

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE
OPEN SESSION

Saturday, October 31, 2009

9:38 a.m.

Crown Plaza Philadelphia - Center City
1800 Market Street
Philadelphia, Pennsylvania

COMMITTEE MEMBERS PRESENT:

Michael McKay, Acting Chairman
Thomas A. Fuentes

Laurie Mikva
Sarah M. Singleton (by telephone)

Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Jonann C. Chiles
Herbert S. Garten

Thomas R. Meites
Bernice Phillips-Jackson

1 STAFF AND PUBLIC PRESENT:
2 Helaine M. Barnett, President
Karen M. Dozier, Executive Assistant to the President
3 Victor M. Fortunato, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
4 David L. Richardson, Treasurer and Comptroller, Office
of Financial and Administrative Services
5 Karen J. Sarjeant, Vice President for Programs and
Compliance
6 Charles Jeffress, Chief Administrative Officer
Jeffrey E. Schanz, Inspector General
7 Joel Gallay, Special Counsel to the Inspector General,
Office of the Inspector General
8 Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General
9 David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the Inspector
10 General
Thomas Coogan, Assistant Inspector General for
11 Investigations, Office of the Inspector General
John Constance, Director, Government Relations and
12 Public Affairs Office
Stephen Barr, Media Relations Director, Government
13 Relations and Public Affairs Office
Kathleen Connors, Executive Assistant, Government
14 Relations and Public Affairs Office
Julie A. Reiskin, LSC Board Nominee
15 John G. Levi, LSC Board Nominee (by telephone)
16 Don Saunders, National Legal Aid and Defenders
Association (NLADA)
17 Robert E. Stein, Chair, Standing Committee on Legal
Aid & Indigent Defendants (SCLAID), American Bar
18 Association
Julie Strandlie, Standing Committee on Legal Aid &
19 Indigent Defendants (SCLAID), American Bar
Association
20 Linda Perle, Center for Law & Social Policy (CLASP)
21
22

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P R O C E E D I N G S

(9:38 a.m.)

CHAIRMAN MCKAY: Recognizing our charge to keep this thing moving along, and recognizing that 15 minutes ago I said we'd have a five-minute break, we will call to order the meeting of the finance committee. First item on the agenda is approval of the agenda. Do I hear a motion?

M O T I O N

MR. FUENTES: Move approval of the agenda.

CHAIRMAN MCKAY: Second?

MS. MIKVA: Second.

CHAIRMAN MCKAY: All those in favor say aye.

(A chorus of ayes.)

CHAIRMAN MCKAY: Opposed?

(No response.)

CHAIRMAN MCKAY: The motion passes.

Second item on the agenda is approval of the minutes for our meeting on September 21, 2009. Do I hear a motion?

M O T I O N

MR. FUENTES: Move approval as presented.

1 CHAIRMAN MCKAY: Do I hear a second?

2 MS. MIKVA: Second.

3 CHAIRMAN MCKAY: All those in favor say aye.

4 (A chorus of ayes.)

5 CHAIRMAN MCKAY: Opposed?

6 (No response.)

7 CHAIRMAN MCKAY: The motion passes.

8 Perhaps I should have proposed this at the
9 beginning, but I would like us to consider items 3 and
10 4 together. And hearing no objection, I'd ask that we
11 proceed in that manner because we cannot consider
12 the -- I believe we cannot consider the resolution
13 proposed in item 3 without receiving a presentation on
14 item 4.

15 And so if there's no objection, I'd ask that
16 we consider both items together.

17 (No response.)

18 CHAIRMAN MCKAY: Hearing no objection, we'll
19 proceed. Inviting to the table Mr. Richardson,
20 Mr. Jeffress, and if our inspector general can step
21 forward, we'd welcome him as well. The subject -- we
22 would listen to a report on our financial reports for

1 the fiscal year ending September 30, 2009.

2 MR. FUENTES: Mr. Chairman, injured that we
3 have a distinguished nominee of the president with us
4 on this meeting. Is that correct, on the phone? And I
5 think we ought to recognize those present with us by
6 phone.

7 CHAIRMAN MCKAY: A good point. And is
8 Mr. Levi on the phone? John, are you there? We heard
9 John Levi on the line. Is there anyone else who is a
10 nominee who's listening in on --

11 MR. LEVI: I'm listening in.

12 CHAIRMAN MCKAY: And who's this?

13 MR. LEVI: This is John Levi.

14 CHAIRMAN MCKAY: Oh, good. Very good.

15 Welcome. I'm glad to have you here. You're listening
16 in, of course, on the finance committee.

17 Any other nominees on the line?

18 MS. DOLD: This is Liz Dold at Groom.

19 CHAIRMAN MCKAY: Good morning and welcome.

20 MS. DOLD: Thank you.

21 CHAIRMAN MCKAY: Anyone else?

22 MR. LEVINE: I would interview for a nominee

1 for labor counsel. David Levine at Groom as well. I'm
2 sorry to interrupt.

3 CHAIRMAN MCKAY: Well, very good. Thanks so
4 much for listening in. We will turn to you shortly.
5 Thank you.

6 Anyone else listening in who's not a nominee?

7 (No response.)

8 CHAIRMAN MCKAY: Thanks so much.

9 Okay. Back to the agenda. Please identify
10 yourselves for the record, and then let's hear your
11 report on the financial statements.

12 MR. RICHARDSON: Okay. For the record, I am
13 David Richardson. I'm the treasurer/controller of the
14 Corporation.

15 Most of the materials were handed out at this
16 meeting -- actually, all of them for the finance
17 committee. So I'll be referring to the documents in a
18 little bit different order than they were given to you
19 since we're going to look at page No. 67 first, which
20 provides some of the detail as to why there was a need
21 to revise the consolidated operating budget. And
22 that's the reason we needed to roll these two items

1 together.

2 Within this quarter, we have had two internal
3 budgetary adjustments, one that I notified you about in
4 July, and that was a \$70,000 adjustment dealing with
5 adding some money to the consulting line in our Office
6 of Information Technology. That money was taken from
7 the capital expenditures line so that we could have
8 some consulting, some upgrade work of our network and
9 computer systems.

10 That transfer is under the authority of the
11 president. She can make transfers up to \$75,000
12 without board approval. Anything over the 75 then
13 would need to come to the committee and to the board
14 for approval. So that is done and is reflected in
15 these documents.

16 In addition to that, we had -- during the
17 month of September we had another adjustment, which was
18 55,000 that was added to the Executive Office. And
19 that was to pay for some outside counsel work that was
20 needed during the last quarter. So those are the two
21 main internal budgetary adjustments that were
22 completed.

1 In addition to that --

2 CHAIRMAN MCKAY: What was that for?

3 MR. RICHARDSON: For outside counsel.

4 CHAIRMAN MCKAY: Yes. What was the subject?
5 Do you know?

6 MR. RICHARDSON: It was dealing with the
7 process of forming a union and union counsel.

8 CHAIRMAN MCKAY: All right. And are we going
9 to get a report on that later on, Charles?

10 MR. JEFFRESS: We can. There are actually two
11 components of this. This 55,000 was transferred in
12 order to pay for the general -- the union election
13 outside counsel, which you received. We are
14 anticipating also engaging a different outside counsel
15 for the collective bargaining component, but that is
16 yet to come.

17 CHAIRMAN MCKAY: All right. Thank you.

18 MS. SINGLETON: Mr. Chairman, this is Sarah
19 Singleton. I couldn't hear the figure that David said
20 was moved for this item.

21 CHAIRMAN MCKAY: It's \$55,000. And so I'd ask
22 the witnesses to remember we have folks on the phone.

1 If you could put the microphones a little closer to
2 your mouths when you're speaking because -- it's good
3 that we're reminded of that.

