

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, June 27, 2003

2:30 p.m.

The Latham Hotel  
3000 M Street, N.W.  
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Thomas A. Fuentes, Acting Chair  
Frank B. Strickland, ex-officio  
Herbert S. Garten

BOARD MEMBERS PRESENT:

Florentino A. Subia  
Maria Luisa Mercado  
Thomas R. Meites  
Ernestine P. Watlington

STAFF & PUBLIC PRESENT:

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

## STAFF &amp; PUBLIC PRESENT (continued):

Randi Youells, Vice President for Programs  
Mauricio Vivero, Vice President for Governmental  
Relations & Public Affairs  
John Idleman, Acting Vice President for Compliance  
& Administration  
Leonard Koczur, Acting Inspector General  
Laurie Tarantowicz, Assistant Inspector General and  
Legal Counsel  
David Maddox, Assistant Inspector General for  
Resource Management  
David Richardson, Treasurer & Comptroller  
Mattie C. Condray, Senior Assistant General Counsel  
Michael Genz, Director, Office of Program  
Performance (OPP)  
Alice Dickerson, Director, Office of Human  
Resources  
Lisa Rosenberg, Congressional Liaison  
David Hall, LSC Board Nominee (by telephone)  
Linda Perle, Senior Attorney-Legal Services, Center  
for Law and Social Policy (CLASP)  
L. Jonathan Ross, Chairman, ABA's Standing  
Committee for Legal Aid & Indigent Defendants  
(SCLAID)  
Melville D. Miller, Executive Director, Legal  
Services of New Jersey  
Julie Strandlie, ABA, Grassroots  
Harrold Creasy, Legal Services of New Jersey

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## P R O C E E D I N G S

CHAIRMAN FUENTES: Ladies and gentlemen, it's the 2:30 hour. I will call to order the meeting of the Finance Committee.

My name is Tom Fuentes. In the absence of our Chairman, Professor Rob Dieter, I've been asked to conduct and begin the proceedings here. Our colleague in this committee and third member is Herb Garten, and our Chairman, Frank Strickland, is serving in ex-officio capacity in his presence here today with us.

We turn to the agenda of the Finance Committee, page 2 on the Board package. And if I hear no opposition, we would approve the agenda. Is that all right by you, Herb?

MR. GARTEN: Yes.

CHAIRMAN FUENTES: Very good. We'll proceed, then. The second item is the staff report on LSC's consolidated operating budget, expenses, and other funds available through April 30, 2003. And we ask David Richardson, our treasurer/comptroller, to speak to this. And we'll proceed through the agenda and

other items as expeditiously as possible. David?

MR. RICHARDSON: In your Board book, there is a presentation as to the expenses through the period of April 30th. My page is marked 13.

MS. MERCADO: For the introductory memo? Thirteen is the memorandum to Nancy.

MR. RICHARDSON: Start with page 15. The Board approved at the April meeting our revised budget for the year, including the appropriations, the recision that we had, and the carryover in the U.S. Court of Veterans Appeals money. The budget that was approved at that meeting was \$344,767,000. When I speak to this, I normally round to thousands, so that we don't be dealing with the smaller numbers.

To date, within this, we have awarded 321,547,000 of our delivery of legal services, the moneys that have been designated for our programs. The revised budget for the field programs is \$326,750,000.

That's Roman numeral I, Delivery of Legal Services, and it's under Revised Budget, in the first column.

The money that is remaining, \$5,202,000, is

■ for basic field programs. There's grantees that we  
■ have short-term funded where there's not been annual  
■ funding decisions made yet. There are some of those  
■ that are in competition. So the full awards for the  
■ year have not been granted, but they are designated for  
■ each area that is to continue to be served. So that  
■ money is earmarked by formula, and that money will be  
■ spent in those particular areas.

■           Within the U.S. Court of Veterans Appeal, we  
■ have some carryover or some remaining funds there that  
■ will help with the operations of the remainder of the  
■ year. There's \$67,000 remaining from that, and that  
■ will support -- there's some talk about a web  
■ development and an additional grant to that program.  
■ But that is a pass-through grant. The only thing that  
■ we get out of that is the reimbursable expenses. If we  
■ send a staff member to a conference for the U.S. Court  
■ of Veterans Appeals, or we have a Board meeting, we  
■ have a representative -- or the Court has a Board  
■ meeting, we have a representative at the meeting and  
■ review their activities for the year.

Within the Grants for Other Funds Available, there's \$114,000. That money is earmarked for special one-time grants. It's been used for emergency grants, and it's been used for particular needs where a grantee may not have enough money to fund a situation. And we have a protocol that we follow internally in reviewing those, so that we can award moneys to the grantees on those bases.

Within the technology grants, you see that there's quite a bit of money left over there. There's a \$7.9 million budget, we've spent today \$4.2 million, and the remaining is \$3,688,000.

The way we handle this, because we have a small staff, we've just gone through the competition or end the competition for the grants, for the field grants. Once that process is under way full tilt, because it's some of the same people who work with their state planning and the competition initiative and so forth, they then start a technology initiative.

So that will take place through the summer. They'll make recommendations to the vice president for

■ programs. Usually that happens late August, early  
■ September. There's a technology conference usually the  
■ last week in October, and that's when the majority of  
■ this money will be spent and contracted for at that  
■ time.

