LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, April 5, 2002

3:29 p.m.

Potomac III Room
The Melrose Hotel
2430 Pennsylvania Avenue, N.W.
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Thomas F. Smegal, Acting Committee Chair
Edna Fairbanks-Williams
Douglas S. Eakeley (ex officio)
John N. Erlenborn

BOARD MEMBERS PRESENT:

F. William McCalpin
LaVeeda Morgan Battle
Maria Luisa Mercado
John N. Erlenborn
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):

David L. Richardson, Acting Vice President for Administration, Treasurer, and Comptroller
Patricia Hanrahan, Special Assistant to the Vice President for Programs
John Eidleman, Deputy Director for Programs
Michael Genz, Director, Office of Program Performance
Robert Gross, Senior Program Counsel, Office of Program Performance
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel
David Maddox, Assistant Inspector General for Resource Management
Leonard Koczur, Acting Inspector General
Reginald Haley, Program Counsel, Office of Program Performance
Leslie Q. Russell, Director, Office of Information Technology
Lynn Bulan, Senior Assistant, General Counsel, Office of Legal Affairs
Mattie Condray, Senior Assistant General Counsel, Office of Legal Affairs
Julie Clark, Vice President for Government Relations, National Legal Aid and Defenders Association
Don Saunders, Director for Civil Legal Services, National Legal Aid and Defenders Association
Frank Strickland
Patricia De Marcos
Dawn Carpenter, Managing Director, EOS Financial Group
Brad Kier, Financial Analysis, EOS Financial Group

C O N T E N T S

P R O C E E D I N G S

ACTING CHAIR SMEGAL: Well, we're running a little late, so I think we're going to have to speed up this meeting. It is almost 3:30, and we can start off like a train and go a little early.

Recognizing the presence of a quorum of the Finance Committee, I would welcome you all, several members of the board who are not on the Finance Committee, but enjoy the interplay we have with the excitement of the numbers we usually talk about.

So we're about ready to go. And the first step in the process is to approve the agenda. Edna, would you think maybe you could make that motion?

M O T I O N

MS. FAIRBANKS-WILLIAMS: I would do that.

ACTING CHAIR SMEGAL: Thank you very much. Is there a second by a member of the committee? Mr. Eakeley?

MR. EAKELEY: Second.

ACTING CHAIR SMEGAL: Well done. We're moving right along now.

MR. McCALPIN: Where has this clown been for eight years?

(Laughter.)

ACTING CHAIR SMEGAL: Practicing.

MR. EAKELEY: Let the record reflect that the remark was directed at Mr. Smegal and not Mr. Eakeley. I'm the straight guy for Mr. Smegal.

ACTING CHAIR SMEGAL: We have some minutes of a meeting we held on January 19 that need approval. Is there a motion to approve the minutes?

M O T I O N

MS. FAIRBANKS-WILLIAMS: So move.

ACTING CHAIR SMEGAL: Is there a second?

MR. EAKELEY: Second.

ACTING CHAIR SMEGAL: Thank you. Are there any corrections or modifications? Everything is spelled correctly; they look like excellent minutes. I believe there -- Mr. McCalpin, do you have anything to say?

MR. McCALPIN: No.

ACTING CHAIR SMEGAL: Okay. As many as are in favor of the --

MR. McCALPIN: I'm not a member of the committee.

ACTING CHAIR SMEGAL: Well, you could correct the minutes, if you'd like. We'll entertain such things from you. You did it last time.

(Laughter.)

ACTING CHAIR SMEGAL: As many as are in favor of the minutes as they are presented, please say aye.

(A chorus of ayes.)

ACTING CHAIR SMEGAL: All right. Mr. Richardson, I think you're on for item 3. We have some materials in the board book. Is there any update?

MR. RICHARDSON: There is not, sir.

ACTING CHAIR SMEGAL: I didn't miss anything this time?

MR. RICHARDSON: No, sir.

ACTING CHAIR SMEGAL: Okay. Please proceed.

MR. RICHARDSON: We are going to be referring to page 55 and a few pages thereafter. There's a memorandum in the book. I think that each of you had opportunity to look at the information.

We are reporting five months of the fiscal year, which is basically 42 percent of the fiscal year. So when we look at the different benchmarks for percentages, that's sort of what we're comparing to.

The budget, in total, for management and administration is approximately 34.9 percent. So we're well within budget. But let me go ahead and refer to page 55, and review for you the consolidated operating budget as it now stands.

Column 1 is the budget as adopted by the board in January. Recently we have had one revision, which is in the purview of the president to approve. We've moved $70,000 of funds from the executive office, in particular from the consulting line, to help the operations of two offices, the government relations and the program performance budgets. There is no increase of budget; it's a zero effect.

As we're looking at column 3, we see that for the delivery of legal assistance, we have a budget of $320,364,000. We have contracts and expenses to date of

$306,068,000. So there is a remaining balance there that is mainly for the basic field program. It's basically 8.9 million, and that is due to some funding issues and decisions that are being made. The money is earmarked for specific areas, but those decisions have not been forthcoming as yet.

Within the Court of Veterans Appeal, this year we got an additional $895,000 in funds. The rest of that is carryover. We have contracted to date 870,000. There is going to be an adjustment, an additional award, made to that particular grantee that will take a part of that money away, and as soon as that decision is made as to how much, that will then be expensed and reported to the board.

Within the grants from other funds available, there is $10,000 that has been expended there, and that money went to help New York City in their recent 9/11 incident and help try to support them with some needs that were possibly not being met by insurance for any particular loss, casualty loss, there. And so we've tried to help there somewhat.

Within the technology initiatives, you see that there is a budget of $9.1 million, almost 9.2, and we have contracts to date of $4,046,000. And the rest of that is under competition now. The RFPs have gone out, and there will be some decisions later in the summer for that money to be sent.

Within corporate management and administration, you look at II.A., you'll see that our budget is $13,555,000. We have spent to date $4,751,000, almost 52, so again, this is where I was referring, that we are spending basically 34.9 percent of the money. And the IG's budget, it is $2.886 million. Spent to date is $2,645,000.

For a further breakdown of those expenses, I'll look at 57. But before I do that, I need to report on the interest. You see it is down substantially from where it has been in the past. There is one month that has not yet been reported there because one of our banks has not reported the interest to us as yet. So we've been in contact with them.

But as you see, five months of the year, we are significantly down. This time a year ago, we were having interest of almost 6 percent paid on our money, and right now it is basically 2.2 percent. So we may have to come back to the board at a later meeting and ask for an adjustment and reduction of that money and make some additional adjustments in the budget, and that's something that we will come back to you at the next meeting if we have to do that.

The main items on 57, we are again looking at the expenses. This is a report of the budget by each office and by budget category. Most of the expenses here are fairly straightforward. There is one that I will call your attention to which is a big negative, and that is the negative in the consulting budget of the legal affairs.

We are receiving insurance recoveries from past litigation where the insurance has now kicked in and started -- the negotiation with the insurance company has now been to go back and forth and to get some of the money back. So far, we have received $203,000 back from the insurance money that we have paid out on litigation matters.

Other consulting costs or attorney's costs is $129,000. There is an amount of $74,000 that has been spent in this particular budget on the building issue, and --

MR. EAKELEY: Where is that data? Or is this --

MR. RICHARDSON: This is in the total.

MR. EAKELEY: That's the net?

MR. RICHARDSON: That's the net. As far as the other --

MS. FAIRBANKS-WILLIAMS: Well, why is that in the total? You don't have it broke out as listed as the building?

MR. RICHARDSON: No, because the attorney's cost has been paid through the consulting line of the legal affairs budget.

MS. FAIRBANKS-WILLIAMS: Okay. But somewheres, are you keeping track of everything that the building is costing you?

MR. RICHARDSON: Absolutely.

ACTING CHAIR SMEGAL: Yes. It's in this end paper back here.

MR. RICHARDSON: It's in a separate memo that we have.

ACTING CHAIR SMEGAL: Page 67 or 66.

MR. RICHARDSON: As far as other costs, they're pretty linear. I will refer to page 58. Again, looking at the 41.67, almost 42 percent of the year, there is only one line item that is over that budget amount, and that is the operating expenses, and that's at 48.82 percent.

That's mainly because of the insurance package that we have for the corporation that is paid in October for the full year. So that one category will start coming down percentage-wise through the remainder of the year. Just to let you know, the insurance package for this year cost us $71,000, so under, again, what we've been budgeting.

ACTING CHAIR SMEGAL: $71,000? What is that?

MR. RICHARDSON: For the directors' and

officers' liability coverage and the commercial liability package.

ACTING CHAIR SMEGAL: So it's a component part of --

MR. RICHARDSON: It's a component, yes. As far as the other expenses, you'll see that they're significantly under. The consulting is down. But I am told that those expenses will start ratcheting up as we get through the spring and summer and getting ready to go into initiatives that are on the books.

The next page is your inspector general's budget, and as you see, the budget there, they spent 22.3 percent of the budget thus far. So they're well within budget also.

One other thing that we're working on that I'd hoped to have for this meeting -- I've just not been able to concentrate on it and get it done -- we certainly have our strategic initiatives.

And I'm working on a budget, and hopefully at the next meeting I can have a budget set up that traces the strategic initiatives, and then begin working on a way of reporting expenses against those initiatives, and perhaps as a supplementary to this particular information. So we're trying to work to that and to try to make the information more meaningful to you based on the strategic initiatives that have been adopted.

Be glad to answer any questions that you may have.

ACTING CHAIR SMEGAL: Are there any questions of Mr. Richardson?

(No response.)

ACTING CHAIR SMEGAL: Seeing none, thank you, David.

The next item, will that be Alice Dickerson?

MR. RICHARDSON: Yes, it will.

ACTING CHAIR SMEGAL: Alice, would you join us, please? This is item 4, consider and act on amendments to the 403(b) thrift plan for employees of LSC. And I believe you'll find some materials in your board book at page 59 -- 60, sorry.

Good afternoon.

MS. DICKERSON: Good afternoon. I'll try

not to bore you too much with this technical material. For the record, my name is Alice Dickerson, and I'm director of the Office of Human Resources for Legal Services Corporation.

As you're aware, staff is requesting that you approve a resolution that will authorize the officers and agents of LSC to take the necessary action to make some amendments to the pension plan to bring it into compliance with the various provisions of the Small Business Job Protection Act of 1996, the Uniform Services Employment and Re-Employment Rights Act of 1994, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1997, the Community Renewal Tax Relief Act of 2000, and the Uruguay Round Agreements Act, which are collectively referred to as GUST. And we've provided you a summary of these proposed amendments in your board book.

ACTING CHAIR SMEGAL: Alice, how does the Uruguay Round Agreements get into that?

MS. DICKERSON: I knew you were going to ask that. I knew you were going to ask that. It is the broadest global trade agreement that's ever been passed in the history of the country, and the particular provisions of this that affect pension plans have mainly to do with contributions and funding of defined benefit plans.