4 So did you hear the number, \$55,000?

5 MS. SINGLETON: Yes, I did. Thank you very
6 much.

7 CHAIRMAN McKAY: Thank you. And I would ask
8 anyone on the phone, if they have trouble hearing us at
9 any time, to please remind us. And we'll make sure the
10 microphones remain close to us.

11 MR. RICHARDSON: Thank you, sir. I'll
12 continue.

13 In addition, at the July meeting, you approved
14 the acceptance of the State Justice Institute funding.
15 We did not know that how much that funding would be.
16 But you approved us to add it to the board and to be
17 able then to write contracts on that.

18 The State Justice Institute has now provided
19 \$330,000. That money is used to supplement our
20 technology initiative. The money goes to enhance the
21 access to legal services through the courts, as the
22 technology grants also help the clients access the

1 courts also. So they run in tandem, and that money has
2 been awarded at this point.

3 In addition to that, also on this document,
4 I'll go into the carryover, the amount of money that is
5 left in the basic field funding. We still have some
6 money for Wyoming. There is still the money for
7 American Samoa; we have not yet found a grantee for
8 that particular area. So there is \$895,000 that is
9 remaining for that area. There's 205,000 for Wyoming.

10 In addition to that --

11 CHAIRMAN MCKAY: Can I ask you a question
12 about Wyoming? You know, it's my understanding that
13 Congress has a formula. And I'm wondering why -- I
14 don't know if you can answer this; maybe Charles or
15 someone else can answer, or Karen -- why there is money
16 left over for any grantee when Congress sets a formula.

17 And I know there are issues with regard to
18 Wyoming. But can someone help me understand why, at
19 the end of the fiscal year, money that has been set
20 aside for a particular grantee pursuant to a formula
21 that's imposed upon us by Congress has not been paid?
22 Charles? Or Karen?

1 MR. JEFFRESS: Yes. Let me let Karen come
2 speak to that.

3 CHAIRMAN MCKAY: Karen has saved at least two
4 people this week.

5 MS. SARJEANT: Thank you. Karen Sarjeant.
6 The reason there is money left over is while we had an
7 interim provider, they were not receiving the entire
8 grant amount. And so now that we have a -- we funded a
9 provider, they are now getting the amount that's set by
10 the census funding.

11 But there are additional funds that they are
12 eligible to receive that belong to that service area,
13 and they just -- they have to meet certain requirements
14 before we release it to them because they'll end up
15 with a large pot of money, unable to spend it in the
16 short period of time.

17 CHAIRMAN MCKAY: So this is a function of the
18 issues that are unique to Wyoming, and part of the
19 supervisory responsibilities of LSC to make sure that
20 certain benchmarks are met?

21 MS. SARJEANT: Exactly.

22 CHAIRMAN MCKAY: All right.

1 MR. FUENTES: Mr. Chairman? Karen, may
2 we -- could you remain for just a moment? I wonder if
3 you could fill us in a bit on the American Samoa
4 situation. That's troubling to me that money has not
5 been utilized as we would have hoped earlier, with the
6 natural disasters which that community has suffered.

7 I know the seriousness of that because in
8 southern California, we have a very large Samoan
9 population and presence. And we have gone through in
10 recent months collections of funds for relief, prayer
11 services in local churches, a real outpouring. And it
12 has been demonstrated in our local news coverage the
13 severity of the impact of those tragedies.

14 And I think that this might be a time for some
15 special attention to be of help in any way that we can;
16 although we're not disaster relief, oftentimes our work
17 plays into assisting.

18 MS. SARJEANT: Absolutely.

19 MR. FUENTES: Could you fill us in on what's
20 going on there?

21 MS. SARJEANT: I can. And let me first say
22 that it is equally troubling to us that we have not

1 been able to make a grant award in the American Samoa
2 service area for several years now.

3 As you will recall, the situation there was
4 one in which earlier, in about 2004, the Corporation
5 started funding American Samoa. And then because of a
6 series of significant concerns that resulted in not
7 only our indicating to the folks there that we weren't
8 going to fund them any longer, but the inspector
9 general's office, as I recall, was there and there was
10 a referral to the U.S. Attorney's office for some
11 financial improprieties.

12 And since that time, we have left the
13 competition for the service area open but have not
14 received a qualified grant application, despite our
15 efforts in working with the congressional
16 representative from American Samoa to let them know
17 what our concerns were and what we're trying to do
18 there.

19 We had received a couple of grant
20 applications, but they did not meet the requirements of
21 our RFP. So we continue to pay attention to what's
22 going on there, and in fact, our staff who work on

1 disaster issues have been on phone calls with the
2 American Red Cross and others talking about the
3 American Samoa service area and what some of the
4 possibilities might be.

5 One of the concerns there, one of the
6 problems, is that the bar in American Samoa is very
7 small. And the distance has created a real concern for
8 us in terms of providing adequate oversight. It is our
9 intention to continue to work with the representative,
10 and to also look at working in concert with other
11 federal agencies because we recently ran a report of
12 the number of federal agencies that have some type of
13 program in American Samoa.

14 And so we're using that as some background to
15 take a look at if there's a way we can work in concert
16 with other federal agencies to think about how we might
17 provide and help develop a service provider there.

18 MR. FUENTES: What was the figure again,
19 David, of the funds?

20 MR. RICHARDSON: 895,000. And that is for
21 basically a three-year period.

22 MR. FUENTES: Mr. Chairman, I'd like to

1 suggest that the finance committee -- and it's probably
2 more a provisions committee kind of matter -- but as a
3 member of both, I would like to suggest that we, as a
4 finance committee request of the board, that between
5 now and our next coming together of the board, that we
6 receive a more formal report on this topic. I think
7 it's something we should elevate in priority. I would
8 like the board to address it and to see if we can't
9 stimulate some more action.

10 CHAIRMAN MCKAY: It sounds like a good idea.

11 Any objections from members of the committee?

12 (No response.)

13 CHAIRMAN MCKAY: All right. We'll make that
14 recommendation to the full board. Well, actually, we
15 as a committee can ask that it be done. So we do ask
16 that the finance committee receive a presentation,
17 unless the chair of the provisions committee would ask
18 to take it on. But one way or another, a committee
19 should hear that at the next meeting. Thank you.

20 David?

21 MR. RICHARDSON: All right, sir. In addition
22 to the money that is remaining in the basic field

1 programs, we have the U.S. Court of Veterans Appeals
2 funds. We have 25,000 remaining there. There is going
3 to be some administrative charges here at your end that
4 will be charged against this particular line, so it
5 will go down when the annual financial audit is
6 completed.

7 But it'll be offset. It'll actually increase
8 the MGO carryover at that point because that's where
9 the funds are being spent. And that goes back to
10 reimburse the program, our MGO account, for that.

11 Grants from other funds: We have 650,000
12 available for special one-time grants and emergency
13 grants. And those are made upon request, of course.

14 And then the technology funds, as are stated,
15 we provided the grants this year for the technology
16 initiative grants. And currently we have \$7,900 which
17 will go to support next year.

18 Also, with the management and grants
19 oversight, this year we had expenditures of
20 \$13,700,000. And we have carryover of \$3.5 million.
21 We do have contracts that are let in 118,000, and
22 that's work that will be done in this particular

1 quarter in 2010, and will be expended then.

2 One of the reasons, or a number of reasons,
3 that we have this carryover, and it is larger than
4 normal, is that when -- in April, when we passed a
5 budget, we set a million dollars of our budget
6 immediately. So we did that to help support next
7 year's operations.

8 Since that time -- or I should continue, you
9 also approved 15 new positions throughout the
10 Corporation. We have been able to fill some of those,
11 but we've also, through attrition, lost a few people.
12 The Legal Affairs staff lost one, and we've been able
13 to hire one here in the last two months.

