

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

OPEN SESSION

Friday, January 29, 2010

1:35 p.m.

Legal Services Corporation
3333 K Street, N.W.
3rd Floor Conference Center
Washington, D.C. 20007

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Chairman
Sarah M. Singleton (by telephone)

Thomas A. Fuentes
Laurie Mikva

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 Victor M. Fortuno, Interim President and General
3 Counsel

4 Wendy Long, Executive Assistant, Executive Office

5 Katherine Ward, Executive Assistant, Office of Legal
6 Affairs

7 David L. Richardson, Treasurer and Comptroller

8 Mattie Cohan, Senior Assistant General Counsel, Office
9 of Legal Affairs

10 Mark Freedman, Senior Assistant General Counsel, Office
11 of Legal Affairs

12 Karen J. Sarjeant, Vice President for Programs and
13 Compliance

14 Charles Jeffress, Chief Administrative Officer

15 Jeffrey E. Schanz, Inspector General

16 Joel Gallay, Special Counsel to the Inspector General,
17 Office of the Inspector General

18 Laurie Tarantowicz, Assistant Inspector General and
19 Legal Counsel, Office of the Inspector General

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1 STAFF AND PUBLIC PRESENT (Cont'd):

2 Thomas Coogan, Assistant Inspector General for
3 Inspections, Office of the Inspector General

4 Daniel Sheahan, Program Evaluation Analyst, Office of
5 the Inspector General

6 Charles Tong, Program Evaluation Associate, Office of
7 the Inspector General

8 David de la Tour, Program Counsel III, Office of
9 Compliance and Enforcement

10 Stephanie Edelstein, Program Counsel III, Office of
11 Program Performance

12 Monica Holman Evans, Program Counsel III, Office of
13 Program Performance

14 Charles Greenfield, Program Counsel III, Office of
15 Program Performance

16 Evora A. Thomas, Program Counsel III, Office of Program
17 Performance

18 John Constance, Director, Government Relations and
19 Public Affairs Office

20 Sean Driscoll, Special Assistant, Government Relations
21 and Public Affairs Office

22 Stephen Barr, Media Relations Director, Government
Relations and Public Affairs Office

1 STAFF AND PUBLIC PRESENT (Cont'd):

2 Kathleen Connors, Executive Assistant, Government
Relations and Public Affairs Office

3
4 Treefa Aziz, Government Affairs Representative,
Government Relations and Public Affairs Office

5 Alice C. Dickerson, Director, Office of Human Resources

6 John C. Meyer, Director, Office of Information
Management

7
8 Atitaya Pratoomtong, Law Clerk, Office of Legal Affairs

9
10 Lauren Hersey, Law Clerk, Office of Legal Affairs

11
12 Robert J. Grey, Jr., Board Nominee

13
14 Julie A. Reiskin, Board Nominee

15
16 Richard Zorza, Zorza Associates

17
18 Julie Strandlie, Standing Committee on Legal Aid &
19 Indigent Defendants (SCLAID), American Bar
20 Association

21
22 Erik L. Barron, Standing Committee on Legal Aid &
Indigent Defendants (SCLAID), American Bar
Association

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P R O C E E D I N G S

(2:36 p.m.)

CHAIRMAN MCKAY: Let's call to order the Finance Committee meeting. Welcome you all. And let's confirm who's here.

Judge Singleton, you're on the line, are you?

MS. SINGLETON: Yes, I am, Mr. Chairman.

CHAIRMAN MCKAY: Thank you. And we need to figure out a way to get a microphone near the telephone so we can hear Sarah a little better. There we go.

MS. SINGLETON: Remember, we have to watch the feedback.

CHAIRMAN MCKAY: Very good. Well, we hear you much better now. Are you getting feedback?

MS. SINGLETON: No, I'm not. I'm fine.

CHAIRMAN MCKAY: Good. Very good. Thank you.

Anyone else on the line?

(No response.)

CHAIRMAN MCKAY: Thank you.

MR. GREY: Robert Grey.

CHAIRMAN MCKAY: One more time?

MR. GREY: Robert Grey.

1 CHAIRMAN MCKAY: Oh, yes. Thank you.

2 Welcome.

3 MR. GREY: Thank you.

4 CHAIRMAN MCKAY: The first item on the agenda
5 is approval of the agenda.

6 M O T I O N

7 MR. FUENTES: Move approval.

8 CHAIRMAN MCKAY: Second?

9 MS. MIKVA: Second.

10 CHAIRMAN MCKAY: All those in favor say aye.

11 (A chorus of ayes.)

12 CHAIRMAN MCKAY: Opposed?

13 (No response.)

14 CHAIRMAN MCKAY: The motion passes.

15 The next two items are approval of the minutes
16 of the October 31, 2009 meeting and the November 30,
17 2009 meeting. Do I hear a motion?

18 M O T I O N

19 MR. FUENTES: Move approval of items 2 and 3.

20 MS. MIKVA: Second.

21 CHAIRMAN MCKAY: I do want to ask a question
22 because the minutes indicate that the meeting on

1 October 31 was chaired by Acting Chairman Fuentes. But
2 I have a recollection, and indeed the minutes reflect,
3 that I was there as chairman. So unless I hear a
4 screaming objection, I'll ask that the minutes be
5 amended. I'm talking about the October 31, that it be
6 amended to show that I convened the meeting.

7 (No response.)