So it really has no material effect on our plan at all, but we need to make the plan language come into compliance.

ACTING CHAIR SMEGAL: All right. Thank you, I think.

MS. DICKERSON: You may recall that the thrift plan was amended in 1997 to come into compliance with some of this legislation that I've just named. We have been advised, however, that there are about five more amendments that we need to make in addition to those, and those are the ones that I'm presenting to you today.

ACTING CHAIR SMEGAL: In fact, we made several in January, didn't we?

MS. DICKERSON: In January, yes. Those were having to do with EGTRRA, though, which is totally different legislation.

ACTING CHAIR SMEGAL: Oh, all right. But that did have to do with the thrift plan, didn't it?

MS. DICKERSON: Oh, absolutely. Absolutely.

ACTING CHAIR SMEGAL: Be sure we're on the same subject.

MS. DICKERSON: They also made no financial impact on the plan, though.

The first amendment is going to amend the definitions section of the plan. It's not going to make any material change. It references the Uruguay Round Agreements Act in the plan definition of contribution limit. As I said, it will have no effect on our plan, as it mainly affects contributions and funding of defined benefit plans.

The second amendment also affects the plan definition of contribution limit that's related to qualified transportation fringe benefits. It adds text that's referencing a site, and it brings the plan language into compliance with the relevant provisions of the Community Renewal Tax Relief Act of 2000. Again, it will have no material effect on the plan.

The third amendment --

ACTING CHAIR SMEGAL: You're going pretty fast.

MS. DICKERSON: Would you like me to slow down?

ACTING CHAIR SMEGAL: Well, maybe we should break this up and have questions after each one because I don't think we're going to be able to stick with you all the way through this.

MS. DICKERSON: Okay. Would you like to do that?

ACTING CHAIR SMEGAL: No. Go ahead.

MS. DICKERSON: The third amendment is going to amend the definition of includable compensation to include any salary deferrals that are made for a qualified fringe benefit transportation plan. Again, this will not affect our plan because our qualified transportation benefit is fully paid by LSC.

The fourth amendment is a very, very wordy GUST amendment. In essence, all it does is to provide that as of January 1, 1998, hardship distributions of salary reduction contributions are not eligible for rollovers to any other plan.

The only exception to that would be if the person attains age 59-1/2, is terminated, or if there's a disability. And in those cases, then, it could be rolled over to another plan.

One thing that I should point out is that the amendments that you passed in January for EGTRRA make this moot because, pursuant to that amendment, there cannot be any rollovers of a hardship distribution.

There's also a special loan amendment, and this one simply amends the referenced section of the plan to specify that loan repayments may be suspended in the event of a bona fide leave of absence for any reason other than qualified military service. It goes further, then, and clarifies that the suspension of repayments due to qualified military service are discussed in Section 210 of the plan.

Any questions?

ACTING CHAIR SMEGAL: Well, with respect to

Section 210 of the plan and suspensions for loan repayments for qualified military service, how do they differ?

MS. FAIRBANKS-WILLIAMS: You're getting paid when you're in the Service. Right?

MS. DICKERSON: No. What happens --

ACTING CHAIR SMEGAL: Well, but possibly not as much as you were being paid in civilian life, though. Why shouldn't you have your loan payments suspended when you're in military service?

MS. DICKERSON: And it really just almost provides parity for any other kind of a leave of absence as well.

ACTING CHAIR SMEGAL: Oh, okay. All right.

I know you're going to have a lot of questions on this, Bill.

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

ACTING CHAIR SMEGAL: Yes, and you can do that, too. I'll recognize you as a member of this committee for that purpose, and another --

MR. EAKELEY: I'll second.

MR. McCALPIN: Is there a cost to this?

MS. DICKERSON: No. No cost. No financial impact on the plan at all.

MR. EAKELEY: Those are mandatory language.

MS. DICKERSON: Yes. Strictly technical amendments to bring the plan language --

ACTING CHAIR SMEGAL: Conforming to the new law?

MS. DICKERSON: Right.

ACTING CHAIR SMEGAL: Well, there are some costs because it involves free trade under Uruguay and also the patent system, Bill. But other than that --

MS. DICKERSON: And it established the World Trade Organization.

ACTING CHAIR SMEGAL: Right. All right. Any other questions?

MR. EAKELEY: I just had a comment.

ACTING CHAIR SMEGAL: Do we have a motion? Go ahead.

MR. EAKELEY: No. You've got a motion. I

seconded.

ACTING CHAIR SMEGAL: Yes. We're ready for it. But if you want to discuss it a little --

MR. EAKELEY: I just wanted to note, with appreciation, that Alice was able to make this just a little boring.

(Laughter.)

ACTING CHAIR SMEGAL: That's a great achievement.

MR. EAKELEY: As she promised.

MS. DICKERSON: Well, thanks for your humor that lightened it.

MR. EAKELEY: Well, we haven't voted yet, so --

ACTING CHAIR SMEGAL: Thank you, Alice. As many as are in favor of the motion as presented, please say aye.

(A chorus of ayes.)

ACTING CHAIR SMEGAL: All right. Thank you, Alice. We'll move on to item 5, and I believe we have several presenters, including Victor Fortuno and possibly

Don Carpenter and Brad Kier.

MR. McCALPIN: Do you have pictures?

ACTING CHAIR SMEGAL: Better than that. We have a PowerPoint, or whatever they're called.

By way of background, you all had a memo from me several days ago about this next item, and you've also had a brochure of materials that came along with your board book. And you've heard a few times through the last three or four years about this matter.

And with that introduction, Vic, go ahead.

MR. FORTUNO: For the record, I'm Victor Fortuno, vice president for legal affairs and general counsel of LSC. Good afternoon, ladies and gentlemen. We building project that was aimed at locating a suitable site to house the Legal Services Corporation to lend the Corporation a measure of permanency, to provide some visibility, and also, very imply, to help to mute the increasing costs of occupancy.

It's been a long, hard road, but we think we're at a point where we can report some very exciting news. We have located a property -- that is, the Friends of Legal Services has located some property it would propose to purchase and lease to LSC.

Just backing up a little bit, as you may recall, the Friends of Legal Services was established as a supporting foundation to support the activities of the Legal Services Corporation, and it's the Friends of Legal Services that is interested in purchasing the property because the Friends would have to principal assets that would enable it to purchase the property, one being a substantial contribution from the Gates Foundation, the other being a lease with the Legal Services Corporation which we would ask you, after we make our presentation, to authorize the president to negotiate and enter into.

We're here to report on the project, give you an idea as to what the particulars are, where it's located, what it looks like, what it feels like, what it's going to run. And we put together a team of specialists.

The project team consists of a financial advisor -- it's EOS Financial Group, and you have two representatives here from that organization which I'll introduce to you in a couple of minutes. We had, of course, a real estate agent. We had real estate counsel, bond counsel, environmental counsel.

It's been a major undertaking, and Dawn here is -- to my right, Dawn Carpenter -- is managing director of the EOS Financial Group. With her here, to her right, is Brad Kier, who's a financial analyst with EOS.

Dawn is a leading expert in the area of complex real estate transactions for tax-exempt organizations. She holds two graduate degrees and teaches at the University of Maryland Graduate School of Public Affairs -- is it Public Affairs or Public Policy?

MS. CARPENTER: Public Affairs.

MR. FORTUNO: Public Affairs. Among her other clients are the AARP, the American Red Cross, the March of Dimes, and the Childrens Defense Fund, to name but a few.

Prior to joining EOS -- actually, establishing EOS; she's one of the co-founders of that organization -- she was a vice president at Spaulding & Slye, where she headed up the tax-exempt client group.

And prior to that, she was a vice president with the First Union National Bank, where she again headed up the tax-exempt client group.

Dawn is here to explain some of the particulars concerning the property that's under consideration right now, and we also have a PowerPoint presentation that was very kindly prepared by Brad. And I will now turn it over to Dawn and Brad.

MS. CARPENTER: Well, thank you very much for having us here. We'd like to start by introducing the agenda of how we'd like to structure our conversation. We've prepared this presentation in a way that was hopeful to express the sentiment of the process because a good deal of our work in this process is to understand why, as an organization, Friends of Legal Services, and thereby its tenant, Legal Services, is actually going through this exercise.

So we'll explain to you a little bit about that process. We'll give you a summary of the project costs because the first logical question is, what is this going to cost us? And in that conversation, we want to introduce to you the objectives we use to guide us through this process so it hopefully becomes more tangible to you what we're trying to achieve.

We'd like to then introduce you to the neighborhood where the building is located, introduce you to the building itself, and then more specifically show you the site plan and then the corresponding floor plan so you get a sense of where it's contemplated that LSC would occupy in the building.

And then we'll wrap up by giving you our sense of the support needed by the LSC board to make this a successful project in the short term, but also in the long term. So that's how we are organizing our time today.

I'd like to first start out by talking about the concept of site location. It was referred in the opening remarks that this was a long process and a difficult process. It's long and it's difficult because the building that we're searching for is a unique building type in Washington. We're looking for a building in the neighborhood of 40- to 80,000 square feet. That's a big challenge in a large urban setting.

What that means in the Washington market is typically smaller buildings or townhouse facilities. And in conjunction with all that, we really needed to think what would work operationally for both organizations, Friends of Legal Services as it matures as an entity and, obviously, Legal Services Corporation.

So the process of finding a site has been challenging. You're familiar with the Gale School, which was the first property that the organization looked at -- when I say "organization," I refer to Friends of Legal Services.

That was a challenging site because it was controlled by the District of Columbia, and there are challenges in working with a municipal government. And vis-a-vis the time schedule that the organization is on and the competing parties who were also interested in that site, it didn't appear to be a feasible site, particularly in the time frame of actually doing a project in the anywhere to near term future.

So the Gale School was the first

opportunity, the second opportunity being 500 New Jersey Avenue. And I described it that way because it was a development site. It was an opportunity to build a new building.

In doing that type of a project, obviously there are different types of risks than the types of risks you incur when you buy a building that's already built, or a building that's already been built that needs renovation.

That project matured over the latter part of last year. It was challenging for a number of reasons, the most obvious one being there were substantial environmental issues relevant to the development that was contemplated to be used on that -- done, rather, on that site.

The organization, Friends of Legal Services, was very forward-thinking, in my opinion, in doing their homework up front to be aware of what those risks would be. And in the due diligence process -- and unfortunately there are costs associated with doing due diligence -- prudent due diligence was done and the decision was made that there could not be an understanding brought -- an understanding could not be reached with the seller to mitigate the risks in such a way that it became a viable project for Friends to pursue.

So the New Jersey Avenue site -- mixed blessing. It would have been a unique and interesting and very visible opportunity for the organization. But it was also, on the spectrum of risk, higher risk than other types of opportunities. So for a number of reasons, New Jersey Avenue was not the optimal choice for Friends.