14 The Office of Compliance and Enforcement, you
15 approved ten new staff members, and so far we've been
16 able to hire four. And in OPP, they actually lost two.
17 You approved four new ones, so they've been able to
18 hire three. They still have three outstanding
19 positions.

20 That has a rippling effect. When you don't
21 have enough staff, you don't take on additional travel.
22 You don't hire consultants. And while we've done more

1 work and we've had more trips this year, there is
2 significant amounts of carryover in consulting and
3 travel for both of those offices.

4 Within the salary line, I should say, is the
5 biggest -- as I was saying, the carryover is \$1.3
6 million. So when you add the million and 1.3 in
7 salaries, 2.3, there's initially \$1.2 million in
8 carryover. The consulting and travel of the OPP and
9 OCE units is about 600,000 of that money.

10 In addition to that, there was -- we have the
11 litigation line that we did not use this year. Vic had
12 \$110,000 in funding that was not used. So that's
13 actually where the source of the 55,000 came from that
14 was then transferred to the executive office, that I
15 explained earlier.

16 The LRAP funds, we --

17 CHAIRMAN MCKAY: What's the name of that fund?

18 MR. JEFFRESS: Herbert S. Garten Loan
19 Repayment Assistance Program?

20 (Laughter.)

21 MR. RICHARDSON: My acronyms, and we're going
22 to have to come up with another one to get the HSG in

1 there, but we'll see. We'll work on that.

2 The 279,000 that was expended was those loans
3 or were those loans that were forgiven from the prior
4 year. We have \$1.69 million in that fund right now.
5 We do have loans of about \$570,000 that will be -- most
6 of those will be forgiven. There's a few that will not
7 be, but most of those will be forgiven and will be
8 expended in 2010. Then we'll start a new round of
9 awards there.

10 The Office of the Inspector General spent
11 \$3.3 million, and they have a carryover of
12 \$1.7 million. And then they also have contracts that
13 are let. Most are for computer services, but some
14 other consulting of \$83,000 for the activities of their
15 office.

16 All of this, I might say, they've also had a
17 number of positions that are open. With the salary
18 compression issue that we keep telling you about, we do
19 think that that's part of the reason that we're not
20 getting some qualified people for these particular
21 positions in OPP and OCE.

22 And certainly the move to Washington prevents

1 some people from coming because of the cost of living.
2 So again, as we look at all of these open positions and
3 the salary, it will then come up to the that we are
4 currently showing.

5 There is breakdowns within the memo that shows
6 the summary, the page A, and gives a summary of the
7 total delivery of legal services expenses. Then we
8 have the management and grant oversight, and then the
9 Herbert S. Garten Loan Repayment Program, and the
10 inspector general.

11 The page B will show you by office. All the
12 offices are certainly under budget. And it does show
13 the different budget and expenses, and also shows where
14 the contracts are in the particular area.

15 I'll be glad to answer any particular
16 questions you may have, or if you have any questions in
17 regards to the IG, Mr. Schanz or Mr. Maddox will be
18 able to answer those questions for you.

19 CHAIRMAN MCKAY: Questions for Mr. Richardson?

20 (No response.)

21 CHAIRMAN MCKAY: Next speaker. Charles?

22 MR. JEFFRESS: Thank you, Mr. Chairman. I

1 only have one --

2 MS. SINGLETON: Mr. Chairman?

3 CHAIRMAN MCKAY: Yes, Sarah?

4 MS. SINGLETON: David, I would like to know
5 whether we are keeping track, as a separate item the
6 amount of money that is paid to any law firm we
7 contract with to deal with, first, the unionization
8 effort and second, collective bargaining agreement, and
9 third, unfair labor practices.

10 MR. RICHARDSON: Yes, we do. We set up
11 project codes for each of the major items, and we do
12 track those expenses. And we could certainly give you
13 a report on that if you'd like.

14 MS. SINGLETON: I think it is important for
15 the board to be aware of what we're spending in his
16 area, and I would like to have it included as a
17 separate reportable item.

18 CHAIRMAN MCKAY: That's a great suggestion.
19 I'd ask that there point be generated and sent to the
20 entire board. I would ask that some time today, that
21 this subject be addressed, that is, just a brief
22 report. I don't know if it should be in front of the

1 entire board or during the litigation report. But I
2 think we as a board should hear about, you know, where
3 we are the with regard to the law firm or law firms,
4 what the vision of management is, and so forth.

5 And so, Charles, when is the best time for the
6 board to hear about that today?

7 MR. JEFFRESS: I'd like to check with Vic
8 Fortuno. But perhaps during the litigation report
9 would be an appropriate time. Is Vic in the room?

10 MR. RICHARDSON: Actually, I was going to
11 suggest that, too. We do work with the Legal Affairs
12 office in putting together the litigation report and
13 the amount of money spent. And that may be a more
14 appropriate place for you to receive a report on that,
15 the activities of the management, and the report on
16 spending there.

17 CHAIRMAN MCKAY: All right. And I see our
18 general counsel's now back in the room. So we have two
19 charges here, one from Ms. Singleton, and that is that
20 we get a written report to the entire board; and then
21 some time today, we'd like to hear about management's
22 interactions with the law firm or law firms that

1 relates to the union issue.

2 And then question I have for our general
3 counsel is: When is the best time for the board to
4 receive a brief report on that? Should that be during
5 the litigation period?

6 MR. FORTUNO: If it's simply a report as in a
7 briefing, it can be made as part of the closed session.

8 CHAIRMAN MCKAY: Right. If you'd get to a
9 microphone because we have folks on the phone, please,
10 and start again.

11 MR. FORTUNO: I'm sorry. Yes. If what we're
12 talking about is simply a report on that subject, then
13 there's absolutely no problem with adding that as an
14 item to the closed session. It's not an action item,
15 as I understand it, so it would not require any special
16 vote of the board to get it on the agenda.

17 CHAIRMAN MCKAY: Then I would ask, and of
18 course happy to hear from any member of the committee
19 or anyone else from the board, but I'd like to ask that
20 you add that to your report, then, and have other
21 management members here so that we can discuss that
22 during the closed session.

1 MR. FORTUNO: Certainly.

2 CHAIRMAN MCKAY: That is, of course, just a
3 briefing.

4 MR. FORTUNO: Yes.

5 CHAIRMAN MCKAY: Mr. Fuentes.

6 MR. FUENTES: Mr. Chairman, I certainly agree
7 with Sarah, and I think that's an excellent suggestion
8 and request. I'm wondering, and maybe I've just missed
9 it: Do we keep a running chart of litigation costs by
10 case?

11 MR. FORTUNO: We in fact used to do that and
12 include it in the legislation report so that if you
13 flipped to the back of the report, there was an
14 appendix. There were actually several appendices. And
15 what they did was showed you what we were spending on a
16 given case, and in addition, would show you what we
17 were spending on a given firm.

18 We discontinued the practice because of
19 resources, but can now resume the practice if you find
20 it helpful.

21 MR. FUENTES: Yes. Mr. Chairman, I would
22 think that the finance committee and the board ought

1 to know that. If we were running a for-profit
2 corporation, we'd certainly be keeping track on
3 litigation costs on matters that were of importance to
4 the board. I think that would be a very good idea, not
5 just for this item, but if it can be done, give us a
6 figure. And when the figures get too high, maybe we
7 reevaluate what's going on.

8 CHAIRMAN MCKAY: Great idea. Ask that that be
9 done.

10 MR. FORTUNO: It can be done and will be done.

11 CHAIRMAN MCKAY: Of course, we've been very
12 successful to encourage -- get some law firms to
13 provide that service pro bono, but we should know that
14 as well.