8 CHAIRMAN MCKAY: Hearing no objection. And
9 then the other proposed change is the minutes of the
10 joint audit and finance committee meeting for
11 November 30th. It indicated that I was present, as I
12 was, but it was there by -- participated by telephone.
13 And I ask that the minutes be amended to reflect that
14 as well.

15 Do I hear any other amendments?

16 (No response.)

17 CHAIRMAN MCKAY: Hearing no objection, will I
18 accept a friendly amendment to the original motion that
19 may be approved, as amended?

20 M O T I O N

21 MS. MIKVA: So move.

22 CHAIRMAN MCKAY: Second?

1 MR. FUENTES: Second.

2 CHAIRMAN MCKAY: All those in favor say aye.

3 (A chorus of ayes.)

4 CHAIRMAN MCKAY: Opposed?

5 (No response.)

6 CHAIRMAN MCKAY: The motion passes. Thank
7 you.

8 The fourth item on the agenda is to consider
9 and act on a consolidated operating budget for fiscal
10 year 2010. Mr. Richardson and Mr. Jeffress.

11 MR. RICHARDSON: Thank you. My name is David
12 Richardson, for the record, the treasurer and
13 comptroller of the Corporation. I will be referring to
14 page 104 in the board book, to begin with.

15 At the October meeting, you approved a
16 temporary operating budget of \$400. That was made up
17 of an estimate as to what our appropriation would be
18 and what our carryover would be. At the bottom of page
19 104, you see that there's a breakdown as to what made
20 up the original temporary operating budget, which was
21 \$389,800,000, for an estimated appropriation. When we
22 actually received the appropriation in December, it

1 increased to \$420 million. So this budget reflects
2 that change.

3 In addition to that, we had estimated
4 carryover over \$8,707,000. When the carryover was
5 calculated, it ended up being higher by \$160,000, so it
6 was \$8,870,000, basically. So those two items add up
7 to a new budget, along with the increase that we have
8 with the U.S. Court of Veterans Appeals, because that
9 went up also from 1.7 to 1.82. So the budget that we
10 have before you today will total \$430,689,699.

11 Included in that budget, and this will be the
12 information from page 106, we have budgeted -- I have
13 laid out the key areas within the budget. We've
14 budgeted five meetings, two to be held in Washington
15 and three outside of the D.C. area. We have budgeted
16 money for a presidential search when that would take
17 place. We have 102 staff members that are budgeted for
18 in management and grants oversight.

19 We have budgeted 4 percent for increases,
20 2 percent into a salary increase and a 2 percent
21 locality adjustment. However, there has been no
22 discussion as yet as to how that will be split. And

1 for additional reference, there's a footnote there that
2 the federal government this year, the General Services
3 scale, increased the locality 1.5 percent, and then
4 there was a .5 percent in the cost of living.

5 Additional key items: There is a travel
6 budget for the president of \$89,000. The legal affairs
7 budget for outside counsel is 350. We've talked about
8 the review and the audit of the 403(b) plan, and
9 there's \$38,000 in that line; 25 of that is for the
10 review of the retirement plan.

11 Financial administrative services: The key
12 area here is the rent. I've budgeted this year the
13 full amount of the rent. We do not have included in
14 this particular amount any offset from a sublease, and
15 actually, our tenants moved out this morning.

16 They're three months behind in their rent, and
17 we hope to get the past amount that they owe us. They
18 have promised that they would, but they're seeking some
19 financing before they can do that.

20 In addition to that, we have \$334,000 for the
21 other operating, and the key area there is the
22 directors and officers liability insurance in the

1 insurance package. And that's \$175,000 of that total
2 this year.

3 Information technology: One of the changes
4 from the temporary operating budget was to include
5 another \$100,000 into the consulting line to have some
6 specialized network engineering services done and to
7 bring our systems up with modern advances, with
8 advances in the last year that need to take place.

9 Capital expenditures: Last year we had some
10 expenses in other operating and consulting that we
11 needed done because of some writing of programs, so we
12 delayed our replacement of computers. We try to
13 replace our computers on a three- or four-year basis.
14 So we've increased the capital expenditures to
15 \$392,000. And actually, that's not an increase from
16 the temporary operating budget; it's only -- that's the
17 amount of money that was budgeted before.

18 In the program performance, you'll see that
19 there's money there for the consultants and the travel
20 to our programs. Same thing with the compliance and
21 enforcement. OCE has projected 37 onsite visits this
22 year, and you'll see the consulting costs of \$192,000

1 and the travel 300. The consulting cost is down a
2 little from last year because of the additional
3 employees that we are hiring and bringing on board.

4 And what we have done is we have increased the
5 contingency from 900,000 to 1.575, with the additional
6 million that we got for MG&O with the appropriation.
7 This will give the board an opportunity to take a step
8 back, especially since we're in a transition, to see if
9 there's some new initiatives, something that the new
10 board would like to take on, and provide money for
11 that.

12 In addition, the inspector general, you'll see
13 a paragraph there -- they had a slight amount of
14 additional carryover of \$3,000 to add to their budget.
15 They are currently at 25 full-time staff members, and
16 they're increasing two mid-level auditors and an
17 evaluator. So they'll have 28 at the end of the year.
18 And they also list the activities that the office will
19 undertake during the year.

20 That is all I have for the presentation. I'll
21 be glad to take any particular questions that you have.

22 CHAIRMAN MCKAY: Questions for Mr. Richardson

1 before we move to Mr. Jeffress?