■ That's the way the \$4.2 million was handled in  
■ this particular year. That's actually money from  
■ fiscal year 2002 that has now been spent in this year,  
■ and was a part of the carryover process that helped  
■ support that.

■ Within Management and Administration, we have  
■ the two lines. We have Corporate Management  
■ Administration and the Inspector General's Office. The  
■ Management and Administration is \$14,368,000. We've  
■ spent to date 7,314,000. That equates to 50.9 percent  
■ of our budget. We're at the seven-month mark, which is  
■ about 58.3 percent of the year, so we're well within  
■ budget on this particular -- on our total spending.  
■ And the Inspector General's Office is 3.6 million.  
■ We've spent 1.1 million. There's \$2.5 million in  
■ carryover, and that equals 30.7 percent of their

■ budget.

■           There's additional breakdown of this on page  
■ 17. Just to highlight a few areas for you, some of the  
■ questions that we always get is a consulting figure  
■ that is in the Board. Because you as Board members  
■ receive an attendance fee on a daily basis, we consider  
■ you as consultants. There's no FICA taxes or benefits  
■ or anything that is attributed to it, so we classify  
■ your attendance fees as consulting fees. And, of  
■ course, the travel and the other expenses are for the  
■ first three meetings.

■           Within the executive office, the travel and  
■ transportation -- of course, the main item in all of  
■ these areas is going to be personnel compensation and  
■ the benefits. The other areas I will point out, such  
■ as like in the travel, this supports the corporation  
■ executives traveling to the different grantee meetings.

■           The ABA and the different conferences that we attend,  
■ such as the ILAG that just occurred last week, is  
■ supported through this particular budget.

■           Within the Legal Affairs, through April, we

■ spent \$204,000. And I call your attention to this  
■ particular line, because we are seven months into the  
■ year, and the budget is \$270,000, and we've already  
■ spent 204,000. In doing the projections and trying to  
■ review activities for the remainder of the year, Mr.  
■ Fortuno and his staff has told us that he still feels  
■ that they will be within the \$270,000. So while we've  
■ spent 70 percent of that money so far, or thereabouts,  
■ he still feels that they will be within budget on that  
■ line.

■           Again, this is a reactionary. Until we are  
■ sued or until litigation occurs, we really are working  
■ on guesstimates as to how much we may spend in this  
■ particular area. And we always watch that just to make  
■ sure if we've got to identify additional money or help  
■ support another area, if we have to reduce an  
■ initiative or move money from another line, we do that.

■           Within the Government Affairs Office, we have  
■ one particular line that we're going to end up adding  
■ some money to a little bit later. But within the  
■ printing costs, we had originally budgeted \$40,000 for

the printing of the magazine. We've actually spent 47,000 to date. So when we review the projections, we're going to see that we're asking an approval to move some money on that particular line to help support that. That's the main areas in that particular budget.

Within Human Resources, there's nothing really that stands out. That's where we, of course, handle the personnel functions of the office. The benefits are coordinated there. We did have a circumstance where one of our employees has been on extended medical leave, so the temporary employee pay is up there. But we are going to eventually, when we ask you to approve the projections, ask that you move money to help support that also and accommodate for that.

Within the Financial and Administrative Services, the bigger area there is the occupancy cost, 822,000. That's right on target, exactly what we budgeted through the year. The other main item here is the other operating expenses, the 158,000. While it looks like again that we might be over there, we pay our annual directors' and officers' liability

insurance, the commercial general liability, and main corporation insurances out of that. They are paid for the year. And we should be within budget on this particular item.

Within the Technology, Information Technology, again, there's nothing sort of outlined there. The big items is the capital expenditures, and those are things that are helping facilitate the move, and we're well within budget there.

Program Operations, you see that there's some temporary employee pay there. And we're going to again look at that. We've got a couple of employees who are out on extended medical leave without pay, so we're going to look to move some of the personnel compensation benefits from those employees down to support this line.

Overall, the expenses you see as they total out, there's nothing that is outstanding there. The consulting in Program Performance, 195,000 is for the spending that occurs, going out and visit the programs, the competition initiative has some travel, the

■ technology initiative, some travel, and going to the  
■ different programs to do capability assessments and the  
■ follow-up visits that are needed through the program  
■ performance area.

■ We also use a number of consultants helping  
■ with that, a number of people who specialize in state  
■ planning, and they help supplement the staff so that  
■ the work can be done very expeditiously and using the  
■ experts that we've been able to develop there.

■ Within Information Management, there is  
■ nothing that sort of sticks out. You may ask why is  
■ there an Information Technology and an Information  
■ Management? The Information Technology group handles  
■ the internal computer processes of the corporation.  
■ The Information Management group helps support the  
■ program performance staff. It's where the competition  
■ initiative, most of that is done electronically, so  
■ these are programmers that have built these programs,  
■ put them in place, maintained them, worked with the  
■ programs when they have particular problems  
■ communicating with LSC and gathering the statistics.

■ The case service reports and those things come through  
■ this particular office.