15 MR. FORTUNO: Yes.

16 CHAIRMAN MCKAY: And also know the nature of
17 the insurance coverage, whether or not insurance is
18 covering it.

19 MR. FORTUNO: Yes.

20 CHAIRMAN MCKAY: So I think all that would be
21 very helpful to know. And obviously, the new board can
22 change it back if they want, but in the short-term, we

1 certainly would like to see that information.

2 MR. FORTUNO: Yes.

3 CHAIRMAN McKAY: Thank you. Anything further
4 for Mr. Richardson?

5 (No response.)

6 CHAIRMAN McKAY: Charles.

7 MR. JEFFRESS: Thank you, Mr. Chairman. Just
8 one note. David reported in the grants from other
9 funds category we will be carrying forward \$650,000
10 from '09 to 2010. The biggest part of that, over
11 400,000, was a result of a property reversion from a
12 former grantee in Florida who sold a property we had an
13 interest in, and that money came back to this category.

14 There is now a new provider in that area.
15 That new provider would look to purchase a building.
16 We have a request that the Office of Legal Affairs is
17 reviewing for approximately \$300,000 for the purchase
18 of a new building. And it would appear appropriate
19 that since the money from the previous building went
20 into this category, that funds for the new building be
21 provided from this category in the future.

22 While it's not ripe for presentation to the

1 board at the moment, that would be a notification to
2 the board for the future.

3 CHAIRMAN MCKAY: Mr. Meites.

4 MR. MEITES: What you said just triggered
5 something that probably should have been something the
6 audit committee thought of. Do we have a list of the
7 properties we own?

8 MR. JEFFRESS: Well, we don't actually own
9 them. But we have a list of the properties in which we
10 have a reversionary interest.

11 MR. MEITES: We do?

12 MR. JEFFRESS: The Office of Legal Affairs
13 keeps that list.

14 MR. MEITES: Does that appear on our balance
15 sheet anywhere?

16 MR. RICHARDSON: It does not.

17 MR. MEITES: How much is it worth?

18 MR. RICHARDSON: I would have to do some
19 research on that to see.

20 MR. MEITES: Well, don't. But the audit
21 committee should. That's for another day.

22 MR. GARTEN: The answer to your last question,

1 certainly there'd have to be appraisals. And there's
2 financing, probably mortgages on the property.

3 MR. MEITES: Well, but that's something the
4 audit committee --

5 MR. GARTEN: I think it's something for the
6 audit committee to consider as to whether we want more
7 information. As of now, I'm not in the position to
8 make such a request. But I think it should be noted as
9 something we look into in the future.

10 MR. JEFFRESS: Thank you. And it should be
11 noted that many of these properties were bought many
12 years ago. So one of the contentious issues, usually,
13 when they are sold is what exactly is LSC's
14 reversionary interest in the property. So we --

15 MR. GARTEN: Well, at the least, we should
16 have a list of where we have reversionary interests,
17 without attempting to evaluate what they're worth as of
18 this time.

19 MR. JEFFRESS: And we can ask the Office of
20 Legal Affairs to produce what we've got.

21 MR. GARTEN: Fine.

22 CHAIRMAN MCKAY: Mr. Fuentes.

1 MR. FUENTES: Mr. Chairman, could you tell us,
2 Charles, or someone else here, how many or
3 approximately how many or what percentage or -- is it,
4 you know, a bread box or an elephant that we have
5 interests in properties around the country? Is this
6 something common or is this something very infrequent?

7 MR. JEFFRESS: Just a minute, Mr. Fuentes.
8 I'm sorry. I'm getting both ears whispered in. And
9 Vic, Mr. Fuentes' question, really, I need your
10 assistance on anyway. The question was on what scale
11 is our reversionary interest in properties, if I could
12 rephrase the question; are we talking about just a few
13 or are we talking about significant interests in a lot
14 of properties nationwide?

15 MR. FORTUNO: Well, technically, it's not a
16 reversionary interest because it's not property that
17 belonged to us and would revert to us under any given
18 set of circumstances.

19 What it is is when a grantee asks for
20 permission and persuades the Corporation that it's a
21 prudent investment to make and there's an analysis
22 that's performed by the Office of Compliance and

1 Enforcement to determine whether in fact it's an
2 advisable transaction and they approve it, it then
3 comes to the Office of Legal Affairs.

4 And what we do is prepare the paperwork to
5 ensure that the Corporation's interest is protected so
6 that if the property is disposed of -- say the grantee
7 ceases to be a grantee -- we get back our interest in
8 the property. And it's our percentage investment in
9 the purchase and on the capital improvement of the
10 property.

11 I believe the Office of Compliance and
12 Enforcement has a list of the properties in which we
13 have an interest so that that can be compiled. They
14 have the information. I don't know what form they have
15 it in. We can certainly work with them on that.

16 My sense is that in terms of value across the
17 country, we're probably talking -- and this is very
18 much a guesstimate -- would be in the range of
19 \$50 million. This is any time you've got a grantee
20 that has purchased property with LSC grant funds, that
21 is, whether it's at the initial purchase price, they
22 purchased the building outright, or whether it's a

1 mortgage and the mortgage is being paid with LSC
2 grant funds. That interest is something that the
3 Corporation has in the property, and when disposed of,
4 can recoup.

5 The very early days, we've had properties that
6 were acquired with LSC grant funds back in the late
7 '70s, early '80s. On occasion, those have come into
8 question. There have been disputes over what our
9 interest has been.

10 We have been very careful in recent years to
11 use an instrument and a process, including recording
12 with the appropriate authority, local authority, our
13 interest so that when the property is sold, there's a
14 clear indication of our interest in the records and it
15 can't be disposed of without honoring that interest.

16 But the information can be obtained for you.
17 I don't know that it's compiled in a way that would be
18 useful just now. But I think it's certainly maintained
19 in-house, and can be put together in a form that would
20 make some sense and give you a sense of the magnitude
21 of LSC's interest in properties around the country.

22 MR. GARTEN: So in effect, it's more of a lien

1 than a reversionary interest?

2 MR. FORTUNO: Yes. That's right.

3 MR. GARTEN: And the one that was just paid
4 off, just run us through what the basis of your
5 collecting these funds were.

6 MR. FORTUNO: They ceased to be a grantee.
7 The property that they had had been purchased with LSC
8 grant funds.

9 MR. GARTEN: This is the property in Florida?

10 MR. FORTUNO: Yes. There was actually a
11 dispute, and it resulted in litigation. And before
12 going through trial, we entered into a settlement
13 agreement whereby they paid to us the amount that we
14 felt represented our interest in the property, which I
15 believe was about a half million dollars.

16 When those funds were recovered, they were
17 then added to our emergency and other special grants
18 funds. Under our property acquisition management
19 manual, there is a preference expressed for when funds
20 are recovered like that as -- it's not the only use to
21 which they can be put, but there is a preference
22 expressed in the manual for when there's a need in that

1 service area, the service area from whence the funds
2 came, that those funds get plowed back into the service
3 area.

4 So, for example, if you have a grantee who
5 used to be an LSC grantee, we can either arrange for
6 the property to be transferred, or if we recover our
7 investment in the property -- and generally it's an
8 investment that's appreciated although in recent years,
9 you know, that's not always the case -- those funds, if
10 the new grantee seeks to acquire property to operate in
11 that service area, can apply, which is what happened
12 here.

13 Bay Area Legal Services noted that there had
14 been funds recovered from funds in Gulf Coast. They're
15 now serving the service area. They asked if they could
16 have those funds and submitted an application, which
17 was reviewed, approved, the paperwork has been done,
18 and in fact, the agreement has been signed off on by
19 both parties. So the \$300,000 will not be released.