2 MR. FUENTES: Mr. Chairman?

3 CHAIRMAN MCKAY: Mr. Fuentes?

4 MR. FUENTES: David, can you tell us what
5 1 percent of salary equals in dollars?

6 MR. RICHARDSON: One percent equals \$90,000.

7 MR. FUENTES: \$90,000. I guess my concern
8 would be that we're budgeting here, in a week in which
9 the President talked about freezes, twice, double, the
10 potential pay increase from what the federal government
11 employees in this city are getting, employees that are
12 concern to the American people in the first place.

13 I think that we ought to be sensitive to being
14 twice as generous as the federal government is.

15 CHAIRMAN MCKAY: Any other comments?

16 MR. GARTEN: May I?

17 CHAIRMAN MCKAY: Herb. Of course.

18 MR. GARTEN: I just want to make sure that I
19 understand how you treated the additional carryover
20 from 181,000. Is that inclusive in that
21 8,869,000 figure?

22 MR. RICHARDSON: Yes, sir.

1 MR. GARTEN: So that's part of that?

2 MR. RICHARDSON: Yes, sir. It is.

3 MR. GARTEN: Thank you.

4 CHAIRMAN MCKAY: If the full board were to
5 approve this budget, would it be approving, by
6 definition, a salary increase? Or wouldn't we have to
7 address it in a separate motion to approve it? We're
8 simply setting aside the money for this should the
9 board subsequently approve a salary increase. Isn't
10 that right?

11 MR. RICHARDSON: That is correct, sir.

12 CHAIRMAN MCKAY: Okay. So we're not approving
13 a salary increase now. We're just setting aside in
14 case we would approve it at a subsequent meeting?

15 MR. RICHARDSON: That's correct. We plan on
16 having further discussions with the board before we
17 would implement any increase.

18 CHAIRMAN MCKAY: All right. Any other -- Tom?

19 MR. FUENTES: Just for the record, David,
20 would you share with us, and for our audience, what
21 procedures now we have available to us as we move
22 forward? I was very cognizant of the point that our

1 good chairman made, that this is a budget. This does
2 not necessarily implement the pay increase.

3 In other areas where dollars are set aside,
4 designated, targeted, downstream we have the
5 opportunity to shift them in columns from one
6 appropriation to another. Will you just walk us
7 through that for a moment?

8 MR. RICHARDSON: Yes, sir. At each meeting of
9 the board, of course, we come in with revisions to our
10 budget, internal budgetary adjustment. The president
11 has the authority to make those adjustments up to
12 \$75,000 within, for instance, management and grants
13 oversight.

14 Anything over that, he would have to go to the
15 chairman of the finance committee and chairman of the
16 board, and write a letter to the full board. Any board
17 member could question any transfer above \$75,000.

18 As far as quarterly, when we come in, we come
19 in with adjustments. If we see that there's a need for
20 an additional amount of money, for instance, for
21 outside counsel, then any money that has lapsed, that
22 is not being used during that time, we would come to

1 you with a recommendation explaining that the money is
2 currently not being used, and there's no plan to spend
3 it in the future, but yet we need it for a particular
4 item.

5 We've done that in the past with information
6 technology consulting. We've also done it with outside
7 counsel. That's the two areas normally that we would
8 make -- that we've made changes in the last couple
9 years. But all of that does come back to the finance
10 committee and to the full board.

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

13 (No response.)

14 CHAIRMAN MCKAY: Mr. Jeffress.

15 MR. JEFFRESS: Thank you, Mr. Chairman. Just
16 two points I would make. One, with respect to the
17 salary increase, we anticipate collective bargaining
18 with our staff union at some point this year.
19 Collective bargaining usually involves bargaining over
20 wages and salaries.

21 So I would anticipate that whatever decision
22 the Corporation wants to make here will be greatly

1 affected by that. And certainly the board is going to
2 have to approve any modifications that get made in that
3 area. So in terms of the salary increase, it will also
4 be affected by the collective bargaining process.

5 I would also mention that at the last board
6 meeting, the board modified the charter of the
7 Governance and Performance Review Committee such that
8 that committee has responsibility for LSC's
9 compensation plan. So to the extent that there are
10 modifications to the compensation plan, I guess by
11 charter, the Governance and Performance Review
12 Committee as well as the Finance Committee would want
13 to look at whatever issues might be raised by that.

14 The second point that I would make is, as
15 David indicated, there is now a sizeable contingency
16 fund here of \$1.5 million. It was set aside in
17 anticipation that there might be new initiatives by a
18 new president, by a new board.

19 I just would like to caution for the record,
20 in anticipation of folks looking at that with big
21 ideas, one of the reasons we're able to have this
22 contingency fund is because we had a substantial

1 carryover last year when the federal appropriation came
2 in late.

3 But our base appropriation from the federal
4 government is still \$17 million. Given the President's
5 indication that he would like to freeze the
6 discretionary spending in the future, I would be very
7 reluctant to suggest that any of that new initiative
8 money might be spent on staff salaries for permanent
9 staff because it is primarily available as a result of
10 carry-forward money and not available for continuing
11 operations year to year.

12 CHAIRMAN MCKAY: Thank you. Questions for
13 Mr. Jeffress?

14 (No response.)

15 CHAIRMAN MCKAY: I invite your attention to
16 page 109, where we see Resolution 2010-001, and would
17 ask one of you to tell us what this resolution is.

18 MR. RICHARDSON: What I've done with the
19 resolution is to identify the appropriation, the amount
20 of money that we're getting from the Court of Veterans
21 Appeals, and I have identified each of the items of
22 carryover.

