LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, May 31, 2002

1:40 p.m.

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

COMMITTEE MEMBERS PRESENT:

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

BOARD MEMBERS PRESENT:

Hulett H. Askew
Maria Luisa Mercado
Ernestine P. Watlington

STAFF AND PUBLIC PRESENT:

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

STAFF AND PUBLIC PRESENT (con'd):

David L. Richardson, Acting Vice President for Administration, Treasurer, and Comptroller
Leonard Koczur, Acting Inspector General
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel
David Maddox, Assistant Inspector General for Resource Management
Mattie C. Condray, Senior Assistant General Counsel, Office of Legal Affairs
Alice Dickerson, Director, Office of Human Resources
Michael Genz, Director, Office of Program Performance
Robert Gross, Senior Program Counsel, Office of Program Performance
Joyce Raby, Program Analyst, Office of Program Performance
Glen Rawdon, Program Counsel, Office of Program Performance
Yvonne Robertson, Office of the Comptroller
Wendy Atanga, Office of the Comptroller
Leslie Russell, Office of the Controller
Linda Perle, Senior Staff Attorney, Center for Law and Social Policy
Julie Strandlie, American Bar Association
Frank Strickland, Attorney, Strickland Brockington Lewis, LLP
Robert Dieter, University of Colorado
Michael McKay, McKay Chadwell
Jenette Studley, Member, SCLAID

C O N T E N T S

P R O C E E D I N G S

CHAIR ROGERS: We have in attendance Committee Member Edna Fairbanks-Williams, Tom Smegal, and in addition, we have Ernestine Watlington here and Bucky Askew and our chair, Doug Eakeley, as an ex officio member.

May I have a motion for the approval of the agenda, which we should make one slight modification of before there is a motion, and that is to change in 3 April 5 to April 30, 2002. Is there a motion to approve the agenda as so modified?

M O T I O N

MR. SMEGAL: So moved.

CHAIR ROGERS: Second?

MR. EAKELEY: Second.

CHAIR ROGERS: In favor?

(A chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: We have attached the minutes of the committee's meeting on April 5th. Motion for approval of the minutes?

M O T I O N

MR. SMEGAL: I move to approve.

MR. EAKELEY: Second.

CHAIR ROGERS: All in favor?

(A chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: David, will you take us through the consolidated operating budget expenses? And that is a handout. Am I correct about that? Or is there a reference?

MR. RICHARDSON: The April information is in the book. It is page 25 through page 29. That's the April expenses. And then the handout that you have is the mid-year budget review that's based on the expenses through March, and then the projection through the remainder of the year.

CHAIR ROGERS: David, has the handout been made available to members of the audience as well?

MR. RICHARDSON: It has.

CHAIR ROGERS: So those are out for pickup in the back?

MR. RICHARDSON: The back table, yes.

CHAIR ROGERS: Great.

MR. RICHARDSON: Okay. To try to ease the presentation, what I will do is refer to basically the revised budget that is column 3 on page 25 as we look through and review the budget, versus the expenses for April, which is column 4, and show any remaining funds.

The budget, of course, the total budget, is $336,805,000, rounding up there. For the delivery of legal assistance, we have a budget of $320,364,000, of which we have contracts and expenses to date of $313,822,000.

The remaining amount, the $6,542,000, is made up of -- in basic field, there's an amount of $1.5 million that is basically grantees that have been short-term funded, where there is some funding decisions that need to be made in the future, but the money is earmarked for a specific area.

Within the U.S. Court of Veterans Appeals, we have a budget there of $960,000. We have contracts to date of 170,000, so there is a 90,000 --

MR. SMEGAL: 870,000.

MR. RICHARDSON: 870,000, which there's 93,000 remaining for that program. There is some expenses coming. There's a review that's underway at this point. So there'll be a few thousand dollars spent there.

It's also my understanding that we're going to amend the grant and increase the grant to the veterans consortium for some additional funding, and the program performance staff is working on that grant.

MR. SMEGAL: Is that a pass-through?

MR. RICHARDSON: Yes, sir, it is.

MR. SMEGAL: So the Veterans' Affairs, out of their $58 billion monies, are going to allocate a little bit more?

MR. RICHARDSON: No. We're going to allocate the money because originally we had a budget -- we got $890,00 this year and we had carryover from last year. They made an award of $870,000, and with the $20,000 that they set aside for management and the additional money that we had already, the 60,000 for the program, it leaves $90,000 to be spent. We don't need that much for management, so they're going to make a larger award to the program.