20 MR. GARTEN: And in the Florida case, you had
21 filed a lien, I presume?

22 MR. FORTUNO: Yes. Yes.

1 MR. GARTEN: Well, do they usually require you
2 to subordinate it to the mortgage on the property?

3 MR. FORTUNO: Generally so, yes.

4 MR. GARTEN: Okay. So to answer Tom, to try
5 to evaluate the value of our lien interest takes a lot
6 of doing.

7 MR. MEITES: We have to start with a list, see
8 what there is, take it from there.

9 MR. GARTEN: Start with a list. All right.
10 Thank you very much.

11 CHAIRMAN MCKAY: Mr. Strickland.

12 MR. STRICKLAND: First question is: You gave
13 a number of about \$50 million in reversionary interest,
14 roughly?

15 MR. FORTUNO: That's a guess more than
16 anything else.

17 MR. STRICKLAND: Okay. How many properties
18 does that represent?

19 MR. FORTUNO: I would assume -- I think it's
20 safe to assume that in each state, there are at least a
21 handful of properties. And they can vary in value.
22 Some may be south of a million dollars; others can be

1 well north of that.

2 But I don't know -- I think it's safe to say
3 that not every grantee owns real estate. Some grantees
4 own several pieces of real estate. And generally, LSC
5 has at least a partial interest in the property.

6 MR. STRICKLAND: All right. With
7 respect -- let's just make up a number and say there
8 are 200 properties. Are you satisfied that there is
9 some sort of lien or other recording on the real estate
10 records in every jurisdiction to indicate LSC's
11 interest? That's part one.

12 And part two: Is it just a general notice of
13 LSC's interest? I presume that would be the case
14 because you've sort of got a moving target in terms of
15 what is the amount of the reversionary interest. In
16 other words, it's a notice to a prospective purchaser
17 that there is an interest, and it's LSC's interest, and
18 therefore you're charged with that notice and you need
19 to contact LSC and determine the amount of it so it can
20 be settled.

21 Is that fairly accurate?

22 MR. FORTUNO: I think that it's a two-part

1 question. In response of the first part, am I
2 satisfied that there is something in the records
3 clearly evidencing our interest in property, the answer
4 is no. And that's basically because in the very early
5 days, things were handled differently. So that's why
6 litigation has occurred in a number of cases, in some
7 cases, I think one, for example, actually going up to
8 the Fourth Circuit.

9 In every case we've litigated, we prevailed.
10 Our interest has been upheld. But in those very early
11 cases where properties were acquired with LSC grant
12 funds, the paper trail is not very good. And that's
13 why on occasion we get involved in litigation.

14 Certainly in more recent years -- say the last
15 ten years -- I think that the Corporation has been very
16 careful about ensuring that the Corporation's interest
17 is recorded in the most appropriate way possible in any
18 given jurisdiction.

19 So we now have -- Helaine signed, on my
20 recommendation, earlier this week an agreement that was
21 about six pages long, and was designed to very
22 carefully protect our interests. And we asked that it

1 be recorded with the appropriate office in that county
2 of Florida.

3 And the other party signed it, agreed to
4 record it, and once that's done, we'll get a stamped
5 copy for our records that will be maintained by the
6 Office of Compliance and Enforcement, and Legal Affairs
7 will also maintain a copy. And should there be an
8 issue in the future, presumably the transaction will
9 not occur without our being involved in it and ensuring
10 that we recoup our investment.

11 MR. STRICKLAND: Well, to get right down to
12 the nuts and bolts of it, if a title examiner goes to
13 the deed records in Fulton County, Georgia -- well,
14 that's not a good example. I don't Atlanta Legal Aid
15 owns its building. But I really don't remember.

16 Assume it does. They go to the deed records
17 in Fulton County, Georgia. They're going to see some
18 filing, if it's a later deal, such as you just
19 described it, that puts them on notice of LSC's
20 interest.

21 MR. FORTUNO: That's right.

22 MR. STRICKLAND: It may not state the exact

1 dollar amount, but it alerts them to there is an
2 interest here somewhere, and we need to run it down and
3 see what it is.

4 MR. FORTUNO: Oftentimes the purchase is
5 entirely with LSC grant funds, in which case it's much
6 easier. On occasion, part of the purchase is funded
7 with LSC grant funds. And mortgage payments are funded
8 with LSC grant funds. That makes it a little more
9 complicated, but not terribly much so.

10 But yes, I'm satisfied that certainly, for the
11 more recent properties acquired with LSC grant funds in
12 whole or in part, that we have taken steps to ensure
13 that our interest is properly recorded and protected.
14 And, now, it will vary. The mechanics of it may vary a
15 little bit from jurisdiction to jurisdiction. But the
16 general approach is we ensure that the parties, that
17 is, the grantee and the Corporation, enter into an
18 agreement spelling out very clearly what our interest
19 is.

20 MR. STRICKLAND: And you record the agreement?

21 MR. FORTUNO: Yes.

22 CHAIRMAN MCKAY: Vic, if I may, I'm going to

1 exercise my prerogative as chair. This is an important
2 topic. We're drifting away from our agenda. We've
3 already heard that the chair of the audit committee
4 wants to take on this issue.

5 That is, let's get a list. Let's study a
6 little more carefully the nature of our interest, make
7 sure it's properly recorded. Unless I hear a screaming
8 objection from anyone here, I'd ask that we return to
9 what's on the agenda.

10 MR. GARTEN: May I ask one question?

11 CHAIRMAN MCKAY: Of course.

12 MR. GARTEN: Vic, is there anything to prevent
13 us from getting confirmatory agreements from these
14 earlier situations whereby the -- a confirmatory
15 agreement that we can file of record?

16 MR. FORTUNO: I believe that OCE did an
17 inventory at one point and tried to identify all the
18 properties in which we have an interest. And when they
19 determined that there was insufficient documentation in
20 the file, they did go to grantees to ask for just that
21 kind of confirmation.

22 Some provided it. Some declined to do so,

1 taking the position that LSC did not have that kind of
2 interest in the property. I don't know the particulars
3 of that, but we should be able to get that information.

4 MR. GARTEN: All right. Well, why don't we
5 add that to the list.

6 MR. FORTUNO: Will do.

7 MR. GARTEN: Thank you.

8 CHAIRMAN MCKAY: Ms. Chiles?

9 MS. CHILES: I don't know if this question is
10 for Charles or for Karen, or maybe for both. But the
11 OIG has referred a number of questioned costs to LSC
12 management. For example, I'm looking at three
13 different grantees here, Legal Aid and Defender
14 Association, the California Indian Legal Services, and
15 then Legal Aid of Northwest Texas. The questioned
16 costs are close -- well, over \$200,000.

17 Are those amounts reflected in the balance
18 sheets here an accounts receivable?

19 MR. RICHARDSON: They are not currently.
20 There's still some negotiations, I understand, going
21 on.

22 MS. CHILES: Okay. Well, some of these

1 questioned costs go back to the beginning of the year.

2 When are we going to get this money back?

3 MS. SARJEANT: The questioned costs with
4 Northwest Texas have been resolved. The questioned
5 costs with California Indian are pending. The
6 questioned costs with Legal Aid and Defender are
7 pending.

8 What happened with Northwest Texas was that
9 they in fact agreed not to use LSC funds for any of the
10 questioned cost items. So they have reimbursed the LSC
11 fund with other funds, non-LSC dollars. And going
12 forward, they are not using LSC dollars on that
13 percentage of the mortgage that was related to the cost
14 of the stone.

15 MS. CHILES: I'm glad to hear that, very glad
16 to hear that. Okay. On the other two questioned
17 costs, though, one goes back to February of this year
18 and the other goes back to, I think, March of this
19 year. What's the status of those negotiations?

20 MS. SARJEANT: Once we do the questioned cost
21 proceeding, the program has 30 days to respond to us,
22 and they often ask for an extension. Then it comes to

1 us. We make a determination within I believe it is
2 60 days and get it back out to them.