■ And then the Compliance and Enforcement,  
■ heavily intensive with the staff there. We do have  
■ some consultants that are used during the year, and  
■ their main course is, of course, traveling to the  
■ programs to review the case service management, case  
■ service reviews. They do 850 follow-ups, which are IG-  
■ referred items that we have to go to the field to  
■ investigate and to review. And that's the main items  
■ that's covered there.

■ So the budget, the \$7,300,000, is well within  
■ the norm. And we do -- as you look on page 18, you'll  
■ see that there's a few items that are above that. The  
■ printing and reproduction is one. And we're certainly  
■ aware of that. And when we look at the projections,  
■ that's where we'll address that and try to make some  
■ additional money available also.

■ One other item that goes back to page 16, we  
■ have received a grant recovery in the amount of  
■ \$914,000, and that came in earlier in the year. I just

■ wanted to point that out. Because that is an unusual  
■ circumstance, where money was collected from the sale  
■ of the building in Florida, and there's a situation  
■ there that we need to address. And again, when we look  
■ at our projections, I will go over that a little bit  
■ further.

■ CHAIRMAN FUENTES: David, on page 18,  
■ Percentage of Budget Expended, 70 percent on temporary  
■ employee pay, anything special there?

■ MR. RICHARDSON: Just the circumstances that I  
■ addressed, where we do have a couple of employees --  
■ and I'm sorry I missed it -- but where we have a couple  
■ of employees who were out on extended medical leave  
■ that was unpaid. They had not been in the corporation  
■ long enough to have vacation built up to pay for their  
■ time off.

■ So we've had those people out unpaid, and  
■ we've had to bring in some temporary staff to help  
■ support them. We've got a couple of people in our  
■ program performance group. We've had one young lady  
■ who was out for almost four months in our human

resources area.

So there's money to support these in the personnel compensation that we will ask for as we go through here with the internal budgetary adjustment to accommodate for that spending.

CHAIRMAN FUENTES: Are there further questions in this area?

(No response.)

CHAIRMAN FUENTES: Anything further from you, David?

MR. RICHARDSON: Not on this particular item.

No, sir.

CHAIRMAN FUENTES: All right. Should we move, then, on to -- is it item 3 now?

MR. RICHARDSON: Okay. Item 3 -- and Elizabeth is making some copies that we're going to be distributing. But basically what we do each quarter is review the budget and report back to the Board as to the spending through a particular period -- this will be March -- and then we do a projection for the next six months. And we've done that at this point.

As a result of this, there are internal budgetary adjustments that are made, such as what I had just described with the temporary employees and regular employees who are out on extended unpaid leave. So we have to make accommodations for that.

When we have a circumstance that arises, and I'll just mention the consulting line in the legal affairs. We watched that very closely. It's a budget that is reactionary. We don't spend money there unless we have to. We budget so much there. But sometimes when we have more outside counsel that's needed, then we have to be reactionary. We have to go in and identify areas where we can cut operations and where we can cut spending and provide money. So that's the type of internal budgetary adjustments that we make through the year.

This particular budget year, we have done the same thing. We had reported in April that we were going to look at budgets. What I have done is gone through and reviewed with each of the vice presidents or managers that they designate particular budgets.

■ We had to -- for instance, the Board sort of  
■ determined okay, and how's the presidential and IG  
■ search going to be conducted? In the past, there has  
■ been a consulting firm that has been used. Anticipate  
■ that you may use that again.

■ So we've set money aside for the travel and  
■ the consulting fees that are required for the  
■ presidential and the IG search. It may look a bit  
■ awkward. But for instance, the first six months, the  
■ board of directors, we have paid or reimbursed you for  
■ your travel expenses, paid the travel costs. We pay  
■ the different costs associated with the Board meeting,  
■ and we spent \$81,000.

■ You don't have this particular one. I think  
■ we're getting the copies made to hand out to the  
■ remainder of the Board members, and I apologize for  
■ that delay. But I have a note that was just put up  
■ here that the copier was broken down, so they're hoping  
■ to get it in the next few minutes.

■ But in going through the Board's budget, you  
■ see that we've spent for the first six months \$81,000.

■ And then for the remainder part of the year, they're  
■ ambitious -- 90 days to hire a president and possibly  
■ an IG. So we're planning on your budget expending  
■ \$293,000 the remaining six months. That's how we go  
■ about trying to project how we are spending the money.

■ Within the president's budget, of course,  
■ their salaries continue, travel continues. And as a  
■ result, we try to operate within the norm, within each  
■ of the budget areas that we have. The budget  
■ attachment that you will see shows that there is only  
■ two items that we'll end up asking at a later date for  
■ you to approve, and that's a movement of money from the  
■ Legal Affairs budget, or money into the Legal Affairs  
■ budget, of \$6500 from the Government Relations Public  
■ Affairs Office. They have some joint projects, joint  
■ expenses that we have charged to the Legal Affairs  
■ Office so that we can have a full accounting in one  
■ place. And we're moving some of the money that's  
■ available from Government Affairs into the Legal  
■ Affairs budget to help support that.

■ One other thing I'll ask your indulgence with,

and as you direct how I report this. The last Board, Ms. Rogers had asked that I report only the changes over \$10,000. I can go in much further detail, or we'll stick with that. I will ask your pleasure there, if you'd like to continue.

CHAIRMAN FUENTES: Is there any preference on the part of the Board members?