And you heard a little bit of a report this morning from Glen Rawdon and Joyce Raby. There is an amount here of $9.1 million of this $9.2 million for technology. We have spent -- to date, have contracts of $4,376,000, almost 77,000. And that remaining money, the $4.8 million, will be spent on that particular program.

Those items will add up to the $6.5 million that we're showing there as available or remaining funds in column 5 under the delivery of legal assistance.

MR. SMEGAL: Did I mishear Glen? I thought he said the amount of money on those technology initiatives this year was about 7.2. Didn't he say 4.4, 7.2, and --

MR. EAKELEY: Last year, yes.

MR. RICHARDSON: And there's some carryover. There's some monies, some grants, that were made in October and November that come over this year.

The other budget that we have here, of course, is in the corporate management and administration. You see the expenses there per the line item or per budget. You'll see that the board budget was 422,000, and we've spent to date 62,000. We have monies still in this budget for executive search for a president and IG when the board does turn over.

All the April expenses are not in, so there's some expenses for the April, this meeting, and then if we have a meeting in either August or September, will also come out of this. That money is available.

Also, the regulation or reg/neg process is being funded through the board budget, and we're anticipating about a $60,000 expenditure there. So Vic and his staff have worked up the budget, and they feel that this is certainly adequate as we go through.

And I probably shouldn't have gone through that because we'll do it in the next bit, but just to tell you a little bit about the process that we go through, the executive office, through April, we've spent 437-, almost $438,000 of a $1,126,000 budget. So the remaining funds there, much of it will be -- some of it will be reallocated but spent through the remainder of the year.

Legal affairs in the same circumstance, a million dollars, $1,002,000. And we spent 457,000 to date, and there's 545,000 left.

Instead of reading them all, you can see that we're well within budget in each of these. And instead of walking through each one, if you have any particular questions, I'll be glad to answer.

We have spent to date -- we should be -- the budget -- the earmarks should be 58.3 percent. This budget shows that we have spent 49.4 percent. So we're well within budget. There is some increased activities that will happen through the summer with the competition initiative and the additional technology initiatives going on. So the percentage will start going up in the next coming months.

As far as -- and I'm looking at page 28 at this point, looking at the percentages. The only one that is over the 58.3 percent earmark is the one for other operating expenses. This again is the area where we charge the comprehensive insurance policy of the corporation, the CGL policy, the directors' and officers' liability insurance, and those things that are non-employee benefits for the Corporation, travel insurance and so forth.

Those are annual fees. So last month, this percentage was greater than the benchmark, and it's coming down and should even out, of course, during the year.

MR. ASKEW: David, I'm sorry. Is this seven months or six months? Seven months?

MR. RICHARDSON: It is seven months, yes.

MR. SMEGAL: You got to page 28. I'm on page 29. Are you going to go there or --

MR. RICHARDSON: Certainly. The IG's budget --

MR. SMEGAL: Yes. Or maybe this is more

appropriately directly to Len. There are a couple items there that -- actually, three, but more significant. Consulting, is there just a time lag on the consulting? I notice you're at 5 percent of budget so far.

MR. KOCZUR: Yes. That's partially it. We have -- the Georgia mapping project, we have some bills that have come in and haven't been paid. We have some more plans there. There's additional expenses that will be incurred on that project.

We have some funds set aside for consulting, planning on LSNY providing the data that we have been in litigation on for like two years. That's going to be expensive because we have to recreate the system we originally used. So there are some -- we will be spending more in the consulting line.

We also have planned for equipment purchases. We're going to replace our laptop computers for our auditors and investigators. So there will be an expense there.

I think the other area that we have a lag in is personnel, in that we have been unable to fill some positions, mainly for two reasons: The candidates haven't been very good, and they have been not very diverse.

And we've been working hard on that. We have a recruitment effort going with Alice's help now. And the candidates we've been getting recently are significantly better and slightly more diverse than what has been in the past, I think not where either Alice or I would like it, but it's improved. We have contacted a couple recruiting firms in an effort to broaden our base for resumes coming in. So we will be hiring some people within the next month or so.

And also, part of that --

MS. FAIRBANKS-WILLIAMS: How many do you have to hire?

MR. KOCZUR: I'm sorry?

MS. FAIRBANKS-WILLIAMS: How many do you have to hire?