That concluded at the end of last year. The site search continued, which brings us to today's opportunity, which is a building here in Georgetown. For those of you who are not familiar with the Washington area, we'll show a little bit later on a sense of perspective of where this neighborhood is vis-a-vis Washington and the region here.

That being said, our biggest challenge after finding the building is finding a way to make the project feasible from a financial perspective. And as Victor Fortuno mentioned, the sole assets of Friends of Legal Services are the long-term lease of Legal Services and a gift that was committed to by the Bill and Melinda Gates Foundation.

And that gift really was meant to support the ongoing operations and viability of the mission of LSC. It's been very clear from the Foundation that their goal is to help assist LSC in achieving the work that it does.

In that regard, they understand the legal reasons why Friends of Legal Services was created, and that it is very immature in its life cycle. So they're very supportive of the relationship between Friends of Legal Services and Legal Services Corporation. But it has always been very clear from the Foundation's perspective that what they're doing is supporting this building because it has ancillary important benefits for LSC.

So it's been very important in this process to keep the Gates Foundation briefed and informed, and a real partner with us in this project. So a lot of what I'm describing that we've done is done in conjunction -- and oftentimes simultaneously; there are a number of different parties, and Victor Fortuno mentioned the team of players. And we're all very integrated in what we do.

And part of this briefing process is now where we find ourselves today, explaining to you the rationale that we've undergone and the role that LSC plays in making this project happen because ultimately LSC is the primary beneficiary of this project.

So in terms of briefing the parties, again, our two major assets are the resources given to us through the gift from the Bill and Melinda Gates Foundation, but then also the long-term lease of LSC. So we're working very hard to solidify both of those assets.

In conjunction, we're beginning to explore this project with lenders. It became very clear that if this project were to happen in the immediate to near-term future, that we'd have to borrow money to do this because not enough time had passed for Friends of Legal Services to mature and create a philanthropic base for itself, or an alternative funding source above and beyond the initial Gates gift and the long-term lease of LSC.

So interestingly enough, the lenders that we're talking to about the project that we're discussing today had also been actively pursuing financing on this particular building with two unsuccessful bidders.

You may be familiar with the Council of La Raza. They are a Hispanic organization who was looking to relocate their national headquarters to this site. And also the credit union that represents the Department of Treasury employees had also bid on this site.

And one of the banks in particular who's now interested in working with us because we've been successful with the seller and beginning to negotiate for purchase of the property is now, of course, interested in providing financing for Friends of Legal Services.

So we're beginning to lay the ground work with the lenders, keeping in mind that we don't want to get too far ahead of the board because you still have to decide that you are going to allow us to have this long-term lease under a given set of parameters.

So we're beginning to talk with the lenders. In conjunction, we also need to understand how much this is going to cost. We know what the purchase price is, and I'll describe on the next slide a little bit more about that. We know what that costs.

But we need to know what portion of the building LSC will occupy. And if you've had a chance to look at the pre-meeting materials, you'll know that the building is roughly 64,000 square feet.

LSC will not need all of that space, and I sometimes joke, but the fact pattern in this case is so perfect because there is available empty, unleased space already available in the building that we're contemplating purchasing. So we have tenants for the other space, so there's no immediate rental risk.

So that's a significant risk factor that is mitigated that would have been a real and immediate concern, particularly as it related to the New Jersey Avenue site. So we don't have that same type of risk in this situation.

So we're working now to hire an architect to help design appropriate allocation and use of space for the building so we'll know what portion of the building LSC will actually occupy.

The timing of this transaction is such that it's contemplated that the acquisition will happen on or before July of this year. We need -- Friends needs to give notice, through LSC, to its existing landlord that there is an intention to vacate the current space.

The earliest that that notification can be provided to the current landlord is August of this year, and after which there is a six-month period of time, and the soonest that LSC can occupy its current [sic] space is May of next year, which under that structure gives us, if you look at the left-hand side of this side, buildout and permanent financing, that's contemplated to be this fall and the buildout to be completed with occupancy being on or around the beginning of May.

So it fits quite nicely with the notice provision under the current lease structure for LSC. And then move-in, in blue at the top, is when it all wraps up, and we contemplate that being right around mid to late May of next year.

How much is this going to cost? Purchase price is $14.2 million. I alluded to the competition for this building. This is a very attractive building, primarily because of the size. And I described the uniqueness of this size of building.

If you're curious as to what the other purchasers had put in as their offers, they were just a shade below us at 14 million. So we're very, very competitive, but -- so I guess the bottom line on this issue is that we really didn't leave anything on the table, and we're able to come in with a very competitive price that is appropriate for this particular building, but allowed us to beat out other competitors.

What is it going to cost to actually occupy the building? It's one thing to buy it; it's another to make sure that it's suitable for the needs of the organization. And building improvements and other project costs we've estimated, at a very conservative measure, at $5.8 million.

That would include architectural fees,

tenant improvements. It would also include carrying costs of an interim loan. I didn't go into any detail at this juncture about how we plan on financing this, but the timing being what it is in terms of the closing on the actual real estate, it's somewhat expeditious.

As a 501(c)(3) organization, the Friends of Legal Services has the ability to finance this building on a tax-exempt basis, which requires an interaction with the District of Columbia government.

And because the primary election in the District of Columbia is slated for the summer, the city council, who ultimately has to opine on the ability of Friends to enter into this type of financing, it's not likely that we'll get their approval until the end of September. And so that would put our permanent financing in the fall.

And so all of the carry costs associated with that are included in the $5.8 million number. So it's very broad and all-encompassing. So that puts us at a total of what we believe today is $20 million. And if you look at that number compared to what we were contemplating for the New Jersey Avenue site, which was in the neighborhood of $30 million, you see a significant savings.

And above and beyond the dollar savings, what is important to note here is that you mitigate a significant amount of untold risk when you're occupying a building that's already been built. I believe it was constructed in 1988, and is in fairly good condition and has a very robust tenant base.

And it's also complemented by the fact that those leases roll any time between immediately to 2006, which gives maximum flexibility in terms of expansion of LSC. So should they need or want more space, that will be available to them in the building. And as I say, we couldn't have dreamed up a more attractive fact pattern.

What was guiding us through all of this -- these are the objectives that I state here -- our primary goal was to stabilize and control LSC's occupancy costs. What we've contemplated in our model is a financing anywhere between 20 and 30 years, and that's sustainable in the marketplace.

I say "contemplate" only because we haven't chosen our lender, and there may be reasons to go shorter or go longer. And it also depends upon where interest rates are. So that is still an open issue, but under all conservative measures, we've modeled coverage of the debt for this project that puts a per square footage occupancy cost at or less than what you're paying now. And so that was a significant issue for us, and that will be fixed and controlled.

The second objective was to create a sense of legacy and permanence for LSC, and that's not insignificant because one of the things that this building will achieve -- and you'll get a better sense of this when you see the photographs -- is that it's situated at a gateway to Washington that's quite visible in ways that being placed somewhere in a nondescript neighborhood or in the middle of a block would never get you. And you'll have a better sense as you see the photographs. So that was also an objective.

And the third -- and I don't mean to gloss over this because this is quite significant -- this process of financing the building allows LSC and Friends of LSC to leverage the existing financial services relationships that already exist with LSC.

LSC has a tremendous amount of resources that flow in and out of it on an annual basis, and that flow of funds is very attractive from a cash management perspective with financial institutions.

That being said, it's a very profitable line of business for banks, and should the relationship between LSC and Friends of LSC be viewed as the symbiotic relationship that it is, a banking institution -- and this has been -- all of the feedback we've gotten from lenders so far is very, very attractive.

So it enables us to broaden the interest in the financing. Likewise, it helps LSC to broaden the interest in financial institutions in the cash management needs of LSC. So that was another objective.

This is the fun stuff. This is the beginning part of the section where we're introducing you to the neighborhood that the building is located in. For those of you who are not familiar with Washington, D.C., I'll start out by the location of the airports.

In the upper right-hand corner, you see 295. That's the Baltimore/Washington International Airport. And at the extreme left is the Dulles International Airport. I have a pointer, if that would be helpful.

MR. FORTUNO: While we're waiting for the pointer, just a point -- no pun intended -- to make is that something to be emphasized is that the inventory here in the District of Columbia -- and as you all know, we are by law -- LSC is by law required to be headquartered in the District of Columbia -- the inventory of office space the size that we're looking for is very, very limited.

And, in fact, the other sites, very few of which there are, that we looked at would have had us on space that ranged from four to nine floors, in many instances non-contiguous space.

This particular property would have us on two contiguous floors -- actually, two with a piece of a third floor, and it's all contiguous space. So it's attractive on a great many levels, but that's just one point I thought I'd mention while we were waiting for the pointer.

MS. CARPENTER: That's BWI, and I'll try to speak as loudly as I can without the microphone. This grey area here north of the blue, the Potomac River, is Washington, D.C.

The star represents -- it says "Georgetown Landings." That's the developer's name of the building. A question came -- was asked of us, is this the fire scan? Yes.

ACTING CHAIR SMEGAL: Nowadays you can't be too safe.

MS. CARPENTER: That's right. Georgetown Landings is the marketing name that the owner of the building has given the building. And Dulles Airport, for those of you who came in there, is to the west of Washington. Estimated about 40 miles here to here. And this is Reagan National Airport.

ACTING CHAIR SMEGAL: Actually, it's 28.

MS. CARPENTER: Oh, that's good. Reagan National Airport -- it seems like 40. I live out that way. And Reagan is here. And it's interesting to note, we're talking about visibility. The planes, as they approach Washington into Reagan, oftentimes follow the path of the Potomac River, and if you glance down you have a very wonderful view of the building.

So actually, it wasn't in their marketing materials, but it's been an important issue for us, so we mention it that way.

And transportation routes, in terms of employees, it's quite convenient to the Maryland suburbs, as it is also to the northern Virginia suburbs. So it's a nice location.

And what you'll see on some aerial photographs that you'll see in just a moment, there's a bridge that connects northern Virginia to Washington, and the building is at the foot of that bridge. It's the Key Bridge, for those of you familiar with Washington geography. So it's a wonderful landmark as the entrance into that gateway to Washington.

MS. BATTLE: When taking public transportation, can you get into that location fairly easily?

MS. CARPENTER: Very good question. It has been a point of controversy in Georgetown, which is the section of Washington, D.C. where the building is located, that there is not a subway in Washington. Georgetown maintains an historic character, and it was thought when the subway system was put into Washington that, for a variety of reasons, the tony neighborhoods that surround that area were not interested in outsiders being in the neighborhood.

And so the short answer to your question is, the subway is not there. However, the subway system was very forward-thinking and has installed shuttle buses that go right past this building and take you to one of two subways.