MR. MEITES: I would continue the same policy.

CHAIRMAN FUENTES: \$10,000. All right.

MR. RICHARDSON: In looking at the Legal Affairs budget, we have, as I have shown you here -- Elizabeth is distributing to you the budget projections that we completed actually late this morning, after you came and reviewed the building. I was trying to quickly put together the final documents here.

CHAIRMAN FUENTES: David, while Elizabeth is passing those out, you mentioned the Board figure of expenditure to date. Is that somewhat impacted by the fact that you've been operating on sort of a Board-and-a-half by the appointees, although not confirmed, still traveling, et cetera?

MR. RICHARDSON: Yes. While we have not paid fees, of course, to you until the nomination process was completed and your confirmation, we did pay your additional travel expenses. So those costs are already here.

CHAIRMAN FUENTES: And those were not budgeted for.

MR. RICHARDSON: Actually, we tried to accommodate for a half-a-year of that. So that's the reason when you look at the Attachment A that I've given you, this page 1, you'll see that we budgeted \$377,000. We spent 81. We're budgeting 293, and we think we've got a cushion of \$2800 there that could address another need if we so desire.

The same thing as you look at with the Executive Office. Now that you have that, I'll go back and look. The budget for the Executive Office was \$948,000. We've spent 410 of that through the first six months, and we're projecting to spend 521,000. So there's a small amount of money there that has not yet been tapped or earmarked for a particular project to be

■ spent at this point.

■           Within the Legal Affairs Office, you see that  
■ the original budget, in looking at column 1, is  
■ 1,108,000. The change that we're looking to make here  
■ is 6500. That would bring his budget to 1,115,000.  
■ Spent to date is 592,000, and projected to be spent the  
■ remainder of the year is 521,000.

■           So as you see, this is \$600 that hasn't been  
■ earmarked as yet. Cutting it pretty close there.

■ There was actually any additional outside attorney  
■ costs that's needed, we may have to -- while we have  
■ \$70,000 budgeted there for the remaining six months, we  
■ may have to look about some of these areas that are not  
■ designated to be spent at this point to help support  
■ that if it's needed.

■           Within the Government Affairs budget, the  
■ original budget was 719,000. The reduction of 6500  
■ would bring the budget to 712,000. Spent to date is  
■ 281. Spent the remainder of the year, 419.

■           Now, just to go back there, we have had a  
■ position that was vacant in that particular office for

■ a while that has now been filled, so there will be some  
■ increased cost the next six months over what we spent  
■ the first six months. Additionally, there is money for  
■ the Equal Justice magazine that we will also -- within  
■ the budget because of having the staff attrition  
■ someone not there, and then hiring someone later to  
■ help remove that money, or we'll ask you to move that  
■ money to help support the printing for that particular  
■ office.

■           Within the Human Resources, as you see,  
■ there's a \$516,000 budget. The expenses to date,  
■ 231,000. We've budgeted 285 for the remainder of the  
■ year. And I don't know if you want me to read all this  
■ or not. I was looking at the time, because I know  
■ we're running up against a time restraint.

■           MS. MERCADO: I just had a quick question. On  
■ the Legal Affairs line, are we anticipating any moneys  
■ being paid to reimburse us for attorneys' fees from our  
■ insurance carriers in any of those cases?

■           MR. RICHARDSON: Not at this point.

■           MS. MERCADO: So that's not incorporated into

■ this at such point.

■ MR. RICHARDSON: No.

■ MS. MERCADO: But when and if we do get  
■ reimbursed for attorneys' fees, then those are put back  
■ into the budget.

■ MR. RICHARDSON: That is correct. We are  
■ currently operating on insurance. We have a \$100,000  
■ retention deductible. And the outside counsel that we  
■ are currently using for any particular cases, I think,  
■ are billing the insurance company directly. I think  
■ that's the case at this point.

■ MR. FORTUNO: Actually, arrangements will vary  
■ from case to case. In some cases where there is  
■ coverage and where we've met our retention, then the  
■ firms are billing the insurance carrier directly at our  
■ request. In other cases, however, we're being billed.

■ There is no insurance for it, especially in actions  
■ of, for example, real estate actions or other matters  
■ where we're initiating litigation. So we're having to  
■ pay those fees ourselves.

■ MR. RICHARDSON: I know we only have an hour

■ for the meeting. You might want to look at the  
■ guidelines a little bit. I don't know if you want me  
■ to go through each of these lines as we look here or  
■ not. But let me -- at your pleasure, I could go and  
■ just highlight a couple of the larger internal  
■ budgetary adjustments that were made, the ones over  
■ 10,000 that we talked about, and then seek how you'd  
■ like to --

■ CHAIRMAN FUENTES: I think that's a good way  
■ to proceed on this. We are halfway through our  
■ allotted time.

■ MR. RICHARDSON: Okay. As I was getting ready  
■ to say here with the Government Affairs, with the  
■ person that had left, and the position was vacant for a  
■ while. And then we do have a gentleman who worked with  
■ us who was a student for part of the year, so he only  
■ received a part of the salary and benefits.