MR. KOCZUR: Between four and six, depending on how much we pay them. We're looking for a range of candidates from people who are fairly experienced, with a senior level type down to more junior with a few years' experience.

And also, I might add, the IG's position has not been filled; since I'm filling both the IG and the assistant Inspector General for IG, one of those salaries is saved, essentially.

MR. SMEGAL: You're a cheap date, Len.

MR. KOCZUR: I'll take that as a compliment.

MR. EAKELEY: He meant it as a compliment.

MR. SMEGAL: I intended it that way.

David, refresh my memory on occupancy costs. My recollection is that we don't --

CHAIR ROGERS: Thank you, Len.

MR. SMEGAL: -- lay off anything to the IG by way of rent?

MR. RICHARDSON: We do not, sir.

MR. SMEGAL: So what's the $10,000 sitting here for?

MR. RICHARDSON: When they go out for audits and so forth, there's an occasional need for a room setup, a meeting room. And so that's money set aside for that.

MR. SMEGAL: I have one other question. Len, are you back to using those monks to hand-copy stuff again rather than using the photocopies? You've got $338 worth of photocopies in seven months. I'm wondering if you're using those monks again.

MR. KOCZUR: No. We bought a new photocopier.

CHAIR ROGERS: David, where are you on your -- more to tell us?

MR. RICHARDSON: I think that sort of concludes the questions on April. I'll be glad to go into the March review and the projections if you'd like to do that, and that is on the handouts that were distributed this morning. And I hope you've had an opportunity to look at those.

I apologize for the lateness of that. With everybody's busy schedule, we only got the final budgets in the last two days. So I got the review completed yesterday, and got it copied -- actually, some of it was actually delivered today. So I apologize again for the lateness there.

CHAIR ROGERS: While people are looking through, I know you had a couple of indications, David, you wanted to make.

MR. RICHARDSON: Let me take the time to do that. I have two of my controllers office staff who are here with me. Bucky is certainly aware of one of the staff members because she's been in the Corporation for various positions for 23 years. And I'd like for you to welcome Yvonne Robertson with us.

(Applause.)

MR. EAKELEY: We should note for the record that Yvonne started with the Corporation at a very young age.

MR. RICHARDSON: Absolutely. To her right I have Wendy Atanga. Wendy joins us from Howard University as a work/study student. She went to work for an accounting firm, and then we were able to hire her back. So she's been with us on and off for five years. So she helps with the budgeting.

The reason I wanted to bring these two here, again, as you welcome Wendy --

(Applause.)

MR. RICHARDSON: If there is ever a time that you cannot get me in regards to budget materials or accounting issues, these are the two ladies that you can call upon. And they will either get you the answer or find me or -- they'll get the information to you.

And they're very helpful and dedicated to the work we have here. And I appreciate their efforts, and I wanted you to meet them and to see them. I know Yvonne you probably have seen on another occasion. But she's very important to the operations of Legal Services.

Additionally, if I can, a gentleman who's been running around here all day helping with the computers and setup, everything, is Leslie Russell.

(Applause.)

MR. RICHARDSON: And Leslie has been with the Corporation about 20 years also. So we have some pretty long-tenured people in the controller's office. We have two others that are not with us today who are long-tenured. Sherida Villa is coming up on 25 years, and Jacob James is also 22, 23 years also. So we have a staff with some long history with Legal Services, and they work hard.

CHAIR ROGERS: We are certainly lucky to have them, and the experience has helped us in a variety of ways. It's been very helpful to us on our projections over the years, and in other ways to keep on a solid financial footing.

MR. RICHARDSON: Okay. There's one other person, and you had her name earlier today. And she's presented to you at the last board meeting. That's Alice Dickerson. She came in as director of human resources a few years ago, and she is, again, a very important cog in the management of the Legal Services.

CHAIR ROGERS: Stand up, Alice.

(Applause.)

MS. MERCADO: I still like the Uruguay Plan.

MR. EAKELEY: Again.

MS. MERCADO: I couldn't resist. I'm sorry.

CHAIR ROGERS: Thank you, David.

I think we are now back to Attachment A that was handed out, the long sheet. And I think I saw a question? Doug?

MR. EAKELEY: I had a question about process. Your accompanying memo, David, says, "The president has board authority to approve internal budgetary adjustments within management and administration."

MR. RICHARDSON: Yes.

MR. EAKELEY: Where does that come from, that authority?

MR. RICHARDSON: From our audit and accounting guidelines. It's stipulated in there that he has authority to do that.