One subway station is, if you're familiar with the Washington subways, the Blue Line at Foggy Bottom, very close to here. And that will take you out into northern Virginia and up to Capitol Hill. And then the Red Line, which will take you over toward Union Station or up to suburban Maryland. So it's quite convenient.

Other amenities are you're right at the major access route on Canal Road right up through and around if you're driving to get into Maryland, and then also over here there's another bridge. There's the big bridge, which is the Key Bridge. Then there's another one, Chain Bridge Road, which takes you also into northern Virginia. So it's quite convenient that way.

We were actually pleasantly surprised by how sensitive the neighboring commercial areas are to the public transportation issue, and the shuttle bus runs continuously and frequently and is used quite heavily.

Question? So it's not ideal. It's not on a Metro. However, it's the absolute best you can do in this part of town.

MS. BATTLE: Does the shuttle bus stop right in front of our building? Does that shuttle bus stop right in front of the building, or will people still have to walk?

ACTING CHAIR SMEGAL: Is it a block or two, where it's about a three-minute walk?

MR. ERLENBORN: Less than a block. Right across the canal. You'll see an old canal from the back of the building.

MS. CARPENTER: Okay. Here's the aerial photograph. And this is the Key Bridge. If you fly into National Airport and you're flying this direction, National Airport is over here -- actually, down here. And you'll see the other major bridges into Washington, the Roosevelt Bridge and the Memorial Bridge. And then the 14th Street Bridge is up here.

To give you a sense of landmarks, here's the building. This is the Whitehurst Freeway, and actually the Whitehurst Freeway is right outside this window here, or the entrance onto the freeway. It's right down another block. It's right down here. So we're roughly here right now, so you travel -- actually right underneath the freeway is K Street, and the address is 3333 K Street. And so we're right down at the base here.

And in terms of where you are, Washington Harbor is down the street. There's a lot of social activities with the boats that use this area for recreation. You also have the Kennedy Center right here, the Kennedy Center for the Performing Arts. The Watergate Hotel is here. The Lincoln Memorial is over here. The Tidal Basin is here. Washington Monument. The White House is over here, and the Capitol is up here.

And if you remember the shiny, fairly large semi-circular buildings on the skyline here, this is Roslyn, Virginia. They were the former home of USA Today, which is now located further out in the suburbs. But that litters the skyline, so it's quite a visible landmark there.

Okay. This is the actual neighborhood itself. Remember, I told you the Whitehurst Freeway -- we're at 24th. This is 29th Street, so we're down a little bit further where we're sitting here right now.

This is an interesting and dynamic neighborhood because this grey square here, if you can see either the slide or your briefing materials, it says the Ritz Carlton Hotel site. That had actually been an incinerator at one point, and now that has been totally demolished and will be a Ritz Carlton Hotel, a multiplex theater, and a very robust retail area.

M Street right here is the commercial street, the main street through Georgetown. If you're familiar with this area, there are bars, restaurants, retail establishments. It's quite an active part of Washington.

And as you travel down underneath the Whitehurst Freeway, this is K Street. So it says Whitehurst Freeway, but that's an elevated freeway. So this is a road. Georgetown Landings, which is the building that we're talking about, is situated right in front of or behind, depending upon your sense of perspective, this blue line here, which is the C&O Canal.

And what's interesting and a wonderful amenity to this building is its relatively -- this is my word; it's not a real estate word -- earthy feel. You're right at the foot of the Crescent Trail, which is a bicycle trail that takes you all the way up through and into Maryland. So that's very attractive as an amenity, workplace kind of amenity for employees.

And Cady's Alley is a new development that's contemplated to -- I don't know of it's begun construction or it will shortly begin construction. It's a pedestrian retail establishment just on the other side of the canal. So it's a wonderful amenity for employees, and it really -- this space and the space at the Ritz Carlton significantly changes the dynamic of this corner neighborhood.

This says "Waterfront Park." Right now it's parking. It's being contemplated to be a park, and also this blue area here is the Potomac River and there's also a contemplation for a floating restaurant run by the restauranteurs of Clyde's, if you're familiar with Clyde's of Washington. They also own the Old Ebbitt Grill over near the White House, if you get down that way.

Let's see, what else can I tell you? This here is -- I believe this is the Frances Scott Key park, and so this is a green pedestrian kind of leisure area, if you will.

And someone had asked me earlier about parking. There are 92 parking spaces in the building, and so it has ample parking.

Okay. Next slide.

ACTING CHAIR SMEGAL: Just a second, Dawn. You might point out there's a set of stairs going up behind the building up to M Street. It's about 15 or 20 steps up, and then a walkway that gets you right up to M Street, or coming down from M Street to the building. Very accessible from M Street also.

MR. ERLENBORN: There appears to be a parcel there directly to the left of the Georgetown Landings. What is that? Do you know?

MS. CARPENTER: I believe that is owned by Pepco, if I'm not mistaken. That's correct. The utility company.

MR. FORTUNO: Also, Dawn, you mentioned that there's parking. There are 92 spots available in the building. It's underground parking. And of that, what portion would be allocated to LSC? Is it --

MS. CARPENTER: Sixty-two spaces.

MS. BATTLE: How many spaces do we have now?

MS. DICKERSON: We have about 41, I believe.

MS. CARPENTER: So that's a nice employee benefit. Okay. Next page.

MS. DICKERSON: The 41 is really not adequate. We do have a waiting list of about four or five people right now.

MS. CARPENTER: And so this is a further illustration of the aerial view. You get a better sense of the dimensions of the building. And what's nice is that I mentioned the visibility. As you come over the Key Bridge and you turn here onto M Street, you can get basically a -- you can see three-quarters of the building. So you get a nice frontal here, a side, and you have nice visibility as you come around this corner.

This is the Frances Scott Key Park. There are, obviously, no obstructions from buildings here, so you have a nice view from this -- you couldn't have found a more visible building, particularly with the challenge we had with the size of the building.

And this is what the building looks like. This is the canal side, and you can see a little -- that's the Whitehurst Freeway there. And so you have basically two -- a little more than two stories that are above the freeway. So you have the potential for wonderful signage on three sides of the building -- well, four, if you wanted. The other side, there's a building here that might obstruct.

And this is a pedestrian trail that takes you right in front of the building. And then the steps that were referenced earlier are over here, and they take you right up to M Street.

ACTING CHAIR SMEGAL: I think this picture was taken from the steps.

MS. CARPENTER: Oh, taken? So we're on the steps.

And this is an interior view of the lobby of the building. It gives you a sense of scale and a sense of style of the building. It's very suitable for a multi-tenanted building, as it is currently, but it also gives wonderful opportunity for ideas for lobby identity as well.

And this is the penthouse, not contemplated to be used by LSC. The next slides, we'll talk about the floor plan of the building. The most prized space in the building is the top floor, which is the fourth floor, and we suspect that that will command the highest rental revenue, so we'll save that for other tenants.

This is what it looks like looking down onto the building. So it's a free-standing building, if that wasn't clear. And the service -- this is K Street, so right above us is the Whitehurst Freeway. This is the drive into the garage. And this is the walkway into the building. It's quite attractive and not a whole lot of work, if any, needed on the entrance of the building.

MS. FAIRBANKS-WILLIAMS: Accessible? Wheelchair?

MS. CARPENTER: Yes. There's an ADA -- I don't know if the -- I don't believe the ADA is the front entrance now. There is an ADA-compliant --

ACTING CHAIR SMEGAL: Let's go back to the -- it may be on the side. There's a -- I believe a very nice entrance off the stairway that I mentioned -- up there a little further, Dawn. Right there.

MS. CARPENTER: And also through the garage.

ACTING CHAIR SMEGAL: Right.

MS. CARPENTER: That's a very good question. Okay. This is the ground floor. And for your benefit, in the lower right-hand corner, the dark shaded areas are the areas of the building contemplated for LSC. You see the fourth floor, that being reserved for tenants, and a portion of the first and all of the ground floor for other tenants.

And this was -- again, we are in the process of contracting for an architect who will help us with maximizing the space. But the idea was to find as much contiguous space as possible. And it has to do with the composition of the leases.

So what's interesting about this particular slide is that this is the configuration of the garage space. So it's a very efficient use of garage space, and we don't contemplate needing to do any work in this area.

MR. ERLENBORN: Dawn, what is the space just to the right of that Suite 600? Right here?

MS. CARPENTER: This?

ACTING CHAIR SMEGAL: I think it's a way to get in.

MS. CARPENTER: I'm sorry.

ACTING CHAIR SMEGAL: I think it's one of the entrances.

MS. CARPENTER: It may be, yes, an entrance way. You'll have to forgive me. I'm not your real estate agent. But --

ACTING CHAIR SMEGAL: That space is actually bigger than the building. The parking facility extends out beyond the --

MS. CARPENTER: Oh, sure. There you go. Yes. It's hard to see on this one. Let's go to the next slide.

This is the first floor, and as you see in our little guide at the bottom, we'll take a portion of that floor, which would be this area here, because these leases roll over and we don't have to worry about moving companies in the building. It's quite efficient.

And you see the core of the building is in the center, which maximizes space. And you can see the steps up to and out.

And this is the second floor, which we would -- LSC would occupy all of this space. Those leases are terminable. They've expired, rather. And same situation with the third floor.

And then we're up to the penthouse. Where it says Oldcastle Northeast, that's the interior photograph that you saw that was very light and airy. That is their space. And there's a nice balcony here.

MR. FORTUNO: Two elevators?

MS. CARPENTER: Two or four?

ACTING CHAIR SMEGAL: I think there's more than that.

MS. CARPENTER: Yes. I believe there's four.

MS. FAIRBANKS-WILLIAMS: It says two.

MS. CARPENTER: Where do you see two?

ACTING CHAIR SMEGAL: There are several, plus a service elevator.

MS. CARPENTER: Yes. I think that that's correct. That's correct. If you look at our schedule of how we're going through this presentation, what we wanted to wrap up before we started to answer questions with was to give you a sense of what Friends sees as the support needed from the LSC board, and why this conversation is particularly relevant, and why it's relevant now.

The first area of support that we need assistance from the LSC board is in the area of authority for the LSC president to negotiate and enter into a lease with Friends.

And why is that important? It's important because a lease with LSC must be in place before we can enter into any type of financing. And that's because, again, the two principal assets of Friends of Legal Services are the lease with Legal Services and the gift funds from the Bill and Melinda Gates Foundation.

And then the second consequence of that support is that the strength of the LSC lease will determine the economics of the transaction. And what I mean by that is that the parameters of that lease, whether they're weak or they're strong, have a direct impact on how we can finance.

So by delegating the authority to the

president of LSC to enter into those negotiations, LSC has maximum benefit or ability to set the parameters of that negotiation. Because it's really going to be the lenders who dictate what that lease looks like in terms of duration of the lease, in terms of the pass-through of expenses, and all of the details related to any lease you would enter into as a tenant.