3 So in fact, on Legal Aid and Defender, we
4 actually did an onsite visit which extended the time to
5 resolve the issue. We bifurcated that questioned cost
6 proceeding. We collected some money back from them on
7 some issues that were resolved.

8 On the large issue related to the IT contract,
9 we did an onsite visit. That determination letter is
10 going to go out next week. And then they will have
11 30 days to determine whether they're going to appeal to
12 LSC, to the president. So that's the timing on that
13 one.

14 On California Indian, their response -- they
15 had asked for an extension. Their response was due
16 yesterday. So we will take a look at that. Now, on
17 California Indian, one of the issues related to the
18 unused hotel rooms and using LSC funds for that, they
19 made a determination, after getting our notice, that
20 they were taking -- they were going to pay for those
21 unused hotel rooms out of non-LSC funds. So they are
22 reimbursing the LSC fund for the cost of those unused

1 rooms.

2 There's still some other questioned costs that
3 are pending with them. So hopefully that will be
4 resolved, you know, by -- let's see, if we get their
5 determination, hopefully by the end of the year.

6 MS. CHILES: Okay. This is -- it's probably a
7 matter for another committee, and I apologize. I'm not
8 on this committee. But some of these questioned costs
9 can add up and become rather significant. And it
10 troubles me that it takes a year, or almost a year, to
11 get some of this money back from the grantees who've
12 misspent federal monies. Thank you.

13 MS. SARJEANT: Well, I would just say that we
14 are following the procedure that's in the regulation on
15 recovering questioned costs.

16 MS. CHILES: Maybe we need to change the
17 procedure to get the -- to make it faster.

18 CHAIRMAN MCKAY: Mr. Fuentes.

19 MR. FUENTES: Mr. Chairman, I apologize. I
20 recognize the urgency of returning to our agenda, and
21 I'll try to make this brief. But I do have a sincere
22 interest in getting a better handle on this list of

1 real estate interests that we have. And I'm glad that
2 the chairman of the audit committee is interested and
3 willing to take on this task.

4 I have long expressed, as a board member, that
5 I think that this board has inadequately utilized the
6 Office of the Inspector General as a resource to this
7 board during our tenure as a board. I would like to
8 suggest as a member of the finance committee to the
9 chairman of the audit committee that the audit
10 committee carefully consider utilizing the resource of
11 the Office of the Inspector General to do some
12 constructive and productive work in bringing to us the
13 facts of this list, these figures, our status of
14 interest.

15 And I realize that the nature of this real
16 estate interest is kind of like church real estate.
17 They say the bishop owns it all, but it's pretty hard
18 to get a figure on a church or collect it if you want
19 to shut one down.

20 So I realize it's a complicated matter. But
21 we have an office that has great resources, and we
22 don't have to be in conflict. There doesn't have to be

1 a problem for us to call upon the inspector general.

2 And I would like the audit committee to think about
3 utilizing that office.

4 CHAIRMAN MCKAY: Okay. Mike?

5 MR. MEITES: Tom, yes. Excellent. The
6 inspector general attends all the audit committee
7 meetings. And we have in the past called upon his
8 resources, and we certainly will as needed.

9 One of the nice things about the audit
10 committee is both the inspector general and management
11 actively participate.

12 CHAIRMAN MCKAY: Thank you. Mr. Jeffress,
13 anything more from you?

14 MR. JEFFRESS: That's it. Thank you,
15 Mr. Chairman.

16 CHAIRMAN MCKAY: Thank you. We'll hear from
17 our inspector general. Jeff.

18 MR. SCHANZ: Mr. Chairman, in the interest of
19 time, our budget numbers are presented in your board
20 book. And I would tell you that we do have a
21 carryover, and a lot of that was generated by a bump-up
22 in our appropriations midway through fiscal year '09.

1 Instead of spending willy-nilly, we're
2 spending on a projection basis, and so our carryover is
3 identified well into 2010. We're currently engaged in
4 automating almost every process in the Office of the
5 Inspector General as it relates to report preparation,
6 data management, documentation. So we have a broad
7 brush.

8 This was one of my plans in professionalizing
9 the OIG, is to make sure that we can do pretty much
10 everything we have automatically and electronically.
11 We've been able to do that with the increase in
12 appropriations that we had in '09, which is carrying
13 forward into the next two fiscal years. So we do have
14 a dedicated spend-down process identified for our
15 budget projections.

16 If there's any questions on that approach, I
17 will invoke my IG authority and bring David Maddox into
18 the discussion.

19 CHAIRMAN MCKAY: Anything from you, David?

20 MR. MADDOX: No, hearing no questions.

21 CHAIRMAN MCKAY: Okay. Questions? Thank
22 you --

1 MS. SINGLETON: Mr. Chair?

2 CHAIRMAN MCKAY: Yes. Sarah?

3 MS. SINGLETON: I apologize if I interrupted
4 somebody else who had questions.

5 CHAIRMAN MCKAY: No.

6 MS. SINGLETON: But I did want to ask the
7 inspector general about the automation process.

8 Jeff, there is some software program, and both
9 you and management use it and can get access to data
10 that's available in different departments. And there
11 was quite a bit of complaint about it when we looked
12 into it earlier, maybe even last year.

13 Are you using any of the money that you talked
14 about in terms of automation to try to improve that
15 database, or that software? Do you know what I'm
16 talking about?

17 MR. SCHANZ: Yes. And I'll let Dave answer.
18 That would be our AIMS system.

19 MS. SINGLETON: Yes. That's correct.

20 MR. MADDOX: Yes. Currently, we're undergoing
21 a very in-depth kind of needs analysis. And the
22 updated version of AIMS, which is a 12-year-old piece

1 of customized software, is on that list. Exactly where
2 it is in terms of the ordering of the items we're going
3 to address, I think it's off maybe, you know, eight
4 months or so.

5 But it is on there to be addressed, and we
6 will involve management very much in the needs analysis
7 so that the piece of software can be made available to
8 more people. And it will be an internet type of
9 application with certain sign-ons.

10 MS. SINGLETON: Thank you very much.

11 CHAIRMAN MCKAY: Thank you. Any other
12 questions?

13 (No response.)

14 CHAIRMAN MCKAY: All right. Then the next
15 item we need to address is the resolution. And David,
16 were we able to confirm what the resolution number is?

17 MR. RICHARDSON: The number on the resolution
18 is correct.

19 CHAIRMAN MCKAY: So it's Resolution 2009-008.

20 MR. RICHARDSON: That's correct, sir.

21 CHAIRMAN MCKAY: And so the agenda really
22 should read 2009-008, not 016.

1 And so we have before us, then --

2 MR. MEITES: We have 17, not 16.

3 CHAIRMAN MCKAY: Well, I have 16.

4 MR. MEITES: Which item are you on?

5 CHAIRMAN MCKAY: I'm on item 3 of the agenda.

6 MR. MEITES: Oh, okay. Thank you.

7 CHAIRMAN MCKAY: We are on items 3 and 4 of
8 the agenda right now.

9 And so starting at -- and this was handed out
10 to us upon our arrival here in Philadelphia -- page 66
11 and the attachment, we have Resolution 2009-008, which,
12 as I understand it, reflects the numbers that have now
13 been presented to us, revising our consolidated
14 operating budget for fiscal year 2009.

15 Do I hear a motion with regard to that
16 resolution?

17 MS. SINGLETON: I'm sorry, Mr. Chairman. I'm
18 still trying to catch up to you. Can you hold on just
19 a minute?

20 CHAIRMAN MCKAY: Sure. Take your time. I
21 don't have a motion.

22 (Pause)

1 CHAIRMAN MCKAY: You'll let us know when
2 you're ready, Sarah?

3 MS. SINGLETON: Yes, Mr. Chairman. I just
4 found it. I apologize.

5 CHAIRMAN MCKAY: No problem. Do I hear a
6 motion with regard to this resolution?

7 M O T I O N

8 MS. SINGLETON: I move that we recommend that
9 the board adopt Resolution 2009-008.

10 CHAIRMAN MCKAY: Do I hear a second?

11 MS. MIKVA: Second.

12 CHAIRMAN MCKAY: Discussion?

13 (No response.)