1 CHAIRMAN MCKAY: And a second?

2 MS. MIKVA: Second.

3 CHAIRMAN MCKAY: Mr. Fuentes.

4 MR. FUENTES: Thank you. David, can you take
5 us back on the loan repayment? I see that we're at
6 2 million 691. The track record, let's go back two or
7 three years. What was our funding level?

8 MR. RICHARDSON: Starting with \$500,000. And
9 then we got a million dollars, and an additional
10 million this year. Already we have loans that will be
11 forgiven this year in the amount of
12 approximately -- let me turn to the -- we have
13 outstanding loans currently of \$567,000. And that's
14 actually going to be in the next presentation.

15 But that'll tell you how much is out there
16 that we'd basically be reducing, probably within the
17 next couple weeks, as soon as OPP goes through and
18 identifies those recipients whose loans should be
19 forgiven. We do have about \$20,000 in loans that we're
20 collecting from prior years.

21 So basically, you got \$540,000 in loans that
22 will be forgiven, and we'll reduce this amount almost

1 immediately. And then they will start a new round of
2 loans; should be in the next few weeks.

3 MR. FUENTES: So does that mean that we're
4 going from a million to 2 million this year, or from a
5 million -- did we not spend it and that's why this
6 number is bigger?

7 MR. RICHARDSON: Last year we got, of course,
8 a million dollars, and we had the 500,000 that was
9 transferred back in from MGO before --

10 MR. FUENTES: So that was a million five.

11 MR. RICHARDSON: That was a million five. And
12 then we have a million dollars this year. The way the
13 program has been running is if you've got a million
14 dollars, they've said, okay. For that million dollars,
15 we can give three-year grants, basically \$350,000 a
16 year.

17 And we know that there's some attrition.
18 People will leave the program. People will not
19 complete the process, so that while it looks like it
20 adds up to 1,050,000, by experience it looks like we
21 will only be paying out of that money a million
22 dollars.

1 They have looked at each million dollars
2 individually to set those grants for the recipients for
3 three years. And that's the reason. Last year we had
4 \$279,400 that was forgiven. This year it's almost
5 double that. And next year it'll be an additional 500,
6 and they're actually making additional awards, so it
7 will go up from that.

8 MR. FUENTES: Well, I guess I'm more confused,
9 and I really would like to be --

10 CHAIRMAN MCKAY: Please.

11 MR. FUENTES: -- have it straightened out. I
12 thought this is about a million-dollar program. Is our
13 figure 2,691,000 now because we haven't paid out
14 previous monies? Or did we spend a million last year
15 and now have gone to twice and a half that?

16 MR. RICHARDSON: We have paid the money out in
17 loans. But when you look at the recordkeeping, they're
18 set up as a receivable in our balance sheet. When
19 those loans are forgiven, then they go to the expense
20 side and will reduce this amount of money. That's the
21 reason I said at current, we look to be having about
22 \$540,000 that will be forgiven in this year.

1 So yes, we've got 2.6 million. We're going to
2 have 540 of that spent in the next month. And then
3 they'll have a new round. We will write the checks to
4 the recipients. Once we get confirmation that they've
5 completed the process successfully, then those loans
6 will be forgiven in 2011. But they'll be the loans
7 that were given in 2010.

8 MR. FUENTES: Is that clear to everyone?

9 CHAIRMAN MCKAY: Clearer.

10 MR. JEFFRESS: If I could add one word, maybe
11 in a different way of looking at it. When we loan this
12 money out, we keep it on our books. So at this still
13 shows as if we have the money because it's a loan.
14 We've not yet forgiven it.

15 So the money doesn't come off the books until
16 we forgive it. So that's why David points out this
17 540,000 is right now showing on our books. We have
18 loaned it out. We expect to forgive it. So it's not
19 real money.

20 The other piece is when we loan money to
21 attorneys, we loan them money year by year, but we
22 expect to loan the same attorney the same amount for

1 three successive years. So while we have a million
2 dollars this year in our appropriation from Congress,
3 we will only actually loan out 350,000 of that this
4 year. The other 750,000 will -- 650,000 will stay in
5 our reserve for giving to these same attorneys for the
6 second year and the third year.

7 So it is misleading to look at the amount on
8 our books as if that is to be loaned out. In fact, a
9 lot of that is already committed.

10 MR. FUENTES: That's helpful. That's helpful.

11 All right. The other question, Mr. Chairman,
12 I have is I understand fully the designation of dollars
13 within the budget, and our task yet to come to approve
14 salary and locality adjustment increases or not.
15 That's the prerogative of the board.

16 I am, though, concerned that it's reflected
17 here as an intent, an intent to boost salary and cost
18 of living twice as much as federal employees in this
19 city. Why could we not do something more modest that
20 doesn't reflect what I think could be received by the
21 public as a cavalier attitude to, rather, put those
22 additional dollars in contingency without designation

1 for salary increases?

2 CHAIRMAN MCKAY: Does anyone have a comment on
3 that? I personally don't feel uncomfortable keeping it
4 where it is because I am aware, as we know on this
5 committee, the kind of focus this committee and the
6 full board gives to a salary increase request, as we
7 did last year.

8 I don't think it's inappropriate, particularly
9 when it's brought to our attention that now that we are
10 unionized, that there's going to be collective
11 bargaining and there's going to be uncertainty as to
12 how much we need to -- we will be paying; that we said
13 it would be prudent to set aside some funds for that
14 purpose.