So we are asking in this process that the board grant authority, with parameters, to the LSC president to enter into those negotiations because, particularly, the timing.

We're looking at a situation where we are contemplating signing a contract on the building as soon as that contract is fully negotiated, which should be within the month, and then there's a 30-day due diligence period on the building, and at the end of that period, there is an ability of Friends to walk away from the transaction should we find something in due diligence that isn't satisfactory.

And then once it has been determined that it's a suitable property, there is a deposit that will be paid for out of the grant from the Gates Foundation, and then financing will need to be in place on or before 45 days after the acceptance of conditions after due diligence.

So it's very important that the timing follow the schedule because it's really dictated by the seller. And the seller chose out bid not only because the price was at the price point they needed, but also because they believed in the viability of financing this project.

And the second element of support is somewhat less tangible today, but I raise it with you because it will be important for the LSC board to support the long-term efforts of Friends.

And why is that important? Because the stronger that Friends of Legal Services is as a supporting foundation, both from a credit perspective and from an operational perspective, the more options will be available to Friends as they look at restructuring the financing and the economics.

As Friends gets stronger and more

attractive, it becomes less expensive of a project and can show more savings than we could show you today, which are significant savings, but even moreso the stronger Friends is.

So we say that to raise it to the agenda that it will be important to think about how you want to mature Friends going forward. Because one of the significant areas of support that make this project possible is the gift from the Bill and Melinda Gates Foundation. And they're doing that because of the work of LSC. So they recognize this symbiotic relationship. So it's important to maintain and develop them.

Are there questions that we might want to --

ACTING CHAIR SMEGAL: Any questions from the board?

MS. MERCADO: I actually had a couple of them. One of the first things that I was looking at was you said you had certain timelines that you needed to meet for negotiating this contract. And one of the things that I heard you say earlier was that in order to get the tax bond issue in the D.C. City Council, it probably wouldn't be until September of this year.

Just looking at the timelines that you've given me or given us, your process would end up some time in July, and September is still a couple of months away. What happens in the shortfall?

MS. CARPENTER: Oh, that is such a good question. We contemplate a two-part financing. One is what we call a bridge financing, which is what it suggests. It is a loan that bridges the time between when you need the funds and when permanent financing can be in place.

This is very common in the area of finance that we're working with, particularly because when tax-exempt bonds are used, and that's a portion of this fund, the funding of this project will be done through tax-exempt bonds because it's a preferential, from an interest rate perspective, method of finance. It's a cheaper way to do financing.

To give you an order of magnitude, roughly 2 percent savings in interest rate when financed on a tax-exempt basis. There are rules as to how tax-exempt bond money is spent, and because there are commercial tenants in a portion of the building, not all of the building can be financed on a tax-exempt basis.

But that being said, the bond process is a process that -- inherent in which is a public approval of the transaction. And that's really dictated by the tax code. There is a what's called TEFRA hearing, which is an acronym that basically -- tax-exempt reform -- I won't -- that's not on the record. I've forgotten the acronym. TEFRA. That's the industry distinction.

But it basically is a public hearing process. The District of Columbia asks the organization to come before it, describe what the project is, and what they're looking to measure is are you eligible to use this type of financing. They're not making a value judgment on the economics of the transaction. They need to know that you comply with the tax law to use this mechanism of financing.

The process, to the extent you're interested in the details, is that an application is filed with the District of Columbia, which is being done right now.

Legal sufficiency needs to be determined by the District of Columbia, or an arm of the District of Columbia government. That generally takes a month, and all that means is that you are indeed a 501(c)(3), and the project that you're contemplating is in support of your (c)(3) mission. That's done at a staff level.

And then a TEFRA hearing is scheduled, which is, in 90 percent of the cases, perfunctory. You'll go before a subcommittee, actually, of the city council, present your project. They'll want to know if any neighbors object, and the public has the ability to comment on the project.

Nine times out of ten, no one shows up for that comment. But there are projects that are controversial that are financed this way, and the public does respond.

Then what happens is that the city council needs to then pass a vote or offer a vote on this issue. And because of the timing of the election, it won't happen until the end of September.

And so the bridge financing that I alluded to first will be refinanced through the proceeds of a bond. And so that's the timing, and that's why we need a two-step process.

MS. MERCADO: And what is the amount that you're talking about in the two-part financing?

MS. CARPENTER: As referenced in the materials that were distributed and here in our presentation, we're contemplating a financing not to exceed 20 million.

ACTING CHAIR SMEGAL: Yes. And Maria, understand, even in that interim period we've got tenants in there who are paying rent. So we have some money --

MS. FAIRBANKS-WILLIAMS: That was my next question I was going to ask, is how much rent the tenants were paying that was going offset?

ACTING CHAIR SMEGAL: It may be in the materials that you've got.

MS. CARPENTER: It is. Let me refer you to the correct page.

ACTING CHAIR SMEGAL: There's a page in there. MS. CARPENTER: If you look at page 4, it says, "Summary of Office Space and Existing Inherited Tenants." There's a good story and a bad story here. The good story is, there are tenants. The bad story is, we didn't -- we weren't participating in those lease negotiations.

So at renewal time, we'll have the ability to structure those leases to the most benefit of Friends of Legal Services.

MS. BATTLE: How long was this property on the market before now?

MS. CARPENTER: That's a good question. In the beginning, it wasn't on the market. The building owner was looking for a tenant. And roughly 45,000 square feet of the building was available. They were looking for a tenant, having a hard time finding a tenant of that size in an expedited time frame.

The building is owned by a partnership. One of the partners is not from this country, is abroad, and this property doesn't -- isn't core to their profile. They are real estate investors. So they were interested in entertaining a variety of ways to deal with this property.

Finding a tenant was one. And the opportunity to sell the building was another option. So it wasn't that it was on the market to be sold. We came to them offering that to them.

ACTING CHAIR SMEGAL: Actually, Dawn, maybe you don't know this and maybe I'm incorrect, but it was actually sold once before for 15 million.

MS. CARPENTER: Oh, that is correct.

ACTING CHAIR SMEGAL: And that deal fell through through some quirk, and they put it back on the market again. And we were able to come in at a much lower price.

MS. CARPENTER: That is correct. But I --

ACTING CHAIR SMEGAL: Yes. It was once -- it was recently sold for 15 million.

MS. BATTLE: For 15 million?

ACTING CHAIR SMEGAL: Fifteen million, yes.

MS. CARPENTER: And the sale wasn't consummated.

ACTING CHAIR SMEGAL: Yes. There was a --

whatever. They got somewhere into the escrow period and it didn't happen.

MS. CARPENTER: That's correct.

ACTING CHAIR SMEGAL: And the significance of the empty space is that it's the space that LSC would be offered as a rental space. The empty space in there is the configuration that we've been talking about. That was the leasing they were looking for.

So they were looking for a tenant about the size of the Legal Services Corporation, but they were also interested in selling the building, as they had thought they had sold it earlier.

MR. ERLENBORN: And a not inconsequential fact is that there is a stairway between the second and third floors.

ACTING CHAIR SMEGAL: Oh, that's true. Yes. There's an internal stairway, which you'll see today.

MR. ERLENBORN: So you don't have to go to the elevator.

MS. CARPENTER: One of the other questions that dealt with the financing aspect of it is, does our ability to maintain that current track fall through if we're not able, for whatever reason, to get the tax -- the bond okay from the city, for whatever reason that it falls through?

MS. CARPENTER: That's also a very good question.

MS. MERCADO: What happens to that contract?

MS. CARPENTER: There are two trigger points in the contract. The first is at execution of the contract. The initial point in the process -- the initial action was to sign a memorandum of understanding, which was an understanding between both parties that there was an interest in pursuing this. That has been signed, and there was no financial commitment at that juncture.

We're now in the point where we're negotiating a contract to purchase the property. There is a requirement at the signing of that contract, which is still being drafted, of a $100,000 deposit. That deposit is refundable during a period of time.

The next period of time after signing of that contract is the time in which the organization, Friends, has the ability to do due diligence on the building. Should something at the found in that due diligence process that makes this property unattractive to us, we have the ability to have those funds refunded.

So to the extent that there are funds at risk, it's at that critical juncture at the end of due diligence that we'll know.

MS. BATTLE: But I guess her question went beyond that.

ACTING CHAIR SMEGAL: Well, I heard --

MS. CARPENTER: But where I'm going after that is what happens with financing. And during this due diligence period, it is imperative that we obtain a commitment letter from a financing institution. And what we're planning on doing is entering into a relationship with a lender who would provide the bridge financing and the credit support necessary to do the bonds.

So we will know before the end of the due diligence period if financing is possible and under what terms. So to answer your very prudent question, which is, where is our liability, it's really at the point at the end of due diligence because in our schedule we anticipate a commitment letter prior to the end of due diligence. So we have the ability at that point to walk away.

MS. BATTLE: So are we saying that the time frame runs through September?

MS. CARPENTER: No. I'm sorry. Due diligence ends 30 days after the contract. The contract is due to be executed --

ACTING CHAIR SMEGAL: Well, but there's a different question that she asked. At least, I heard a different question. And the question is, does this thing fail if we fail to get D.C. bonds? And the answer is no. I mean, the D.C. bonds would make this even more attractive than it is. If we are unable to get D.C. bonds, the commercial financing will still -- we can still -- the projections are we can still do this.

MS. CARPENTER: So does that mean that the bridge loan that you now have becomes a regular long-term loan?

MS. CARPENTER: That's a very good question.

ACTING CHAIR SMEGAL: That's a different question.

MS. CARPENTER: Yes. That is a different question. We are contemplating financing under a bridge that's 364 days. So that does not get us long-term financing. And to put it most clearly, the banks would not enter into the terms of a bridge facility if they were not confident in the takeout of their short-term loan.

So the answer is, it would not be commercially feasible to do the bridge financing if the lender did not believe that it was possible to do the permanent financing, and it's really the lender who is the linchpin in deciding whether it's possible to do permanent financing.

The District of Columbia is a conduit bond issuer. Their role in this regard is to determine whether or not Friends of Legal Services has the ability to issue tax-exempt bonds, not from a credit perspective, but from a legal organizational perspective. Do you qualify for the parameters of the types of entities that are allowed to use this type of financing? And we'll know that very shortly.

But the actual formal actions that need to be done to finish this process happen in the District of Columbia City Council, which from a scheduling perspective doesn't happen until early fall.

MS. BATTLE: I guess we just need to have the numbers run either way to know exactly what the outcome is going to be.

ACTING CHAIR SMEGAL: Well, there are not of -- I mean, you work with today's interest rates or tomorrow's --

MS. MERCADO: Well, the other thing that I was wondering about, as far as other entities that we could get funding from. Assuming that, for whatever reason, D.C. bonds don't work out, whether it's something from Fannie Mae or somebody else that would provide that kind of funding to a nonprofit 501(c)(3). But I was just wondering what our options are with those kinds of institutions.