14 CHAIRMAN MCKAY: All those in favor say aye.

15 (A chorus of ayes.)

16 CHAIRMAN MCKAY: Opposed?

17 (No response.)

18 CHAIRMAN MCKAY: The motion passes. Thank
19 you.

20 The next item on the agenda is considering and
21 acting on whether to conduct a closed meeting. Do I
22 hear a motion?

1 M O T I O N

2 MR. FUENTES: So move.

3 CHAIRMAN MCKAY: Second? Will someone second
4 the motion, please?

5 MS. MIKVA: Second.

6 CHAIRMAN MCKAY: All those in favor say aye.

7 (A chorus of ayes.)

8 CHAIRMAN MCKAY: Opposed?

9 (No response.)

10 CHAIRMAN MCKAY: Thank you. We'll go into a
11 closed session. And this will be a true three-minute
12 break. And Kathleen, is everyone going to ring off?
13 How do we confirm -- can we explain to the new board
14 nominees that we're going into a closed session, and in
15 order to preserve the attorney-client privilege, only
16 confirmed board members and staff can participate. Is
17 that correct?

18 MR. JEFFRESS: And outside counsel.

19 CHAIRMAN MCKAY: And, of course, outside
20 counsel, Mr. Levine and his colleagues on the line. So
21 we'll have a true --

22 MS. DOZIER: We're going to disconnect this

1 line. And Sarah, you have the number to call in for
2 the closed finance committee?

3 MS. SINGLETON: No. All I seem to have for
4 Saturday is the number for the closed board session.

5 MS. DOZIER: Well, Kathleen will give you the
6 number right now.

7 (Whereupon, from 10:35 a.m. to 12:09 p.m., the
8 committee adjourned to closed session.)

9 CHAIRMAN MCKAY: Okay. I believe we have a
10 quorum, so we can proceed.

11 The next item on the agenda -- we're back in
12 open session -- the next item on the agenda is consider
13 and act on amendment to LSC's 403(b) plan and
14 Resolution 2009 -- and it should read 013, not 17.

15 Mr. Jeffress and Mr. Richardson.

16 MR. JEFFRESS: Thank you, Mr. Chairman. This
17 resolution is in the form, really, of a technical
18 recordkeeping amendment. In addition to the 403(b)
19 plan, which LSC operates for its employees, we have an
20 historic tax-deferred annuity plan that -- to which
21 employees who are covered under the federal Civil
22 Service Retirement System may contribute.

1 There are only 11 employees in the system
2 because we only have 11 employees who were hired before
3 1988 who are in the system who are contributing to this
4 tax-deferred annuity plan. So LSC, in addition to its
5 403(b) plan, has this historic tax-deferred annuity
6 plan.

7 OPERATOR: Excuse me. This is the operator.

8 CHAIRMAN MCKAY: Yes?

9 OPERATOR: I have participants dialing in
10 that's referencing 34833626.

11 MR. JEFFRESS: Please connect them.

12 OPERATOR: I'm sorry?

13 MR. JEFFRESS: Please connect them.

14 OPERATOR: Please connect them to this
15 conference even though they're referencing a different
16 ID number?

17 CHAIRMAN MCKAY: Yes.

18 OPERATOR: Thank you very much.

19 MR. JEFFRESS: With the Internal Revenue
20 Service proposed changes in rules this year, there may
21 be some question as to organizations operating more
22 than one 403(b) plan. As a matter of fact, we may not

1 operate more than one 403(b) plan.

2 While this historic tax-deferred annuity plan
3 was not set up under 403(b) rules, outside counsel
4 suggested it raises enough questions by existing
5 separately that we should combine this with our
6 existing 403(b) plan.

7 So what we propose here is to bring the
8 tax-deferred annuity plan under the umbrella of our
9 403(b) plan. It will continue to operate the same way
10 it does. No employees' contributions would be
11 affected. No employees' opportunities to contribute
12 would be affected. No employer matching is affected.
13 It's simply a paperwork amendment to bring this
14 tax-deferred annuity plan under the umbrella of our
15 403(b) plan.

16 And we recommend that the board adopt this
17 resolution so that, to the IRS, it will all appear to
18 be one plan with two components rather than a
19 potentially separate plan.

20 CHAIRMAN MCKAY: Mr. Richardson.

21 MR. RICHARDSON: I have nothing to add at this
22 point.

1 CHAIRMAN MCKAY: Okay. Do I hear a motion?
2 Will someone move the adoption of this resolution?

3 MS. SINGLETON: Mr. Chairman, I apologize for
4 calling in late. I had a little trouble. But can
5 somebody just tell me which resolution number we're on?

6 CHAIRMAN MCKAY: Well, let me apologize to
7 you. I thought that you were on the line, and --

8 MS. SINGLETON: We got cut off somehow.

9 CHAIRMAN MCKAY: Well, it's again our
10 apologies. I thought you were there, Sarah. So we're
11 on item 7 on the agenda. We're considering and acting
12 on an amendment to LSC's 403(b) plan. And it's a
13 resolution numbered 2009-013. The agenda says 7, but
14 it's actually 13. We understand it's been e-mailed to
15 you.

16 We just received a brief summary from Charles
17 as to what the resolution is. It's a technical
18 amendment to the 43b plan. Charles, can you briefly
19 summarize again what that is?

20 MS. SINGLETON: Actually, Charles doesn't need
21 to do that. I heard the tale end of his conversation,
22 and I've read the end of the memo. So I think I know

1 what it's about.

2 CHAIRMAN MCKAY: Thanks so much.

3 MS. SINGLETON: I was just trying to find the
4 right resolution.

5 CHAIRMAN MCKAY: Good.

6 M O T I O N

7 MS. MIKVA: I would move that the resolution
8 be adopted.

9 CHAIRMAN MCKAY: That is, that we recommend to
10 the full board adoption of this resolution?

11 MS. MIKVA: Correct.

12 CHAIRMAN MCKAY: Do I hear a second?

13 MS. SINGLETON: Second.

14 CHAIRMAN MCKAY: Any discussion?

15 (No response.)

16 CHAIRMAN MCKAY: All those in favor say aye.

17 (A chorus of ayes.)

18 CHAIRMAN MCKAY: Opposed?

19 (No response.)

20 CHAIRMAN MCKAY: The motion passes. Thank
21 you.

22 MR. JEFFRESS: Mr. Chairman, not to confuse

1 things, but I was just informed that the OIG resolution
2 in ops and regs was numbered 013 as well. We'll have
3 to correct this before the board meeting.

4 CHAIRMAN MCKAY: Okay. You'll do that --

5 MR. JEFFRESS: Yes.

6 CHAIRMAN MCKAY: -- and make the record clear,
7 then, at the board meeting. Thank you.

8 Next item on the agenda is the staff report
9 and status on the fiscal year 2010 appropriations
10 process. Mr. Constance. And if at all possible, we
11 are an hour and 15 minutes beyond schedule. No matter
12 how important your presentation, the subject is, we
13 hope that you can be brief on your presentation today.

14 MR. CONSTANCE: I note that the chairman does
15 not have a sandwich in front of him, and I recognize
16 that I'm between him and lunch. So I'm certainly going
17 to make this brief.

18 Mr. Chairman, thank you. For the record, I'm
19 John Constance, director of government relations and
20 public affairs. Let me recap where we are in terms of
21 the 2010 budget.

22 On June 18th, the House approved an

1 appropriations bill that would provide LSC with
2 \$440 million in funding, an increase of 50 million.
3 That bill also lifts the current restrictions on
4 attorney's fees.