■ So we're able to move 33,000 in personnel  
■ compensation and 22,000 in benefits to support other  
■ areas within that budget. And there's an additional  
■ \$14,000 of travel that was identified that was needed,

■ an additional 35,000 needed for printing and  
■ reproduction of the Equal Justice magazine and other  
■ printing needs that were considered there. That's the  
■ main items in the Government Affairs.

■           Within the Human Resources, there is no net  
■ changes over \$10,000. We talked about the personnel  
■ compensation and the benefits and others. The same  
■ thing within the Office of Financial Administrative  
■ Services. We did move \$15,000 into printing and  
■ reproduction. We had a little additional printing cost  
■ with the move that was not anticipated, and we were  
■ able to take that from some other operating money and  
■ travel cost, that looks like, and training that will  
■ not take place this year to help support that.

■           Within the Office of Information Technology,  
■ we have increased the consulting \$14,000. We have  
■ increased the communications \$17,000. We've had a  
■ situation with MCI. We've been caught up a little bit  
■ in the problem that they have, and we haven't been  
■ billed regularly in the past. And we have an issue  
■ with them, and we've had to set a little additional

■ money aside to help accommodate some additional  
■ expenses we had with that. And that money was able to  
■ come from the other operating expenses, and we've  
■ reduced our capital purchases that we anticipate  
■ making.

■           Within the program performance, as I had said,  
■ we've got a couple of people who are out on extended  
■ medical leave, their personnel compensation and  
■ benefits. And we also had an open position for a  
■ while. We were able to move \$30,000 from the personnel  
■ compensation and benefits and move that to temporary  
■ employee pay, because we do have a couple of  
■ experienced program people who are coming in to help  
■ support those areas while these people are on extended  
■ leave.

■           That is the main items that are over. There's  
■ one additional item, I should say. There's \$15,000  
■ from our compliance unit that we're able to move from  
■ personnel compensation benefits, and we were able to  
■ move that into the consulting to help support the  
■ additional consulting needs there.

■           Within this particular review, and we were  
■ talking a little bit before the meeting, normally I  
■ would prepare an executive summary and present that to  
■ the Board beforehand, and I was not able to do that  
■ because of all the circumstances with the move and the  
■ activities going on. So I will prepare something and  
■ get it to you at a little bit later date.

■           I did want to mention, and something that we  
■ had again talked about, is we did receive from the  
■ eminent domain case, the California/Florida program, we  
■ received \$914,000 in a grant recovery. That money is  
■ shown in our other funds available. And what we need  
■ to do is to move that money into the budget. Because  
■ that money was received outside the budget, so we need  
■ to move it in and ask that that be added to the grants  
■ from other funds available. And then there are some  
■ plans to spend that money at a later date.

■           MS. MERCADO: But that would be for field  
■ programs, wouldn't it?

■           MR. RICHARDSON: Yes, it would be.

■           CHAIRMAN FUENTES: Thank you very much, David.

■ Maria Luisa, did you have a question?

■ MS. MERCADO: Yes, I did. The inspector  
■ general's budget, I guess looking comparatively to what  
■ our percentage, and maybe Mr. Koczur might be able to  
■ tell us, you still have like about two-thirds of your  
■ budget left. And I wasn't sure whether you were  
■ expecting some huge expenditure toward the end of your  
■ fiscal year.

■ MR. KOCZUR: There are several factors here.  
■ We have several bills that happen to be rather large.  
■ For example, we paid for the build-out of our part of  
■ the new building. We're estimating that to be about  
■ 180,000. Our new telephone system -- and we paid for  
■ the move ourselves, because concerning the furniture,  
■ we hired the company that we purchased the furniture  
■ from to disassemble and reassemble it to supervise our  
■ part of the move. So that hasn't been billed yet.

■ We're expecting some additional costs in the  
■ consulting area toward the end of the summer for our  
■ internal information technology, as well as for our --  
■ and consulting project.

So in total, we're looking there we have about \$640,000 that we feel pretty comfortable we will be spending in the near future.

Having said that, if you look at one of Dave's other parts, we're going to have a carryover this year of about 700,000. Primarily, this comes from salary savings over the last two years or so. If you note, I've been filling the role as the inspector general as well as the assistant inspector general for audits, so we saved salary there, and benefits, and travel, and everything associated with personnel.

We had some positions that we couldn't fill immediately. And when we did fill them, they were at lesser salaries than the people that had left. So we had savings that accrued, and we're simply not going to be able to spend that money this year.

Next year -- over the next two or three years, we intend to have that spent down to -- for example, we're going to begin paying rent to the new building, and we estimate that's going to be around \$200,000 a year. That wasn't in our original budget projections.

MS. MERCADO: And there was something at different points in times we had discussed about because it's a separate budget to do separate billing for occupancy cost.

MR. KOCZUR: Yes.

MS. MERCADO: Thank you.

CHAIRMAN FUENTES: Thank you. Any other questions for Dave?

(No response.)

CHAIRMAN FUENTES: Then we will see an executive summary to the Finance Committee. It will have some proposed actions that we should take a look at. We can have a call meeting. We could convey those to the greater Board, and then if action is necessary, the Board can take those. Is that how we shall proceed?

MR. RICHARDSON: Yes, sir. That's our recommendation.