15 We'd finally and ultimately be approving this,
16 and we wouldn't be spending it. I guess I wouldn't
17 characterize it as cavalier, more as prudent. But I'd
18 certainly be amenable to the collective wisdom of the
19 committee as to whether or not we want to put it in a
20 different category.

21 I felt comfortable reading this, but I hear
22 your observation. You know my position about salary

1 increases. I'm pretty careful about that subject. And
2 the chairman can share his thoughts about -- my
3 thoughts about increasing our compensation, which I
4 have opposed.

5 But I guess my thought is, when I read this
6 memo, I thought that it was prudent to do it this way.
7 But I'm not opposed to a discussion about putting it
8 somewhere else. My thought was that when the issue
9 came up, we would address it as diligently as we have
10 in the past.

11 And by simply putting it in the budget, we're
12 not making the decision. We're just setting aside the
13 funds for some things we can't even control, such as
14 the collective bargaining, or cannot control as much as
15 we would like.

16 MR. FUENTES: Well, Mr. Chairman, for the
17 record, of course, in a parliamentary fashion, I could
18 ask to divide this question. But I think I can count
19 votes. So I am going to not ask for that vote -- for
20 that motion to be divided or that resolution to be
21 divided, but make note for the record of my concerns,
22 which I have done by expressing them on the record.

1 Thank you.

2 CHAIRMAN MCKAY: Thank you. And I join you in
3 the concern. And when the issue of salary comes up, we
4 will give it the same attention that we have in the
5 past, which is quite rigorous, as staff will attest.

6 Any other -- and thanks very much for your
7 courtesies. Any other questions or comments or
8 concerns?

9 (No response.)

10 CHAIRMAN MCKAY: And do I hear a call for the
11 question on the motion? Shall we vote on the motion?

12 All those in favor say aye.

13 (A chorus of ayes.)

14 CHAIRMAN MCKAY: Opposed?

15 (No response.)

16 CHAIRMAN MCKAY: Thank you. The motion
17 passes.

18 The next item on the agenda is the
19 presentation of financial records for the first three
20 months of fiscal year 2010. And Mr. Richardson and
21 Mr. Jeffress.

22 MR. RICHARDSON: This is a -- I'll be

1 referring to a handout that I gave you yesterday.

2 There is additional on the table outside; if someone
3 does not have it, I'll be glad to get one.

4 What I have done is present our normal
5 financial report. It is three worksheets. It shows
6 the budget, and it shows the budget that we've just
7 passed, so that we could present the information with
8 the most up-to-date information. Of course, last year
9 I got caught doing that when it was not passed. But
10 thankfully, thank you for passing at least the
11 recommendation to go to the board.

12 The worksheet is broken out into two sections.
13 It's broken out for the delivery of legal assistance,
14 and then it's broken out separately for management, the
15 loan repayment program, and the inspector general. The
16 reason we do that, of course, is our grants are given
17 normally once a year. They're given in January.
18 Actually, they're given in December, with the first
19 check being provided to them on the first working day
20 of January.

21 We record them in January only for
22 administrative purposes. So while we have a budget

1 this year of \$395,500,000 for our basic field grants,
2 during the month of January we made two rounds of
3 awards. When the board passed the budget in October,
4 it did it on a continuing resolution.

5 It was based -- additionally, if we got an
6 increase or decrease in funding, that we could have a
7 consultation with the chairman of the board and
8 chairman of the finance committee, and we could make
9 the adjustment to the grants that was needed.

10 The first round of grants was \$360 million.
11 We have now made the second round of awards. So the
12 total for the year is \$394,191,000. There are two
13 areas that were not funded annually. One is Wyoming,
14 that you've been hearing about through the last couple
15 of meetings. And then, of course, we're still
16 searching for a grantee for American Samoa. All the
17 other grants were given an annual award. Those
18 expenses will be shown with the January financial
19 report.

20 The U.S. Court of Veterans Appeals, I look for
21 their grant to be made some time in February. It has
22 not yet been awarded. But the Office of Program

1 Performance is working with the court in making sure
2 that that gets done.

3 The grants from other funds is certainly money
4 that we've had from carryover, from the sale of
5 buildings. That figure right now is \$832,000. We have
6 made an award of \$300,000 to help a Florida program in
7 the same area that sold a building that we retrieved
8 the money from. We got it back as a grant recovery,
9 and now 300,000 of that has gone back to help subsidize
10 the program for the purchase of a building there.

11 The technology initiatives, the \$3.4 million,
12 that money will be spent, hopefully, before September.
13 We got it in just under the line last year. But the
14 grant competition process usually kicks off after the
15 TIG conference, and I'm sure they'll be working
16 diligently to get that done during the spring and
17 summer so that we can make those awards.

18 All those are done on an annual basis. So
19 that's the reason that the first section compares the
20 budget on an annual basis to the annual spending.

21 In the second area, when we look at management
22 and administration -- excuse me, grants oversight; go

1 back to an old name for the program -- while we have
2 \$20,500,000 for the operations for the year, when you
3 look at 3/12ths of that, one quarter, you've got a
4 budget for the quarter of \$5,125,000.

5 Spending to date is \$3,655,000. So of the
6 money that was allocated for this quarter, there's a
7 remaining balance of \$1,470,000, basically. So we're
8 28 percent underspent the first three months.

9 Now I go back because we just talked about
10 putting the contingency there, and that is under the
11 management and administration. And I've made an
12 allocation in the memo to show that if we did not have
13 the contingency there, we would actually be 22 percent,
14 22.74 percent understand, and the amount would be
15 \$1,076,000.