MR. EAKELEY: Within set limits, or unlimited discretion to move?

MR. RICHARDSON: In an emergency situation, $75,000. And then as we come to you and report, it's a matter of the president approving the adjustments within management and administration that management has presented based on their revised projections.

MR. EAKELEY: And are these proposed budget adjustments reflective of expenses that have already been incurred or that are proposed to be incurred, expenses or reductions?

MR. RICHARDSON: Okay. It's both. What we do is we base our projection on the expenses, of course, through March. And then the budget plan, which is column 6 of this, is the expenses from April 1 through September 30th. So those are future expenses.

MR. EAKELEY: But I'm looking at proposed budget revisions. And maybe it's premature before you present them, but I just -- this statement about the president having board authority to approve internal budgetary adjustments, and then proposed budget revisions, left me unclear whether or not these were already, in the case of additional expenditures, funds that had been committed.

MR. RICHARDSON: I think our guidelines do give the authority to the president. What we have done in the past is the board has -- after reviewing this, they have taken up and adopted the revisions as presented.

We haven't had a whole lot -- well, we haven't had any changes from the revisions that the president has authorized.

MR. EAKELEY: A similar question: You say that, "The IG participates in quarterly reviews and makes internal budgetary adjustments within the OIG budget in accordance with the guidelines."

MR. RICHARDSON: That is correct.

MR. EAKELEY: What guidelines? Same guidelines?

MR. RICHARDSON: Same guidelines.

MR. EAKELEY: Okay. And same limitations on authority to reallocate funds within budget lines as the president?

MR. RICHARDSON: That is correct, sir. Independent authority.

MR. EAKELEY: I guess I just forgot about that.

CHAIR ROGERS: Let's see. If there are questions about the budget, I think he's going to take us through it first, maybe, and then we should come back to questions after.

MR. EAKELEY: Yes. I'm sorry.

MR. RICHARDSON: There is a memo before you, and I will sort of walk through the highlights. And again, this sort of -- what I've been asked to do in the past is to highlight the changes that are greater than $10,000.

And I will do that, but first I will just point out that there is $90,000 that is being transferred from the president's budget, the executive office budget. That money, again, is available to us through a consulting line that is not going to be used. And that money then is being moved to support government affairs and program performance. And I will go through the different projects there. Additionally, you will see -- and that's basically $45,000 of that 90,000 goes to government affairs, and then 45,000 also to program performance.

There is an additional transfer here from my Office of Financial and Administrative Services that is being transferred to information technology. That money is available because of a review of the expenses in the building.

We actually hired a consultant a few years ago to review the operating expenses, and they have refunded $50,0000 of the operating expenses on the lease. So we're able to bring that back into the budget.

CHAIR ROGERS: Congratulations.

MR. RICHARDSON: Thank you. Additionally, we're able to use that -- last year, with the terrorist attack, you know, our computers were hacked into a couple of times. And we've had to beef up the security on our systems.

We had originally thought that we would move some money that was originally earmarked for computer equipment into the consulting because we've had to hire these security consultants to, as Leslie would say, harden down our servers and our Internet service so that we don't have people hacking into our system.

With the $50,000 that we now have available from financial administrative services, we are allocating that money to information technology, where we can hire -- where we can replace a third of the computers, which we try to do each year; some of the laptops.

We're also having a software inventory package to help us track our software to make sure that we're in compliance with Mr. Gates on all of our different software licenses. We're just trying to get our house in a little cleaner order. We have -- we account for them, but it's -- we just wanted a little cleaner, more concise format. That's our goal here.

Within the budget, you see on page 1 of my memo at the bottom that the inspector general has made some adjustments. They're very minor. The consulting was increased $5,000. Travel and transportation was increased 7,000. Other operating was increased 12,000. And then there was also capital expenditures, a small of them, $700. All of this is being reduced from the temporary employee pay so that he can undertake those particular initiatives that he needs to undertake and finance.

Within the -- sort of explained already, the executive office, the items there that are available come from consulting. We had a $75,000 budget there; we've reduced that to $5,000. There is also an amount of money available because of lapsed position.

As you're aware, much like Len encumbering two positions, I'm encumbering two positions. So where the vice president of finance salary was funded, I'm being paid through the controller's office, through the Office of Financial and Administrative Services. So that leaves that money available to help with other operations also. That money, as I stated, is being moved to help government affairs.