CHAIRMAN FUENTES: Mr. Chairman, do you understand -- my concern was that changes at this time to act with just Herb and myself, if there are proposed

■ changes that we should be recommending to the full  
■ Board, I thought out of courtesy to Chairman Dieter, he  
■ ought to see these, and we ought to review them. We'll  
■ then have a meeting with David by telephone, and then  
■ we'll convey those to the general Board. And then  
■ probably, it's going to require a telephonic Board  
■ meeting at some point to act.

■           Otherwise, we do not have the executive  
■ summary here today. We have just seen this information  
■ today to act on it and to expect that the Board would  
■ act on it tomorrow. It was my concern that we don't  
■ have our finance chairman involved at all, and it all  
■ happens within 24 hours. And I think that the Board  
■ would do better, as new as we are, to have the  
■ opportunity to digest. So that's the recommendation  
■ that I make to you.

■           MR. STRICKLAND: Perhaps I could be part of  
■ your presentation tomorrow to the Saturday part of our  
■ meeting, when you bring on the report of the Finance  
■ Committee. That would be fine.

■           CHAIRMAN FUENTES: All right. Thank you,

David. So then we move to consider and act on LSC's 2005 budget request, item number 4 on the agenda.

MR. RICHARDSON: Okay. Again, there's a memo in the booklet on page 3. Basically, this is not an action item. This is sort of a call to arms at this point.

MS. MERCADO: Sounding of the trumpet.

MR. RICHARDSON: There you go. We've just looked at the 2003 budget. We do not know what the 2004 appropriation is at this point. And we need to turn our attention toward 2005.

On October 15th each year, we normally provide OMB some guidance by adopting the budget mark and providing it to OMB as to the money that we would like to have in the president's budget when it's presented to Congress in February. What I have done is to provide you last year's information. There was information, a memorandum, provided to President Erlenborn and Mauricio Vivero from the National Legal Aid and Defenders Association. That set forth a budget request that they had for 2004. That budget mark was

■ 506.4 million.

■ Additionally, at that time, there was a  
■ memorandum from the ABA that was presented by Mr. Ross,  
■ L. Jonathan Ross, to members of the board of directors,  
■ where there was an ABA budget mark, and that one was  
■ 502 million at that point.

■ What I've also done is put in the materials  
■ the budget request that the Board approved, which was  
■ 415, but was adopted with the caveat of discussing the  
■ budget mark with OMB, and the chairman was given  
■ authority to negotiate and revise as needed with OMB.

■ The OMB budget, the Office of Management  
■ Budget, the budget for the Legal Services was  
■ \$329,300,000. We later adjusted our budget mark in  
■ 2004 to \$352,400,000. Again, we don't know what we're  
■ going to be getting this year. There has not been an  
■ appropriation hearing this year. It doesn't look like  
■ there will be. There has been some discussions, and  
■ you'll hear more information about that tomorrow at our  
■ breakfast meeting.

■ But mainly, I wanted to bring to your

■ attention what has happened in the past so that we can  
■ start negotiations, start talking, start a dialogue,  
■ that when we come back in September, we can establish a  
■ budget mark.

■ It's either that, or we get the different  
■ outside organizations to come in and testify, and then  
■ we have a telephonic Board meeting with the full Board  
■ so that we can provide the guidance needed to OMB by  
■ this October 15th deadline.

■ So this is just sort of background  
■ information. And if I could get some additional input  
■ from you as members of the Finance Committee, or  
■ additional members of the Board as to how you'd like to  
■ proceed with this, or maybe it's something else that we  
■ can discuss with the telephonic Board meeting once we  
■ come back to look at the budget revisions and have a  
■ little additional idea as to how we'd like to proceed  
■ going into the fall.

■ CHAIRMAN FUENTES: President Erlenborn, do you  
■ have any wisdom to share with us in how you've handled  
■ this in the past, or what advice you might give us in

■ counsel for it?

■ MR. ERLLENBORN: We have consulted with the  
■ Chairman of the Board when we began to consider this  
■ sort of an item. It's a large range of suggestions for  
■ that fiscal year. And I think that we should, after  
■ consultation, come up with a figure that is reasonable,  
■ possibly achievable, and yet considerably more than  
■ what we're getting now.

■ That may sound like a -- those two things are  
■ fighting each other. That's what makes it difficult  
■ every year to come up with a figure that we think might  
■ fill that bill. But I think it would be with  
■ consultation with the Chairman of the Board.

■ CHAIRMAN FUENTES: Maria Luisa.

■ MS. MERCADO: In pages 30 to 37 in the Finance  
■ Committee part of the Board book is a fairly accurate  
■ representation of the budgeting process as far as the  
■ different things, time lines that the Board has to come  
■ up with when they propose a budget mark to Congress  
■ when we start the negotiation process. And so I'm very  
■ grateful to David for putting this together, because it

■ sort of keeps us in line to make sure that we're  
■ working toward it. And of course our staff and then  
■ our other stakeholders, the ABA and LADA, in  
■ conjunction with OMB, you know, looking at what is  
■ probable, again, recognizing that the need is greater  
■ than the resources that are available.

■ But, you know, we keep trying to get back to  
■ our high mark, that 400 million that we got in 1995,  
■ but now we're trying to get to that, even. And it's  
■ taken us quite a lot of years to do that. So any  
■ increase or improvement that this Board can make is  
■ greatly needed.