MS. CARPENTER: That's a good question. Fannie Mae and entities like that probably wouldn't be the most efficient source for you. The first step would be much like what happened to Georgetown University, also as a 501(c)(3), when it was very difficult to do tax-exempt bonds in the District of Columbia ten years ago.

It used to be that to do these types of bonds, rather than the city council giving its approval, it had to go through an act of Congress. And it became much more laborious, and organizations that could access this market didn't access it.

In fact, there are many high profile nonprofit organizations who sat on the sidelines until this got worked out in terms of the relationship between the city council because the District of Columbia is not a state in the way that Virginia and Maryland, California, New York, and others who do this routinely are.

That being said, the Smithsonian has issued bonds -- within the last two years. The Smithsonian has issued bonds. National Geographic has issued bonds. The flagship nonprofits in Washington have gone through this process and gone through it successfully.

So if that gives you any cause for comfort, I'll say to you that if, for whatever reason, it became unrealistic to use tax-exempt bonds through the District of Columbia, the next alternative would be, rather than going to a commercial entity for long-term permanent financing, would likely go to the taxable bond market, which does not require an action by the District of Columbia.

And, in fact, a portion of this financing will be on a taxable bond basis because the use of proceeds for the building for non-(c)(3) purposes exists. So we're not eligible to use all tax-exempt financing. So we'll have to use taxable financing, anyway.

So you're asking for a conservative set of facts. That would push us to a taxable financing, which we'll be doing anyway.

MR. EAKELEY: The risks to the Corporation are not those risks.

ACTING CHAIR SMEGAL: No.

MR. EAKELEY: This is all the risks to Friends. The risks to the Corporation are getting our advance payments back, and also, if this falls through, what kind of costs to cover for other occupancy space.

MS. FAIRBANKS-WILLIAMS: That was the question I was going to make. If we're supposed to be out in 2003 and into this other thing, if this falls through, what our contracts are --

ACTING CHAIR SMEGAL: Well, we'll know --

MS. CARPENTER: We'll know very soon.

MS. FAIRBANKS-WILLIAMS: -- and where we're going to go. Or can we rent from them?

ACTING CHAIR SMEGAL: No. We have a lease currently where they are that's for five years. But it's got an out -- David probably can clarify this if I speak incorrectly -- it's got an out starting next May out of that contract if we want to get out.

MS. FAIRBANKS-WILLIAMS: But does it cost us extra, is what I'm trying to --

ACTING CHAIR SMEGAL: Well, the rent goes up every year in the current facility. It's going up a couple of bucks a year, almost. David, do you want to clarify that if I'm not being correct? But yes, the lease goes on, but it's got built-in increases in it through the five-year period.

But we're there. We have the opportunity to stay where we are for five years. That's sort of the basic answer to your question. But we also have the option of getting out of there next May.

MR. RICHARDSON: But I hear a little different question, and that is that there is a cost, like $150,000, after we provide notice to the people --

MS. FAIRBANKS-WILLIAMS: That's what I was getting at.

MR. RICHARDSON: -- to pay out. And that's included in the $5.8 million. That is included in the cost of --

ACTING CHAIR SMEGAL: Yes. Okay.

MR. EAKELEY: I'm sorry. Friends will reimburse the Corporation for the amount that it will cost the Corporation to exit the current lease and enter into occupancy of the new building?

ACTING CHAIR SMEGAL: Yes. Friends will not move the Legal Services Corporation.

MR. EAKELEY: That's okay. We understand that.

ACTING CHAIR SMEGAL: You've got to get there on your own.

MR. FORTUNO: Also, just to be clear, the point that Tom made about the rent where we are now increasing on an annual basis, I think you used the figure of a couple dollars a year. A couple dollars per square foot, that is.

ACTING CHAIR SMEGAL: Oh, yes. I'm sorry if I didn't make that clear.

MS. FAIRBANKS-WILLIAMS: Well, I understand that.

MS. BATTLE: If it was a couple dollars, we wouldn't be doing this.

MS. CARPENTER: Oh, sure. To give you a sense of perspective, we've modeled the numbers on this transaction at a rental rate below what your maximum rental rate will be should you stay in the lease to the end of the lease term here, which is roughly $38.

MS. BATTLE: Did you look at the market in Georgetown in setting that?

MS. CARPENTER: Another very good question because in financing this project, the lenders will want to know what is the default scenario should we have to take ownership of this building. Will we be able to find tenants to support the debt?

And the answer to that is yes. The range of market rates is upwards of $40 a square foot for a class A office building in the Georgetown section of Washington. We've modeled at between 35 and 37, and -- which is below your $38 a square foot that you would be subject to in your current lease. And that's supportable by other market data.

MR. EAKELEY: A somewhat unfair question for you, but who's advising the Corporation on market rates and rentals to compare with what Friends is presenting? MS.

MR. EAKELEY: Okay. So they remain on the scene as our brokers?

ACTING CHAIR SMEGAL: Yes. That's correct.

MR. EAKELEY: So it's arm's length throughout?

ACTING CHAIR SMEGAL: Absolutely.

MR. EAKELEY: I mean, arm's length, but all joined by a common purpose.

ACTING CHAIR SMEGAL: The goal is common, yes.

Mr. McCalpin?

MR. McCALPIN: What is the difference in rentable cost per square foot between tax-free financing and taxable financing?

MS. CARPENTER: If we were not able to finance a portion of the building using tax-exempt bonds -- actually, we never really contemplated what the rental rate would be because we knew that we would be eligible to do it.

However, it would be north of the roughly 35 to $36 a square foot range in tax-exempt financing, but below the $40 a square foot. So somewhere in that range.

MS. BATTLE: Forty is probably a commercial rate. In other words, the comparative data on the square footage in Georgetown had to do with commercial rates and not --

MS. CARPENTER: Oh, sure. Sure. And LSC is subject to commercial rates for its tenant occupancy to the extent that you don't own a building. You're subject to the profitability of a commercial landlord.

ACTING CHAIR SMEGAL: Any other questions?

MR. FORTUNO: I think just a point that may be worth making is, what I've done is just pulled the articles of incorporation of Friends of LSC.

And so the charter of that foundation specifically provides that it is in existence to raise funds to provide funds to support all aspects of the missions of the Legal Services Corporation, and acquiring, holding, and managing assets for use by LSC where doing so may result in lower costs or greater efficiencies for LSC.

So it really a symbiotic relationship, and it's not a for-profit business. It's basically in existence to increase efficiencies for LSC and to make life easier for LSC, if you will.

MS. MERCADO: And you said there was a -- I'm sorry. You said there was a utility company?

ACTING CHAIR SMEGAL: Well, and based on that particular provision of the bylaws or articles of incorporation, the 501(c)(3) was approved?

MR. FORTUNO: Yes.

ACTING CHAIR SMEGAL: Granted. Whatever.

Yes?

MS. MERCADO: You were saying there was a utility company right next to a space on there?

ACTING CHAIR SMEGAL: It's got that property next to it.

MS. MERCADO: Is it an office building?

ACTING CHAIR SMEGAL: No. It's a piece of property. It's vacant.

MS. CARPENTER: It's a vacant piece --

MS. MERCADO: Oh, it's vacant property?

ACTING CHAIR SMEGAL: It's grass.

MS. BATTLE: Do we know what the utility company plans to do with that?

ACTING CHAIR SMEGAL: I hadn't thought about it. I don't know.

MR. FORTUNO: Also, one of the points is --

ACTING CHAIR SMEGAL: Usually graze sheep, is what I've found common.

MS. FAIRBANKS-WILLIAMS: Goats are in style.

ACTING CHAIR SMEGAL: Goats. Goats, too. Goats or sheep.

MR. FORTUNO: Many of the --

MS. MERCADO: I was thinking of power lines.

MR. FORTUNO: I shouldn't say many.

ACTING CHAIR SMEGAL: It's against D.C. --

MR. FORTUNO: I shouldn't say many because there aren't many spaces available, but the properties we were looking at, what you would typically find is something in the interior of a block with windows only on the front.

Employees at LSC were of course concerned because where we're located now, we've got windows all around the building, and they were concerned about the sudden loss of daylight.

And this building, I'm delighted to report, is a freestanding building with -- and you'll see for yourselves in a little while how it's got windows all the way around it. And they're large windows, floor to ceiling. I think you'll be impressed.

As for the transaction, the authorization would be for the president to negotiate and enter into a lease. And he would arrange for his counsel. David and I would remain outside of that transaction.

But if there are any questions that you'd like to ask about that, we'd be happy to respond to those as well.

MS. BATTLE: Have employees been -- has this project been explained to employees, and what is their feedback on this?

MR. FORTUNO: Employees know of it, know -- a lot of this has been happening quickly, and I think one of the important things to keep in mind is, one of the driving forces has been that we got this multi-million-dollar grant from the Gates Foundation, which is not available to us for very long. In fact, the original grant letter said that it was to help provide for a permanent home for LSC, and that it was to be used by January 1, 2001.

Tom was kind enough to go back to meet with Bill Gates, and managed to get us some breathing room here. We certainly don't want to forego a grant of this size. But we don't have it for very long.

And the question of, has it been vetted carefully with staff of LSC, no, not as in surveys and getting everything together and having folks take tours of the building. Things have happened fairly quickly. The building came on the market suddenly. The owners asked for sealed bids, made a decision quickly.

But as we described, it's a building that provides a great many amenities. So while some will no doubt wish that it were directly on a Metro line, and it's not, I think most will see all of the amenities that the building has to offer as a real plus.

ACTING CHAIR SMEGAL: Any other questions?

MR. McCALPIN: Yes. What is the extension date on the Gates grant? How much extension did they give you?

MR. FORTUNO: Well, it's not clear. The discussions I had with Bill Gates, Sr. involved --

initially involved getting the 500 New Jersey property.

MR. McCALPIN: Pardon?

MR. FORTUNO: Initially involved getting the 500 New Jersey property in December. In December, Bill and I had those discussions. And at that point, we had -- well, we subsequently had an understanding, he and I, that they would make a loan to us that would extend over an additional year. Because we saw that property, developing that property, to be much more expensive and involve much more up-front money than $4 million.

So Bill had agreed to go to seven and a half million by way of a loan, interest-free loan, for one year. Now, technically, if we were still in that posture, the arrangement that he and I discussed would continue through this year.

Because we don't need seven and a half million any longer and we're not talking about a loan with them, we're talking about their grant, it isn't clear. But I think they expected us to move.

At one point, they needed to remove this money from their books as of December 31. It turned out that they didn't have to do that. But --

MR. ERLENBORN: Their law firm is also already filled in what's happened up until now.

ACTING CHAIR SMEGAL: Oh, yes. We would have some more time, Bill. I think the object here, they want us -- they want the Legal Services Corporation, through this vehicle, to have --

MR. McCALPIN: No firm deadline?