5 On June 25th, the Senate Appropriations
6 Committee reported out a bill to the full Senate
7 recommending \$400 million for LSC for 2010. That bill
8 also lifts the private funds restriction in the 1996
9 riders.

10 The Senate bill was brought to the Senate
11 floor in early October, and consideration of that bill
12 has at this point, I think it's safe to say, stalled
13 through issues completely unrelated to LSC. So we
14 await that process.

15 The Congress this week passed a continuing
16 resolution, a second continuing resolution, that
17 provides funding for LSC and all those who have not
18 gone through the appropriations process, and that runs
19 through December 18th.

20 That's where we stand at the current time.
21 Obviously, given the fact that the 2010 budget
22 represents significant increases in funding,

1 particularly for basic field, we certainly look at this
2 as a vital and critical item to move ahead.

3 As you heard from New Jersey Legal Services
4 yesterday, the state of their other funding options is
5 grave at this point, to say the least. And so we're
6 looking forward to the process moving ahead and us
7 facilitating that.

8 If I could add for the record, Mr. Chairman,
9 our thanks to this committee and the overall board for
10 continuing support for increased funding for civil
11 legal assistance through our system. And I also want
12 to thank the American Bar Association, SCLAID, CLASP,
13 and NLADA for their continued and steadfast support on
14 the Hill for these measures moving forward.

15 That's all I have, Mr. Chairman.

16 CHAIRMAN MCKAY: Thank you. Thanks for your
17 report, and thanks very much for all of your good work.

18 Questions or comments for Mr. Constance?

19 (No response.)

20 CHAIRMAN MCKAY: Thanks, John.

21 The next item is consider and act on
22 Resolution 200 -- should that be -9-018? The temporary

1 operating budget for fiscal year 2010.

2 MS. SINGLETON: No. Mine is the one that
3 dealt with --

4 MR. JEFFRESS: Actually, Mr. Chairman, since
5 there was an 09 which was another 403(b) change, since
6 you deferred that, the resolution in your book or that
7 was passed out Thursday night to people is numbered
8 No. 10 for the temporary operating budget. We may have
9 to use that number 9 since we now have two 13s.

10 CHAIRMAN MCKAY: But what I'm saying is that
11 it's Resolution 2009, not -- I'm looking at the agenda.

12 MR. JEFFRESS: The agenda says 18. The number
13 on the resolution in front of you says 10, 010.

14 CHAIRMAN MCKAY: Okay. I just want to confirm
15 that the entire number is 2009-010.

16 MR. JEFFRESS: Ah, I didn't even see that.
17 Yes. You're correct.

18 CHAIRMAN MCKAY: Well, I didn't see it till
19 now. But I just want to make sure it's clear what
20 we're addressing.

21 Very good. Mr. Richardson and Mr. Jeffress.

22 MR. RICHARDSON: Okay, sir. As John was just

1 saying, we do not have our appropriation as yet. The
2 way we have built our budget is to look at last year's
3 funding levels and the different levels in the House
4 and Senate. We have used the lowest projected amount
5 to build out budget.

6 A quick reference to that would be looking at
7 the attachment. It's like the second page or third
8 page down. And I'll talk from that and try to be very
9 quick in doing that.

10 Basically, you see the new money for the basic
11 field and the technology, management and
12 administration, the Herbert S. Garten Loan Repayment
13 Assistance Program, and the inspector general. And the
14 total that is the lowest of all those figures is
15 \$389,800,000.

16 To that we have added the projected carryover.
17 We had a discussion about that earlier in the day.
18 Identified the basic field carryover and the different
19 U.S. Court of Veterans Appeals, the grants from other
20 funds, and management and grants oversight, the loan
21 repayment, and the inspector general. We have
22 currently \$8.7 million in carryover.

1 The funding for the U.S. Court of Veterans
2 Appeals, 1.7, we understand that that is also -- it's
3 also covered under the continuing resolution. So what
4 is before you is a budget of \$4,207,000. In looking at
5 the management and grants oversight -- it's the second
6 page --

7 MR. JEFFRESS: Excuse me, David. 400 million.

8 MR. RICHARDSON: 400 million. Did I say 4?
9 400,207,000. Under the MGO, we have budgeted for five
10 board meetings, two in Washington and three at other
11 sites. The discussion we just had added a board
12 meeting, but we do have 21 other board visits in to
13 Washington for different events. So there is enough
14 money to cover the additional board meeting that has
15 been requested.

16 The second line on the board of directors in
17 the memo talks about funding for the presidential
18 search and for the inspector general. You need to
19 scratch the inspector general. It is --

20 CHAIRMAN McKAY: Excuse me for interrupting.
21 I'm wondering if you could fly up to a little higher
22 altitude and let board members ask questions if they

1 wish. But could you maybe just give more of a
2 thumbnail sketch rather than drilling down as far as
3 you're drilling?

4 MR. RICHARDSON: Okay. Will do. Perhaps -- I
5 hope you've had opportunity to read the memo itself
6 because what I was going to do is just highlight the
7 high points here: that we have 102 staff members. One
8 of the concerns that the committee has had is we've
9 budgeted 2 percent for salary increases and 2 percent
10 for locality.

11 And then you'll see that we've budgeted for
12 the presidential search and moving. And then the other
13 cost, the other main one that we have here, is we do
14 have directors and officers liability insurance that
15 was just confirmed this week. And then of course we
16 have our program performance and compliance. We've
17 detailed the staffing, the consultant, and travel cost
18 in the particular memo.

19 The IG also has relayed as to what his budget
20 is, and that is covered on page 3. And if you have any
21 particular questions, I know that's a quick overview,
22 but I'll be glad to answer them if I can.

1 CHAIRMAN MCKAY: Your memo was helpful, and
2 your previous presentation was as well as to what's
3 been happening previously.

4 So I'm wondering, are there any questions or
5 concerns about what you've had?

6 MR. FUENTES: Mr. Chairman, I'd like to
7 ask -- it was just quickly mentioned there that this
8 includes a pay raise. Does a vote for this resolution
9 constitute a vote for a pay raise?

10 MR. RICHARDSON: If I may, sir, it does not.
11 It just sets the money aside, and the board can address
12 the amount of raise at a later time. This just makes
13 the money available.

14 CHAIRMAN MCKAY: Any other questions?
15 Bernice?

16 MS. PHILLIPS-JACKSON: Does this also include
17 the liability that we might encounter in the future?

18 MR. RICHARDSON: The one that we discussed?
19 It does. There's a contingency here that is set aside
20 of \$675,000.

21 CHAIRMAN MCKAY: Any other questions?

22 //

1 M O T I O N

2 MR. FUENTES: Move approval.

3 CHAIRMAN MCKAY: All those in favor say aye.

4 (A chorus of ayes.)

5 CHAIRMAN MCKAY: Opposed?

6 (No response.)

7 CHAIRMAN MCKAY: The motion passes. Thanks so
8 much for your presentation and assistance.

9 Next item on the agenda is public comment. Is
10 there any public comment?

11 (No response.)

12 CHAIRMAN MCKAY: Thank you. Next item is
13 consider and act on other business. Is there any other
14 business?

15 (No response.)

16 CHAIRMAN MCKAY: Next item is consider and act
17 on adjournment of the meeting.

18 M O T I O N

19 MS. MIKVA: Motion that we adjourn.

20 MR. FUENTES: Second.

21 CHAIRMAN MCKAY: All those in favor say aye.

22 (A chorus of ayes.)

1 CHAIRMAN MCKAY: Opposed?

2 (No response.)

3 CHAIRMAN MCKAY: The motion passes. Thank
4 you. The meeting is adjourned.

5 (Whereupon, at 12:23 p.m., the open session of
6 the finance committee was adjourned.)

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