16 But it's clear that we've got sufficient money
17 at this point, and we're not spending it entirely.
18 We're being very frugal as we move forward. We still
19 have hires to do. Our travel will pick up in the next
20 quarter. It seems like between Thanksgiving and the
21 holidays here, that we do have to cut back travel just
22 to accommodate our grantees and be able to get into the

1 program there.

2 (Loud music starts from the telephone.)

3 CHAIRMAN MCKAY: We're accepting requests.

4 MS. SINGLETON: I don't think that's me.

5 (Laughter.)

6 MR. RICHARDSON: Okay. I'll continue.

7 CHAIRMAN MCKAY: Please continue.

8 MR. RICHARDSON: With the loan repayment
9 assistance program, as we talked about, the budget is
10 \$2.69 million. The three-month allocation is 672-,
11 almost \$673,000. And we have outstanding loans of
12 \$567,000. I was going from memory there, so let me
13 look at my note just to make sure.

14 We have \$23,000 in loans from prior years.
15 Four of them are making payments on those loans, but we
16 do have three that are not making payments on the
17 loans. They're nonperforming at this point. And Legal
18 Affairs is looking at those and seeing what kind of
19 steps we need to take to be able to collect that money,
20 bring it into the house so that we can award it to
21 another recipient because that's what would happen to
22 it at this point.

1 For the Office of the Inspector General, their
2 budget, \$5,900,000. The allocated budget is
3 \$1,483,000. Their expenditures is 853-, almost
4 \$854,000. So they at this point are \$629,000
5 under-budget. Basically, 42 percent of their allocated
6 money is not spent.

7 The next page --

8 CHAIRMAN MCKAY: Before you go to the next
9 page -- sorry to interrupt -- but, you know, really
10 kind of following up on the questions that Tom Fuentes
11 posed about the flow of the funds on LRAP, it might be
12 helpful for our next finance committee meeting that you
13 or someone on your team could prepare a one- or
14 two-page document that shows the flow of funds in and
15 out or LRAP --

16 MR. RICHARDSON: Sure.

17 CHAIRMAN MCKAY: -- I should say the Garten
18 fund, excuse me -- so that we can have a better
19 understanding of why the numbers show up on the finance
20 reports the way they do. And what triggered this
21 observation first is I think Tom's questions were good
22 ones. And by looking at it on paper, we'll fell a

1 little better about how that money flows.

2 But also focus on the responsibility of
3 repaying. And those who do not perform, I think, have
4 the second part about, okay, what happens when they
5 don't perform? We can talk about that as well, have a
6 better understanding. Perhaps by then Legal Affairs
7 will have a thought on that subject.

8 MR. RICHARDSON: Okay. We will do that.

9 CHAIRMAN MCKAY: Thank you. On to the next
10 page.

11 MR. RICHARDSON: On to the next page. And
12 basically, I would just state there, you'll see each of
13 the individual office budgets. You'll see the actual
14 expenditures and the three-month budget per office. We
15 are well within budget in all of the areas.

16 The contingency, the 1.75 million, you'll see
17 that \$393,750 is the quarterly allocation there that is
18 remaining. Of course, none of that is spent. So
19 basically, we are 28 percent -- 28.68 percent of our
20 budget is not spent for this quarter.

21 We do have contracts, and that's the
22 encumbrance line in column 6, \$147,741. Those are for

1 equipment that we have. It's also for people traveling
2 to our grantees that we've contracted with. So there
3 is additional money that will be coming in and expensed
4 when the trips are completed and the information is
5 provided to us.

6 Going on to page 2 of 3 that's there, the big
7 thing here, of course, is when you look at the total
8 personnel compensation and benefits, while we have
9 \$1.47 million in carryover, \$810,000 of that is salary
10 and benefits. So that shows that the money that
11 we -- we have open positions and we have raises that
12 have not been given, and the money has been set there
13 at this point for use.

14 The consulting line: We've got an allocated
15 budget of \$327,000. We've spent so far \$78,000. So
16 there's basically \$249,000, almost 250-, that we have
17 not spent for the quarter. Again, when you look at the
18 consulting and the travel, those will start to pick up.

19 There's also money sitting in this particular
20 line, the consulting line, for the outside counsel.
21 And once we get into union negotiations and paying
22 outside counsel to help advise there, those expenses

1 will start increasing also.

2 CHAIRMAN MCKAY: Any questions for
3 Mr. Richardson?

4 MR. FUENTES: David, the American Samoa issue
5 has been before us for some time now. And is Karen in
6 the room?

7 CHAIRMAN MCKAY: No.

8 MR. FUENTES: Well, Karen has been very good
9 in helping provide information about that situation. I
10 have had a curiosity about it because in our own
11 community where I live, there's a lot of Samoans, and
12 I've grown up knowing the Samoan community. And it
13 pricked my interest that we're without a program there.

14 I have read in some detail the circumstance
15 and the situation. I would suspect that as we get at
16 that, that's going to require some considerable more
17 travel to address that issue, people hands-on from here
18 to go there to get this thing going if we're going to
19 get it.

20 Is that provided for in this budget?

21 MR. RICHARDSON: We've already had a couple of
22 trips out there. Last year there was, I think, four

1 people, five people who went. They did go for a
2 two-week period. I'm not sure if that's budgeted again
3 this year, but certainly the money could be reallocated
4 to make sure that any travel that's needed to that part
5 of the world would be completed.

6 MR. FUENTES: Thank you.

7 CHAIRMAN MCKAY: Thank you. Any other
8 questions?

9 (No response.)