ACTING CHAIR SMEGAL: Oh, no. No, Bill. No. There isn't any date. There isn't anything in the -- there's no line drawn in the sand saying, you can't step over this. But I think the more quickly we move now -- because their interest level is very high and their people are ready to move with us.

MS. CARPENTER: Yes. we --

ACTING CHAIR SMEGAL: They're ready to move in the next couple of weeks.

MS. CARPENTER: We've given them a full briefing, fairly detailed on the building and also on the financial aspects of how we plan to finance this on the short term and on the long term. And they've been exceedingly gracious in terms of how they contemplate distributing that grant and the use of that grant to enable us to facilitate very efficient financing. So they've been very, very strong partners and big supporters.

ACTING CHAIR SMEGAL: Yes, Bill. They got a different briefing book than the board got. It's got a lot of financial stuff in it.

MR. McCALPIN: The numbers are the same?

ACTING CHAIR SMEGAL: Yes. The numbers are all the same, but there's some additional detail.

MS. CARPENTER: The numbers are the same. It's the level of detail.

ACTING CHAIR SMEGAL: And you're welcome to look at it if you'd like. It was something we thought we needed to prepare for them.

Any other questions? Comments?

(No response.)

ACTING CHAIR SMEGAL: Thank you very much. Good presentation, Dawn and Brad. Thank you again. And Vic, appreciate that.

We've got -- the next agenda item is a motion, which I believe is on a piece of paper that you all should have. And I would entertain a committee member moving its adoption.

M O T I O N

MR. McCALPIN: I so move.

ACTING CHAIR SMEGAL: And is there a second?

MS. FAIRBANKS-WILLIAMS: Second.

ACTING CHAIR SMEGAL: Is there any further discussion? Mr. Eakeley?

MR. EAKELEY: No.

ACTING CHAIR SMEGAL: Thank you. As many as are in favor, please say aye.

(A chorus of ayes.)

ACTING CHAIR SMEGAL: Opposed?

(No response.)

ACTING CHAIR SMEGAL: Thank you very much.

I believe we are to a point in the agenda where we --

MR. EAKELEY: Well, but --

ACTING CHAIR SMEGAL: I'm sorry. Yes?

We'll bring that motion to the board tomorrow.

Consider and act on other business. Any other business for the Finance Committee?

MS. MERCADO: I had a couple of procedural questions or process questions.

ACTING CHAIR SMEGAL: Yes, please.

MS. MERCADO: Because I probably missed it somewhere. But on the Friends of Legal Services, the entity itself, on how it will work in perpetuity, it will not have this asset and this liability out there that it's been responsible for, whether it's a 20-year note or a 30-year note or something else.

ACTING CHAIR SMEGAL: Right.

MS. MERCADO: What is the process for having some entity that is responsible for them? Is it always going to be someone from the whatever current board of Legal Services is, or is it going to be a variety of different people? I mean, who appoints those? How do they decide that?

ACTING CHAIR SMEGAL: Well, I guess it will operate as any other 501(c)(3) would operate. The bylaws spell out the way a board of directors is selected and elected. And it will continue in that way.

We presently have Jack Martin, who retired most recently as general counsel of Ford Motor Company, on the board with us. And we have talked about getting some others on who would be similarly experienced as is Jack.

But I can see the board turning over in some respects. But I would not expect there to be a member of the existing Legal Services Corporation board on that board necessarily. I mean, there's no reason -- there's nothing in the bylaws that would prevent that.

MR. FORTUNO: The bylaws, of course, provide a mechanism for perpetuation of the board. Terms expire, election of new directors.

One aspect that's of particular relevance to LSC, you may recall, is that the bylaws of the Friends of Legal Services provide that the board of directors of the Legal Services Corporation shall appoint one director.

ACTING CHAIR SMEGAL: I'm sorry.

MR. FORTUNO: So, for example, in the case of Jack Martin, Jack Martin was appointed to the board of the Friends of Legal Services by the Legal Services Corporation board of directors.

ACTING CHAIR SMEGAL: Yes. That is a tie. That is a tie. So Jack is -- I forgot about that. Thanks, Vic.

MR. FORTUNO: So when Jack's term expires, you can --

MS. MERCADO: Yes. I was just trying to figure out, since we're sort of in a transition mode, and looking at all these negotiations and liabilities and everything that's going on, how that works.

But, I mean, one of the other concerns, not only that I have but I think that other people have expressed to us is that because we've been spending this whole past year working with NLADA and ABA on, you know, developing diverse leadership and everything, is that the board has no women and no minorities on it.

And so, you know, the question to us is, you know, how can you as an LSC entity do this? Now, understanding that it's a different entity, a different corporation, and what obligations, if anything, does anyone have or is there anything in their bylaws other than just a comment that maybe that's something people ought to look at whenever they're setting up their, you know, future positions that come up.

ACTING CHAIR SMEGAL: Yes. I don't think there's any particular composition that's set out for the board of directors, and I don't even know that there's a maximum number, is there, Vic?

MR. FORTUNO: No. Right now --

ACTING CHAIR SMEGAL: There's a minimum, but --

MR. FORTUNO: -- there are six positions on the board of directors. Four are filled. Two are vacant. And the issue that you raised is one that's been raised. In fact, Randi Youells has raised it and we've discussed it some. And that's something to be factored into the election of two officers, the two other positions.

The board can also be enlarged, and I think it's contemplated that at some point it will be enlarged so as to make it more inclusive, but not just of gender of ethnic/racial background, but also foundation connections. Obviously -- yes.

MS. MERCADO: That's sort of in line with what I was thinking of, that in expanding it, hopefully you can sort of kill two birds with one stone, you know, that you have a diverse board, but that you also have a board that's able to leverage additional funding so that you're not stuck to a 20- or 30-year mortgage and you're able to get, you know, whatever, two million from Ford or whoever else is on there.

I mean, looking at those kinds of things, grant monies that then the entity doesn't have to be responsible for paying that at some future time.

ACTING CHAIR SMEGAL: Well, we have some optimism in that view. I might say that Jack Martin was in this a long time ago and went to all of his friends who were general counsels of large corporations, and his efforts raised zero dollars. So hopefully, now that we've found a benefactor, we might do better, but -- second time around.

Doug?

MR. EAKELEY: May I go back to the resolution? I take it from Bill McCalpin -- I thought the resolution was in everybody's supplemental package that was waiting for us when we arrived.

But I think we -- I'd like to return to the resolution because it seems to me that we ought to break this out into two --

MR. McCALPIN: I'd like to see it.

ACTING CHAIR SMEGAL: Oh, Bill, here. Why don't you pass that -- here's an extra one right here. Or have you got one for him, Vic?

MR. EAKELEY: The resolution is in two sentences, the first of authorizes the president of the Corporation to negotiate and enter into a lease, and I think we should add, with Friends of Legal Services Corporation.

ACTING CHAIR SMEGAL: Okay.

MR. EAKELEY: For up to 45,000 square feet at 3333 K Street at a dollar per square foot rate not to exceed that provided for in LSC's current lease for space at 750 First Street.

That, I thought, was what I was voting on before. There's a second sentence, though, that I think ought to be separated out into a second resolution and coupled with another issue, and that has to do with a security deposit of up to $200,000.

So I'd like to hear something about the security deposit, and I'd like to hear what or how that relates to the $123,000 already expended, plus the 40,000 and charge already committed. Because I had heard something about a $200,000 cap before, but I don't see the necessary relationship.

ACTING CHAIR SMEGAL: It's the same thing, Doug. You're talking about the same thing. The 123,000 is intended to encompass that, to be encompassed by the 200,000.

MR. EAKELEY: Let's spell this out.

ACTING CHAIR SMEGAL: The security deposit is intended to cover those expenses that have been incurred since 1999 in order to get Friends into a position to do this. That's all.

MS. MERCADO: But that's not what it says on this. Your table of 66, 67, and 68 that itemizes the $123,731 is talking about it being Legal Services, unless it's misnamed. It just says, "Outside Counsel Expenses."

MR. EAKELEY: No. That gets -- let me reverse the process. Am I correct that the Corporation had advanced -- had expended funds in connection with the search for a permanent location for our operations?

ACTING CHAIR SMEGAL: Yes. In fact, before there was a Friends of the Legal Services Corporation, funds were expended, for example, in creating Friends and processing the 501(c)(3) applications.

MR. EAKELEY: And who authorized the expenditure of those funds?

ACTING CHAIR SMEGAL: Well, that was done in 1999, and I assume John McKay did as part of the Office of general counsel.

MR. EAKELEY: I don't think they were presented in any budget the board was asked to approve, and I think we need to go through an authorization process, even if it's retroactive in nature.

ACTING CHAIR SMEGAL: Okay.

MR. EAKELEY: And I'd like to do that, and then I'd like to get to what more is being asked or committed by the Corporation in terms of funds in addition to the signing of a lease. Could we do that?

ACTING CHAIR SMEGAL: Sure. We can do that. It's in the material that you have there.

MR. EAKELEY: It is in the material, but I think the board ought to be -- I think that there ought to be an explicit authorization retroactively for these expenditures. There's a $40,000 bill that's outstanding that hasn't been paid.

ACTING CHAIR SMEGAL: That was for the environmental testing of the 500 New Jersey site. Right. That's correct.

MR. EAKELEY: Okay. And in addition to this $164,000, are we being asked to authorize an expenditure of up to $36,000 more for a security deposit?

ACTING CHAIR SMEGAL: That's correct.

MS. MERCADO: Only 36,000 for a deposit?

ACTING CHAIR SMEGAL: Only because what you have in the book is the billings we had received from our various consultants as of a certain point in time.

MR. EAKELEY: Well, I just --

ACTING CHAIR SMEGAL: We can't project into the future what those are going to be, so in order to anticipate what those might be, we've put in the number on there.

MS. MERCADO: But she said you needed to pay $100,000 as a deposit, sort of as a -- you know, the beginning of the due diligence --

MR. EAKELEY: A refundable deposit.

MS. MERCADO: Refundable deposit.

MR. EAKELEY: Is that coming from the Gates Foundation?

ACTING CHAIR SMEGAL: Well, we expect that to come from the Gates Foundation. That's our plan. The timing of the Gates Foundation money may vary by a few days from what we will be required to do, but we expect it to be there. It's a refundable -- it is fully refundable, in any respect. There's no liability that will be created at the point in time where $100,000 goes into this contract.

MR. EAKELEY: Are there other outstanding invoices or other invoices that we expect to receive for which the Corporation is responsible as part of this process?

ACTING CHAIR SMEGAL: Well, if there are, they will not reach $200,000 -- 123 and 40 and -- what's the difference? You've figured out the difference?

MS. MERCADO: Thirty-six.

ACTING CHAIR SMEGAL: Would be 36. I am not aware of any --

MR. FORTUNO: They won't be extraordinary. There are -- for example, we're in the process now of negotiating the sales contract. Arnold & Porter is representing us in connection with that transaction. So they're reviewing it, so I think we can expect that there'll be a bill arriving some time for work that they're doing this month.