■ MR. ERLNBORN: I think it is interesting --  
■ and I don't remember these figures exactly, but I think  
■ it's interesting to look at what our funding was  
■ immediately -- well, in the fiscal 1996 year, when we  
■ took a real big hit. You compare what we had that year  
■ to what we have in the current year and what we're  
■ looking forward to in the coming year. There has been  
■ maybe not a dramatic turnaround, but certainly there  
■ has been progress, and that's been very heartening to

■ know that we've been able to make that process work.

■           There are a number of members of Congress on  
■ both sides of the Capitol building who are very  
■ strongly in our -- they're very much in favor of  
■ getting a better budgeting process for us and a better  
■ result. They were very helpful with us in the past  
■ year for the current year in getting 9.5 million  
■ additional because of the census difficulties. And I  
■ know that these members of Congress on both sides of  
■ the aisle are going to be fighting for us to get the  
■ budget up from where we are now.

■           CHAIRMAN FUENTES: Further comments?

■           (No response.)

■           CHAIRMAN FUENTES: Well, I would suggest that  
■ maybe item 4 that we have just taken up is a little  
■ mistitled. Because I can see that we're considering,  
■ but I don't know that we're acting on it at this time.  
■ But at least it's before us.

■           So let's move on to item number 5, consider  
■ and act on future activities for the committee. Do you  
■ have any specifics there, David? Or shall we consider

our decision to have a telephonic meeting, as we discussed, really, our answer to this item?

MR. RICHARDSON: That would be fine, if you'd like to take it up at that point. The reason that I think this is on here is sort of to look at some of the activities that the committee undertakes. And that's the reason I went ahead and put the time line and the guidelines for the adoption and the review of the consolidated operating budget in the Board book, so that you have that for a record and you can refer to that. There are certain time periods for these particular items that we undertake every year. If there is something else that you would like to undertake, something else that -- another activity that you would like to undertake that we need to include in that, that's what we're interested in looking at is how you would like to operate.

These guidelines have been in place since the late '70s. They've been modified slightly here and there. They were modified in '86; they were modified in '92; modified in 1997. But they basically have

■ remained the same. The meeting dates may have changed.

■ It used to be we would do our quarterly reports in May  
■ and August; now we do them in June and September.

■ But since we are sort of deadline-driven, for  
■ instance, with the October 15th deadline for the budget  
■ mark, we normally get our appropriation request to  
■ Congress two weeks after the President of the United  
■ States presents his budget to Congress. Then we sort  
■ of fill in in between with our projections, budget  
■ reviews, adoption of the annual budget.

■ If there is additional activities that you  
■ would like to undertake, that's why we need your  
■ particular input to look at that and see how we can  
■ work it into the schedule. And that may take an  
■ additional meeting between the Finance Committee to sit  
■ down and determine how they would like to proceed.

■ CHAIRMAN FUENTES: Herb, anything that you'd  
■ like to add there?

■ MR. GARTEN: No.

■ CHAIRMAN FUENTES: Well, I would just like to  
■ say that I think this may be a singular window of

■ opportunity in the history of the Finance Committee.

■ We are a new Board. And while I hear "growth" and  
■ "larger" as a focus, sometimes when new Boards come  
■ along, there is the opportunity to, you know, clean  
■ sweep/new broom approach, and the opportunity to review  
■ things that aren't reviewed by existing boards.

■ And, of course, the longstanding members of  
■ the Board have the wonderful experience of background  
■ and corporate knowledge and history that some of us  
■ don't have. So I think the Finance Committee may have  
■ its work cut out for it to be able to go back and get  
■ justification.

■ Out in California, we call it, you know, zero  
■ line budgeting, where we start all over and look at the  
■ budget process and get justification from the scratch  
■ before we add to it. That's going to require a lot of  
■ work. That's going to require a lot of information  
■ flow to justify the existing level before we become  
■ engaged in adding.

■ So I think we need to think about that process  
■ once we get Chairman Dieter aboard and plugged in. And

■ we may have more meetings or work sessions or some  
■ format that we could do that to be able to get a little  
■ clarity and a little keener insight as to existing  
■ before we talk about adding.

■ And so I would like us to consider some work  
■ schedule that would allow for that. And I think that's  
■ something we could bring up when our Chairman is aboard  
■ and we can dialogue on our process for that.

■ Further comment, any members of the Board?

■ MS. MERCADO: Well, just to make sure, and  
■ keep in mind, the majority of the budget goes to the  
■ field. It goes for actual delivery of legal services  
■ to poor people. And so that's done by Congress based  
■ on a poverty population rate and formula that they  
■ make. So a lot of that would be necessarily -- that we  
■ would be playing with that would be, you know, the M&A  
■ line, and maybe the inspector general line.

■ However, it would be helpful for the Finance  
■ Committee, if they're going to be looking at  
■ formatting, what are the things they can cut from the  
■ budget, that they ought to do at least a review of the

■ needs assessments out there in the community, because  
■ we have more poor people now than we had before, with  
■ the least amount of money. I mean, we had as much  
■ money in the Reagan Administration as we do now, and  
■ yet we have a whole lot greater need. And the cost of  
■ delivering legal services is much greater.