10 CHAIRMAN MCKAY: Mr. Jeffress?

11 MR. RICHARDSON: Nothing to add, Mr. Chairman.

12 CHAIRMAN MCKAY: All right. Thank you.

13 Thanks so much for your presentation.

14 Next item on the agenda is a staff report on
15 fiscal year 2011 budget request. We're going to hear
16 from Mr. Constance.

17 MR. CONSTANCE: Thank you, Mr. Chairman. For
18 the record, I'm John Constance, director of government
19 relations and public affairs. Treefa, if you could go
20 ahead and pass those documents out to the board and
21 also as far as they'll go. I know we have enough that
22 we've run off a very small print run today. We have

1 enough for our nominee guests and others.

2 Today we are releasing our 2011 budget request
3 to the Congress. We've sent it to the four corners of
4 the Appropriations Committee electronically. We're in
5 the process of getting a distribution to the Hill. And
6 our briefings begin on the 2011 budget next week.

7 As you will recall from previous years, our
8 goal always is to get our budget request in prior to
9 the release of the President's budget only because the
10 noise level once the President's budget gets to the
11 Hill is very high.

12 So given the fact that we have the ability to
13 independently present our budget to Congress, we take
14 the opportunity to do that. We have a staff-level
15 briefing for both Congressman Mollohan's, our
16 chairman's, staff on Tuesday and Congressman Wolf, the
17 ranking member of our appropriations subcommittee in
18 the House, also on Tuesday. And we have schedules
19 going forward with the Senate as well.

20 Vic will have an opportunity to meet on
21 Wednesday of next week with Chairman Mollohan. We'll
22 accompany him up for that briefing with the House

1 chairman. And we have a hearing scheduled at the House
2 for our budget for February 24th, which is quite a bit
3 earlier than it has been in previous years.

4 I would say that for purposes of summary, the
5 overview of the budget, the overview of our request as
6 approved by the board, is on page 1 of the document
7 before you under the overview. We have, as in past
8 years, done a several-page overview and then gone into
9 a great deal more detail in the core of the document
10 for purposes of the Hill.

11 I will also bring to your attention page 6 of
12 the document before you. This is one that we
13 instituted last year and was received with a great deal
14 of support on the Hill because it puts the request in
15 perspective on a state-by-state basis, laying out what
16 our 2010 appropriation is in terms of basic field
17 funding, what our 2011 request would mean to each
18 state, and therefore what the addition is in the
19 right-hand column, demonstrating really what the
20 practical impact would be of our request on a
21 state-by-state basis.

22 Happy to answer any questions about the

1 document going forward. We have a press release that I
2 think our Interim President has approved today. That
3 will be going up. We are trying to be good stewards of
4 our funding, and so the vast majority of this
5 distribution will be on the internet. This will be
6 posted this afternoon on our website. And we are
7 providing limited hard copies to the Hill, but really
8 trying to do the widest dissemination that way.

9 I also want to take the opportunity, if I
10 might, Mr. Chairman, before I answer questions, to
11 recognize Treefa Aziz, Steve Barr, and Marcos Navarro
12 of my staff, who had the greatest input into this.
13 Steve is our word person, Treefa overall direction, and
14 Marcos has done design. I think they've put together a
15 document that is attractive and also very, very
16 purposeful in terms of laying out our strong arguments
17 for our funding increase.

18 CHAIRMAN MCKAY: Okay. Thank you, and thanks
19 for your comments, and in particular, the attention
20 you've directed to your staff. You and they have done
21 outstanding work.

22 Questions or comments for Mr. Constance? Tom?

1 MR. MEITES: I commend the format. It is
2 legible and attractive. But I have to ask --

3 MR. CONSTANCE: (Laughs.) Drum roll.

4 MR. MEITES: -- where did the number
5 \$516,550,000 come from?

6 MR. CONSTANCE: It came from this board's
7 resolution to that effect after the finance committee
8 recommended that number to the full board and the full
9 board voted on it as a resolution.

10 MR. MEITES: Thank you.

11 MS. MIKVA: Is there something about the
12 Justice Gap, the five-year plan? Is that where this
13 number comes from also?

14 MR. CONSTANCE: There is -- also, I would
15 direct your attention to the top of page 2, where we
16 have documented the language from that resolution,
17 where it says the board's goal and lays out what that
18 four-year plan has been from the board. We
19 affectionately refer to it as the Singleton plan.

20 (Laughter.)

21 MR. CONSTANCE: Given the fact that she was
22 the one that advanced the original resolution that

1 defined this four-year goal.

2 CHAIRMAN MCKAY: Any other questions or
3 comments? Tom?

4 MR. FUENTES: Mr. Chairman.

5 John, this increase from 420 million to
6 516 million, this is for fiscal year 2011.

7 MR. CONSTANCE: That's correct.

8 MR. FUENTES: The board has oftentimes shared
9 our confusion, I guess is a good word for it, as to,
10 you know, what year we're in and what year we're going
11 into, et cetera.

12 When in the State of the Union the President
13 spoke of an anticipated freeze, following, when the
14 talking heads and they started to explain it to us
15 Americans, there was a discussion of, well, when that
16 really begins.

17 Can you tell me, is this 2011
18 request -- which, by the way, Tom Meites, that was not
19 a unanimous vote of the board -- when does that fit in
20 this freeze year? Is that the freeze year? Is this
21 the year before the freeze year, to your knowledge?
22 Can you explain?