So there are those kinds of expenses. There's nothing -- and it's expected that whatever bills come in, rolling in, over the next couple of months are going to be small enough so that taking everything that's been fronted, advanced for the expenses, and everything that comes in until the financing comes in, that $200,000 will be sufficient to cover that. That's how we came up with that dollar amount for the security deposit.

MR. EAKELEY: Okay. Well, I think you lose all or most of us when you call it a security deposit.

MS. MERCADO: Yes. Because it means additional to me.

MR. EAKELEY: Because we have -- my understanding is, or is it correct, that the costs already paid of $123,731.53, and the outstanding invoice for $40,771.16, are essentially costs advanced on behalf of Friends on behalf, ultimately, of the Legal Services Corporation?

ACTING CHAIR SMEGAL: That's correct.

MR. EAKELEY: And is it also contemplated that these will be or are already legal obligations of Friends to reimburse the Corporation when Friends is funded?

ACTING CHAIR SMEGAL: Yes.

MR. EAKELEY: Okay. And are those -- is that memorialized somewhere?

MR. FORTUNO: No. Not to my knowledge.

MS. MERCADO: We need to.

MR. FORTUNO: That can be done --

ACTING CHAIR SMEGAL: Well, wait, wait. Doug, you're getting ahead of yourself. The reason we put it in terms of a security deposit here -- it could be in terms of advance rent, whatever you want it to be -- it's a way of bridging the circumstance where Friends has zero dollars till Gates' money comes in.

MR. EAKELEY: No. I'm just trying to work --

ACTING CHAIR SMEGAL: I mean, we can call it anything you want. If you're more comfortable with some other term, we can use that.

MR. EAKELEY: I'm just trying to work up to. We've got these two pieces of -- we've got funds already expended, invoice already outstanding, and I would like --

MS. FAIRBANKS-WILLIAMS: And another

100,000.

MR. EAKELEY: Well, no. What I'm hearing is that -- and it's anticipated that another 36 -- no more than $36,000 of Corporation funds are likely to be required before we get to the point that Friends will be funded by the Gates Foundation and be in the position to reimburse the Corporation.

ACTING CHAIR SMEGAL: Right.

MR. EAKELEY: Is that correct?

ACTING CHAIR SMEGAL: Uh-huh. I believe that to be accurate.

MR. EAKELEY: Well, now --

MR. McCALPIN: I'll be surprised if your Arnold & Porter bill isn't $30,000.

MR. EAKELEY: In addition -- it's pro bono, I'm assuming, or is it --

ACTING CHAIR SMEGAL: Maybe it's pro bono.

MR. EAKELEY: In addition to that, am I correct that there's a possibility, because of timing, that the Corporation may be asked to advance another $100,000 as a down payment on the signing of the contract?

ACTING CHAIR SMEGAL: Well, as -- well, I don't know what you could call it. I don't think it's a down payment. It may be $100,000 --

MS. MERCADO: As a deposit.

ACTING CHAIR SMEGAL: -- as a deposit.

MR. EAKELEY: Okay. A deposit.

ACTING CHAIR SMEGAL: A refundable deposit.

MR. EAKELEY: That's in addition to the extra 36,000 in costs that we're capping at 200,000?

ACTING CHAIR SMEGAL: Right.

MS. MERCADO: It's like an earnest money contract?

ACTING CHAIR SMEGAL: Right. Yes.

MR. EAKELEY: Okay. May I suggest this -- and let's work on it overnight so we have it in writing properly -- but I would propose two different resolutions, one resolution authorizing the costs already incurred, represented by the attachments to the memo that's on page 65. That's the 123,000 that we've already expended and the 40,000 that's been invoiced but not paid.

ACTING CHAIR SMEGAL: All right.

MR. EAKELEY: I'd propose doing that so the board authorizes those expenditures on behalf of Friends on behalf of the Corporation.

ACTING CHAIR SMEGAL: All right.

MR. EAKELEY: And then I'd like a separate resolution authorize further advances of expenses on behalf of Friends on behalf of the Corporation of no more than 36,000, if that's the intent.

ACTING CHAIR SMEGAL: Okay.

MR. EAKELEY: And then one final piece: If, as, and when it becomes necessary to advance an earnest money deposit of $100,000 that is refundable at no cost, that the board authorize that further step.

ACTING CHAIR SMEGAL: Good. Okay.

MR. EAKELEY: Does that make sense?

ACTING CHAIR SMEGAL: Vic? You got all that?

MR. FORTUNO: Yes.

MR. McCALPIN: Also to be refunded by the

Gates money to the foundation [sic] -- by the Friends with Gates money to the foundation.

MR. EAKELEY: Yes. These are all reimbursable to the Corporation by the foundation when and if it's funded.

ACTING CHAIR SMEGAL: Well, no. That isn't quite correct. No. The security deposit concept is one that -- well, setting aside the $100,000, yes. That comes right back out of -- the Gates money provides the $100,000 immediately.

MR. EAKELEY: Okay. Tell us about the $200,000 that we're --

ACTING CHAIR SMEGAL: Well, the reason it's called a security deposit is it's going to be a credit -- it could be an advance rental payment. We've got to use the Gates money to buy the building. We can't use the Gates money to pay consultants. That's the distinction you've got to make.

MR. EAKELEY: So when is the Corporation going to get back its $200,000?

MR. ERLENBORN: We would get the value at the time that we move in, and that security deposit will be held -- we'll be paying rent, but the Corporation will --

MR. EAKELEY: At a reduced rate?

MR. ERLENBORN: Friends will have a security deposit, as is --

MR. EAKELEY: Okay. This is all the more reason this ought to be memorialized.

ACTING CHAIR SMEGAL: Bill, question?

MR. McCALPIN: I notice, in looking at this resolution, there is no indication of a length of lease. How long are we talking about in terms of a lease?

ACTING CHAIR SMEGAL: How long would you like?

MR. McCALPIN: What's the longest lease the Corporation ever entered into?

ACTING CHAIR SMEGAL: At least ten.

MR. EAKELEY: Yes. I was thinking ten. I mean, I think we've been talking --

ACTING CHAIR SMEGAL: We're thinking ten, and options to --

MR. McCALPIN: Have we ever done the ten-year leases?

MR. FORTUNO: Except 51st Street was a ten-year lease.

MR. RICHARDSON: And so was 400 Virginia Avenue.

ACTING CHAIR SMEGAL: Yes. That dungeon we had, Bill, when we came in as a board was a ten-year lease.

MR. ERLENBORN: But our idea in negotiating the lease now is that it would probably be ten years.

MR. McCALPIN: Well, it would seem to me there ought to be some indication here.

ACTING CHAIR SMEGAL: Yes. Good.

MR. EAKELEY: So deem these friendly amendments?

MR. EAKELEY: Absolutely. Every one of them, including Bill's.

MR. FORTUNO: I have my marching orders for this evening.

ACTING CHAIR SMEGAL: Yes. All right. Any further discussion? Any questions?

(No response.)

ACTING CHAIR SMEGAL: We are now at the point where we would entertain public comment at the Finance Committee.

(No response.)

MS. BATTLE: Never any.

ACTING CHAIR SMEGAL: We've worn out the public. They're exhausted. Several of them left. I saw several --

MR. EAKELEY: David, did you have anything to add --

MR. ERLENBORN: Do we have to vote on this resolution?

ACTING CHAIR SMEGAL: No. They're friendly amendments. Well, we could, technically. Why don't we vote on the friendly amendments.

As many as are in favor, say aye.

(A chorus of ayes.)

ACTING CHAIR SMEGAL: Opposed?

(No response.)

ACTING CHAIR SMEGAL: Okay. And Vic will

reduce those to some --

MR. EAKELEY: It really has to be in writing for the board meeting tomorrow.

MR. ERLENBORN: We don't have to approve it here to send it to the board?

ACTING CHAIR SMEGAL: Yes, we did.

MR. EAKELEY: Well, that's what we're doing. We just -- we've done it.

MR. ERLENBORN: I thought that was just the amendments.

ACTING CHAIR SMEGAL: Well, we approved them --

MR. EAKELEY: Oh, okay. Now we vote on the resolution as amended. Now we'll vote on the motion.

ACTING CHAIR SMEGAL: All right. Let's have one more vote here. Before you now is the resolution, as amended, as we will see it tomorrow at the board meeting. Please say aye.

(A chorus of ayes.)

ACTING CHAIR SMEGAL: All right. Public comment again? I'll give you another chance.

(No response.)

ACTING CHAIR SMEGAL: All right. There is a tour set up. Lynn has a tour set up of the building at 5:30, which is about 15 minutes from now. And there is transportation, Lynn, to get there?

MS. BULAN: We're going to catch cabs outside.

MR. FORTUNO: For those of you who don't know, the lady who just spoke up is Lynn Bulan with the office of Legal Affairs.

A PARTICIPANT: How long is the walk?

ACTING CHAIR SMEGAL: It's about eight blocks.

MS. BULAN: It's a good hike from here.

ACTING CHAIR SMEGAL: It may be a mile.

MS. BULAN: But it's a little brisk out there, so --

ACTING CHAIR SMEGAL: We're at 25th and K, and the building is at 33rd and K, so it's eight blocks.

MS. MERCADO: Right. But it's really long blocks.

ACTING CHAIR SMEGAL: They are long blocks.

Well, the advantage of taking the walk, though, would be you'd get to see this Ritz Carlton or Four Seasons being built in front of your very eyes.

In any event, Ernestine, you have other transportation, don't you?

MS. WATLINGTON: I myself offer that the van be available.

ACTING CHAIR SMEGAL: Van? Okay. Fine. So everybody is all set, and you know where you're going. And the building maintenance person, Lynn, will be -- all right. The realtor is going to show.

MS. BULAN: And there is a representative from the building, but I'm not sure who it is.

ACTING CHAIR SMEGAL: All right. Good. Okay. Is there any further business to come before the Finance Committee?

MS. FAIRBANKS-WILLIAMS: All right. So we're leaving, what, in 15 minutes?

ACTING CHAIR SMEGAL: We're leaving now.

MS. FAIRBANKS-WILLIAMS: I've got to go up to my room and get my sweater.

MR. FORTUNO: Why don't we give people an opportunity to just run upstairs and grab whatever they need to, or drop off whatever they need to.

ACTING CHAIR SMEGAL: The front door where the cabs are.

MR. FORTUNO: Exactly.

ACTING CHAIR SMEGAL: All right. Motion to adjourn?

M O T I O N

MR. ERLENBORN: So move.

ACTING CHAIR SMEGAL: Second?

MR. ERLENBORN: Second.

ACTING CHAIR SMEGAL: Done.

(Whereupon, at 5:16 p.m., the meeting was concluded.)

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