Within the legal affairs budget, Vic has hired a couple of temporary help for the summer to get him over a very busy period. So we're increasing the temporary pay and we're reducing the consulting. He has looked at the litigation and the outside consulting fees that he has, and he's been able to determine that there is a $30,000 amount there that can go to help other operations.

There's $3,000 in other adjustments, and as it states there, it's for travel and communications, a combination.

Within the government affairs office -- and this is where your $45,000 from the executive office goes -- it's going to help with the printing of the Equal Justice magazine and consulting.

There is additional cost that is being borne because of the Equal Justice magazine. When the budget was originally presented, it was presented with the newsletter. It has been increased, of course, until we do have the Equal Justice magazine. So there's additional printing costs. There is outside writers and editors. So this money is helping to fund that.

There is also an additional need for some personnel compensation and benefits to support his office, and all that money will be able to be absorbed within this $45,000 that we've transferred from the executive office.

Financial and administrative services: Not only did the $50,000 come in, we did have to transfer

$20,000. Part of this getting the money back from our landlord is we had to have a real estate consultant come in and review the expenses for this. And they received 40 percent of the 50,000 that we got back. So they received $20,000.

So there's a transfer to the consulting line to take care of that particular expense. There is -- there was an open position, so we have personnel compensation and benefits that we've been able to reduce.

And we've also been able -- we've changed our long distance service here recently. We're seeing some decreases from that by consolidating our long distance service, so there's $5,000 there. And then there's just some other small adjustments that are identified.

The biggest single increase that we've had is identified in your next paragraph there, and that is in the Office of Program Performance. There was $45,000 that was transferred to program performance to help with the ongoing project. There's a communications project between LSC and NLADA, and that's being funded.

Also, there are some positions where we've had some transfers, people hired later in the year than we originally thought. So there is money from personnel compensation and benefits of $67,000.

And temporary employee pay has been reduced. We had a temporary employee through December, and we have not re-employed or extended that contract. So there's money available there, and that money is being used for consulting. So that money will go for additional state planning, diversity consultants, and help in the field.

And there's other smaller increases there. There's some increases in communications. Instead of -- there is a lot of travel in this budget. But there's also a lot of video conferencing. So we are trying to move some money into the communications line to help defray some of the costs that occur there.

Within the Office of Information Management, there's a couple of adjustments, subtractions. And we also have one adjustment. We actually have a reduction in personnel compensation and benefits there of 13,700.

Part of that money is going into communications, part going into increased travel for training, and other operating expenses.

Within the Office of Compliance and Enforcement, there is no increase or decrease, but there is a few adjustments within. There's $11,000. That was for personnel compensation and benefits. That's available. There's $11,500 that has been identified, and unneeded amount of money that originally budgeted for consulting, and that money is being used for the additional travel.

I was speaking to -- it might have been Mr. Erlenborn in the last couple of days. Whenever we instituted the protocol, when we go out into the field and somebody says, I would like to have a coding of the client names -- and we recently had one where they have a university professor code the name; we go on a two-day trip just to test to make sure that the coding and everything works properly, the information that is gathered is sufficient for the compliance review.

It's creating just a little additional travel there. So they go test it for two days, come back and write a report, go back to the director, tell him it worked or it didn't work or it might need a little tinkering with.

The only one that actually has occurred since April did work, so we are planning on having that trip I think it's the end of June. And everything will be moving forward there. So there's just a little additional travel expense there.

Like I said before, there's other smaller adjustments that are expenses here that are not identified that are under $10,000.

The other item that I'd like to bring to your attention is on page 2 of Attachment A. This time last year, we were drawing over 5 percent on our checking account and money that we put in the repurchase agreement when we invest overnight, the float of our money. So we are now earning 1 percent. We had originally thought that we would earn interest in the neighborhood of 275,000. It looks like we may earn 120,000.

We are not coming to you at this point to reduce the budget. It is certainly something that Mr. Erlenborn and I have discussed. But as you see, from all the projections, we're going to have about $300,000 in carryover.

Some of the expenses that we've had in the prior years on the building will also come back into the budget. So we have enough money outside of the budget, I think, to make up any shortfall we have there.

We watch it very closely, and if there is a particular problem, I'll certainly bring it to your attention and the president's as we look through. But instead of going through and asking the directors to cut $150,000 out of their budget, we're just trying to watch it very closely and trying to monitor expenses so that we can not have to do that and put or directors through that exercise at this point.

If there's any other questions, I'd be glad to answer them.

CHAIR ROGERS: Maria Luisa?

