their boilerplate plan document, if you will, we need to adopt the GUST amendment in its entirety, even though some of those amendments were already in our restated plan.

So what we're recommending to you is that you adopt this resolution so that we can bring our plan into compliance with DIA's standard plan document for 403(b)'s. It has no financial impact on the plan. And it simply incorporates the provisions that we had already adopted in '97, and those that you passed in 2002, May of 2002.

MR. EAKELEY: Who is DIA?

MS. DICKERSON: DIA is Diversified Investment Advisors, and they are our pension administrators.

MR. EAKELEY: Our pension administrators? They're the ones who told us that if we don't adopt this amendment, we're going to have to do every amendment to the plan on our own?

MS. DICKERSON: Right, because --

MR. EAKELEY: That's a threat.

MS. DICKERSON: Yes, it is, it is, and it would really take up a tremendous amount of our time. Because then every time we need an amendment, we would have to draft the whole thing ourselves, where right now they provide that service to us.

But their attorneys don't want to have to take the time to sift through our plan and verify the fact that those certain things are already incorporated, and then match it to the ones that have to be included in May, the ones that were passed in May of 2002. So they want us to just pass this whole thing in its entirety.

MR. ERLENBORN: Madam Chair?

CHAIR ROGERS: Yes.

M O T I O N

MR. ERLENBORN: I move the adoption of the resolution.

CHAIR ROGERS: Second? And this is resolution 2003-001, right?

MS. DICKERSON: That's correct.

CHAIR ROGERS: Is there a second?

MS. FAIRBANKS-WILLIAMS: Second.

CHAIR ROGERS: Discussion? All those in favor say aye.

(Chorus of ayes.)

CHAIR ROGERS: All those opposed say nay.

(No response.)

CHAIR ROGERS: The resolution is approved for recommendation to the board.

The second resolution is Resolution 2003-002, on

192.

MS. DICKERSON: Yes, and this particular amendment is related to our flexible spending account. And this is simply to authorize staff to take the appropriate action to increase the maximum by which employees can reduce their taxable income by $3,000, in order to cover eligible medical and dental expenses of that type.

The reason that we have increased the maximum on this plan is because health care costs are escalating, as I'm sure you all know. This year, when our provider came back with our plan renewal, we had like a 29 percent increase was proposed.

And we found that by at least making some changes in our plan design that, in effect, increase co-pays and deductibles for employees, it thereby allowed us to have an increase of something less than 26 percent.

So, in order to help the employees cover these additional co-pays and deductibles, we have raised the limit that they can have withheld from their checks to cover such expenses. And we just need to amend the plan to state that the maximum is $3,000.

MR. SMEGAL: What was it before? What was the $3,000?

MS. DICKERSON: Two thousand is what it was.

MR. SMEGAL: So it's going from two to three?

MS. DICKERSON: Uh-huh.

MR. SMEGAL: And the advantage here is that the way this whole thing works for everybody, not just our people, is these are pre-tax dollars --

MS. DICKERSON: That's correct.

MR. SMEGAL: -- as opposed to the co-pays being after-tax dollars?

MS. DICKERSON: That's right, yeah, gives them the opportunity to pay it with pre-tax dollars.

MR. SMEGAL: And they don't have to put in the 3,000, they just sort of estimate how much they want to put in, and it corresponds to what they --

MS. DICKERSON: What they have to do is sign a salary reduction agreement at the beginning of the plan year identifying the amount that they choose to have reduced -- to choose to reduce their salary by, and they are bound by that for that entire year.

If they don't use all of that money during the course of the year --

MR. SMEGAL: They lose it.

MS. DICKERSON: That's right. They lose it. They lose it.

MR. SMEGAL: There is no carryover?

MS. DICKERSON: No.

MR. SMEGAL: So it's their decision as to how much it's going to be up to 3,000?

MS. DICKERSON: Right.

MR. SMEGAL: Okay, thank you.

CHAIR ROGERS: Any further discussion?

M O T I O N

MR. SMEGAL: I so move.

MR. EAKELEY: Second.

CHAIR ROGERS: All those in favor say aye.

(Chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: The recommendation, or the resolution is approved for recommendation to the board.

Vic, do we have a report from the inspector general on the audit, or has that been removed from the agenda?

MR. EAKELEY: That's not on the agenda. I don't know whether it's been removed, but Leonard is here.

CHAIR ROGERS: Vic, do you -- what is the plan on that?

MR. KOCZUR: Yes, Nancy, as I reported to you, the audit was not completed yet. There is some information that needs to be completed.

As we reported, and Dave reported some time ago, there is a format change this year, for one thing, that is requiring some additional work. And it's simply not done yet.

CHAIR ROGERS: Okay.

MR. KOCZUR: And we were meeting with our auditor just before this meeting to work out some of the technical details that is holding up the audit.

So, certainly, right now we don't have a specific date for completion. I would say at the outside it would be six weeks from today, at the very outside. I would expect it to be much sooner than that.

CHAIR ROGERS: Thank you, Len.

MR. KOCZUR: You're welcome.

CHAIR ROGERS: Is there any other business to come before the committee?

MR. ERLENBORN: I vote we adjourn.

CHAIR ROGERS: All those in favor?

(Chorus of ayes.)

CHAIR ROGERS: The meeting is adjourned. Thanks, everyone.

MR. RICHARDSON: Thanks, Nancy.

(Whereupon, at 3:58 p.m., the meeting was concluded.)

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