■ And so to say that our goal is to look and to  
■ cut without looking at the reality of what the need of  
■ the poverty community is in our different states and  
■ areas, you can't do one without looking in tandem to  
■ the other to the needs that are there. And it would be  
■ helpful for the committee, if that's what they're going  
■ to do, that they look seriously at the different needs  
■ assessments that have been done both by our Legal  
■ Services Program, as well as by ABA and other entities  
■ as well.

■ CHAIRMAN FUENTES: I never heard the word  
■ "cut" mentioned. I heard the word "examine." Does  
■ anybody have a -- yes, sir.

■ MR. MEITES: Yeah. I understood what Tom was  
■ saying is that this review may find that there is

■ somebody that's freed up, that money is being spent in  
■ ways or manners that perhaps aren't as necessary, and  
■ there may be some extra dollars. I hope there is.

■ CHAIRMAN FUENTES: Further? Okay.

■ MR. GARTEN: I think that members of the  
■ committee will have to review carefully these  
■ guidelines that have been developed through the years.

■ And some of the language could be modified or may be  
■ clearer as to what the intent was in adopting,  
■ reviewing, and ratifying the operating budget. I mean,  
■ we have an example of what's going to happen tomorrow  
■ when you make your presentation with regard to future  
■ Board action on this extra \$900,000 that we've come  
■ into, and the disposition of it.

■ So I think that to study this, and probably  
■ make some changes to it to clarify. But I don't think  
■ there's any question what our job is here. I think we  
■ all understand it, or we wouldn't be sitting on this  
■ Board.

■ CHAIRMAN FUENTES: Further?

■ (No response.)

CHAIRMAN FUENTES: Thank you. We have the -- item number 6 is consider and act on other business. And our good chairman, Rob Dieter, did send to Chairman Frank a memo after his review of the Finance Committee materials. He had some questions. And I thought maybe the best way to get these items into the record and to get some response -- because they're good questions. It evidences a very thorough and careful preparation for this meeting would be for David to respond. We've shared the memo with him. And although we're almost at our adjournment time, I wonder if you could take perhaps four or five minutes and see if we can respond to the key ones here.

MR. RICHARDSON: I think we responded to most of them already. He had asked a question about the recision and how that affects our budget. Certainly, last year when we had a budget mark set, we had a budget in mind. There was an amendment to supplement the appropriation, the Harkin Amendment, that is mentioned here. And we got an increase in our budget line up to an amount of \$339,893,000.

■                   And what happened at that point is that we  
■ went over the -- not we, but the congressional budget -  
■ - went over the budget, so they instituted across-the-  
■ line recision. So they cut everybody's budget .65  
■ percent. So our budget was decreased to \$1,202,000,  
■ and that was shared equally throughout each of the  
■ programs and in each of the budget lines that we had.  
■ And that was a question that he had as to how that  
■ affected our budget. It didn't reduce the budget,  
■ because the congressional budget went over with the  
■ budget process, and that's how they got it back down.

■                   Another question you had was the OIG spending.

■ I think Mr. Koczur explained that. He does have some  
■ additional spending coming, but there will be some  
■ carryover this year.

■                   The technology money, as I mentioned before,  
■ that is money that will be earmarked and paid out in  
■ October. It just so happens that it coincides with the  
■ close of the year and goes into the next year, and  
■ that's just sort of the operating way that that has  
■ ended up occurring.

■ The Equal Justice magazine, there is some  
■ money that is needed. There is questionnaires should  
■ the budget items be increased. When you get the  
■ executive summary that I'll prepare, you'll see that  
■ while the budget is not being increased, there is some  
■ additional cost for the magazine that we're able to  
■ support with the Government Relations Public Affairs  
■ budget.

■ The grant recoveries, again, this is a line  
■ item that when we come back to you with the executive  
■ summary, we're going to ask that the total consolidated  
■ operating budget be increased by the amount of the  
■ grant recovery. And we'll ask that you do that with  
■ the idea in mind that we will grant a portion of that  
■ back to the state where that money was received from.  
■ And then there is an additional amount that will go  
■ help support the emergency line that we use for the  
■ emergency one-time grants.

■ The temporary pay, he has a question about the  
■ temporary pay being at 70 percent. And as we explained  
■ there, that we will remedy that with the internal

■ budgetary adjustments, and that is a result of people  
■ who are on unpaid medical leave.

■ And then the printing, again, is the Equal  
■ Justice magazine.

■ So that's the main items that he's got here.  
■ And I'll be glad to, once I get an opportunity -- I'll  
■ hold onto this and discuss those with him.

■ CHAIRMAN FUENTES: Thank you very much, David.  
■ Any comments on those? Herb, you had the opportunity  
■ to look at the memorandum. I think that's a pretty  
■ clear response to those questions?

■ MR. GARTEN: I believe it is.

■ CHAIRMAN FUENTES: Thank you. Do we have any  
■ comments from the public? Anyone who would like to  
■ share with us wisdom.

■ (No response.)

■ CHAIRMAN FUENTES: Seeing none, is there a  
■ motion to adjourn, Mr. Garten?

■ M O T I O N

■ MR. GARTEN: I so move.

■ CHAIRMAN FUENTES: I guess I'll have to