1 MR. CONSTANCE: His definition of that year or
2 that policy in terms of discretionary funding is in
3 fact 2011, which is the same year as this request would
4 commence. That would be October 1, 2010 through
5 September 30, 2011, which is fiscal year 2011.

6 And I would say this. I think the world is
7 waiting to see the President's request going forward
8 next Monday. That's when the White House request, the
9 federal budget request, will be made public and will be
10 opened on Capitol Hill. And again, you know, I think
11 that if you talk to ten people today in Washington,
12 there are ten different opinions in terms of how that
13 is going to be presented.

14 I think one definition of it is that the White
15 House will ask for no more money 2011 than they asked
16 for in 2010. I also think that there's -- clearly, by
17 virtue of the fact that the President in the State of
18 the Union made it clear, that some programs such as,
19 say, education, was going to get, you know, a
20 recommended increase, others, you know, not.

21 So how this is going to be done, I don't know.
22 I have my bumper sticker ready which says that

1 education is good but food, shelter, and clothing are
2 great. And we're in that food, shelter, and clothing
3 business, keeping families safe and together and in
4 housing.

5 So that certainly is going to be my direction
6 from this board going forward regarding 2011. And I
7 think Washington can't wait to see what, you know, that
8 number is going to look like on Monday.

9 MR. FUENTES: I appreciate your optimism, and
10 I appreciate your --

11 (Laughter.)

12 MR. CONSTANCE: There's no other way to go,
13 Mr. Fuentes.

14 MR. FUENTES: -- enthusiasm for our cause.
15 But I think that also, we should always reflect a very
16 serious and thoughtful conduct on the part of this
17 board. And I think it should be stated for the record
18 that when we have all had the opportunity to listen to
19 that State of the Union, we are, in fact, suggesting
20 what appears to be a 25 percent increase to a budget in
21 the same year in which the President of the United
22 States has called for a freeze. Thank you.

1 CHAIRMAN MCKAY: Any other questions or
2 comments?

3 (No response.)

4 CHAIRMAN MCKAY: Thank you very much.

5 MR. CONSTANCE: Thank you.

6 CHAIRMAN MCKAY: Next item is a staff report
7 on LSC consultants. And while Mattie comes up to the
8 table, I would ask that those who are on the phone
9 either keep -- we're getting a little feedback. So to
10 the extent possible, please put your phones on mute
11 unless and until you have something to say so we don't
12 have the feedback here on the speakers. Thanks so
13 much.

14 Next item is a staff report on IRS review of
15 classification of LSC consultants. Ms. Cohan.

16 MS. COHAN: Thank you, Mr. Chairman. Mattie
17 Cohan with the Office of Legal Affairs. This will be
18 the moment of deja vu, or new information for anyone
19 who wasn't here or who was micro-napping.

20 As requested and required from our previous
21 conversations on this, staff has gone ahead and put
22 together the SS-8 filings. SS-8 is a request to the

1 IRS for determination of worker classification status
2 for employment tax purposes.

3 Those packages are together. They have been
4 signed. All the materials are together, and they are
5 at our outside counsel's office, where they are under
6 review. Presuming that counsel finds no deficiencies
7 with the filings, they will proceed directly to file
8 them for us early next week. If they have any
9 questions or concerns, they'll get back to us and we'll
10 deal with them.

11 As soon as the filings to the IRS have been
12 made, LSC will be sending out a letter to all of the
13 consultants letting them know that those filings have
14 been made and letting them know that that process has
15 started.

16 MS. MIKVA: Mattie, do we have any sense of
17 how long the IRS will take to get back to us?

18 MS. COHAN: My understanding from outside
19 counsel is that process could take a couple of months.
20 But that's about as detailed as they feel they can be.

21 MS. MIKVA: That's good enough. Thank you.

22 CHAIRMAN MCKAY: And my only comment is I know

1 that we agreed on this strategy at our November 30th
2 meeting, so it's been two months. And when I read the
3 very short but helpful report from you, I thought,
4 well, okay. We had the holiday period. Just my
5 thought was that I was a little surprised it had not
6 yet been submitted to the IRS. I'll write it off as
7 being the holidays and so forth.

8 But I'm assuming we're moving on this post
9 haste, and that I would expect this to be getting to
10 the IRS within two weeks. Is that reasonable --

11 MS. COHAN: I expect it to get to the IRS
12 early next week.

13 CHAIRMAN MCKAY: All right. Very good. Then
14 we will have the clock starting to run then for the two
15 months, hopefully less, to get a response back from
16 them.

17 Any other questions or comments?

18 (No response.)

19 CHAIRMAN MCKAY: Thanks, Mattie, for your
20 report.

21 It's now time for public comment. Does anyone
22 have any comments in the public to make about anything

1 we addressed on the agenda today, or any other items
2 within the purview of this committee?

3 (No response.)

4 CHAIRMAN MCKAY: Thank you. Is there any
5 other business the committee wants to address?

6 (No response.)

7 M O T I O N

8 CHAIRMAN MCKAY: Do I hear a motion to
9 adjourn?

10 MR. FUENTES: So move.

11 CHAIRMAN MCKAY: Second?

12 MS. MIKVA: Second.

13 CHAIRMAN MCKAY: All those in favor say aye.

14 (A chorus of ayes.)

15 CHAIRMAN MCKAY: Opposed?

16 (No response.)

17 CHAIRMAN MCKAY: We're adjourned. Thank you
18 very much.

19 (Whereupon, at 3:31 p.m., the committee was
20 adjourned.)

21 * * * * *

22