MS. MERCADO: Yes, Mr. Richardson. On Attachment A, page 1, on actually the line item that deals with the board of directors, we're allocated $422,350, but we've only spent $52,000. And with the remainder of the money that's there -- again, I'm sort of looking at --

MR. RICHARDSON: I understand.

MS. MERCADO: -- other things that we could probably use it for. I'm thinking of whether or not there is some other greater anticipated funding expenses for the balance of the year, or whether that will be something that could be used -- and again, I think that the problem would be is that I'm not sure whether or not it would go in one of these other lines.

Let's take for an example if we wanted to increase the number of young attorneys in training in the grantees, like the grant that we allocated to the National Center on Poverty Law. Then would that be an area that we would look at, or are those funds going to be, if there is excess funds, reallocated to the other divisions and perhaps other shortfalls that you foresee?

MR. RICHARDSON: Okay. What we're trying to do is lay out a plan for transition. Yes, there is an amount of 62,000 that's being -- 52,000 that has been spent through March. You, of course, had an April board meeting, this board meeting, and either one in August or September.

In addition to that, with transitioning to the new board, there's presidential search money and there's IG search money. Also, your reg/neg process is included in this. So Vic and his staff have put together a budget. If all of this were to come about, that we would spent $340,000 in the last six months.

Now, certainly if we have a situation where we don't have a board until August or September, all of the presidential search or all of the inspector general search money will not be used.

MS. MERCADO: So that's why the line looks a lot greater than it normally does?

MR. RICHARDSON: Right. The reg/neg process, just to give you an idea, we've budgeted $60,000. And at this point, none of that has been paid. There is bills that are being -- that are pending that will amount to about $60,000. There is, if I recall correctly, about $150,000 set aside for presidential search and inspector general.

CHAIR ROGERS: Any other questions?

MS. MERCADO: They were in my plan.

CHAIR ROGERS: I think we are being asked to take action on this, even though it may not be necessary. So I'm looking for a motion to approve the president's recommendations that are contained in Attachment A.

M O T I O N

MR. SMEGAL: So moved.

MS. FAIRBANKS-WILLIAMS: Second.

CHAIR ROGERS: Further discussion?

(No response.)

CHAIR ROGERS: All those in favor?

(A chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: The motion passes.

MR. ERLENBORN: I was tempted, Madame Chairman, to move that myself. I thought it might be unseemly.

CHAIR ROGERS: Report on internal budgetary adjustments. It seems to me that has been done?

MR. RICHARDSON: That is correct.

CHAIR ROGERS: And report on the budgetary needs for fiscal 2004.

MR. RICHARDSON: Actually, that's sort of a misnomer there. It's just a request, and sort of to put it on the calendar for the next meeting.

In the last two weeks, we have a staff in program performance that are in contact with the Census Bureau. And they are trying to get census figures as quick as possible so that we can do some planning for 2003 and 2004.

But we've already, of course, presented a budget to the President. It's in the hands of Congress now as to how they're going to fund 2003. But during this summer, we need to look and determine how much money we're going to ask for for 2004.

So we're going to be entering into a process in the Corporation where management will forecast, project, what they're going to need for 2004. And the field needs to do the same thing.

We are in contact with them. We'll be in contact with the board, of course, to determine a budget mark that needs to be presented to OMB the middle of October. And this is sort of a heads-up that this is going to be one of the agenda items at the next meeting, something that we need to be thinking about, and of course soliciting people from NLADA, ABA, and other interested parties that if they would like to present something to the board, that it should be at the next meeting.

At that point, if they can get it to us prior to then, we will certainly distribute it to the board. We are in contact with you as board members to determine if you have a particular budget mark that you would like to see put forth.

And then we will come to the next meeting prepared to discuss those different budget marks, and either adopt one or at least discuss them and then come back with a telephonic meeting or something and make a decision later. So it's sort of a call for papers, you might say.

CHAIR ROGERS: A call for marks. Any discussion about that at this point?

(No response.)

CHAIR ROGERS: The next thing, considering the amendment to the LSC flexible benefits plan.

MR. SMEGAL: Madame Chair, you weren't here last month, but I want to point out that probably the most exciting thing that we did at the finance committee for our meeting was to consider amendments to the 403(b) thrift plan. And I can see this reaching new heights.

MS. DICKERSON: Good afternoon. This one is not subject to the Uruguay Round Agreement Act, so I don't know that it will be quite as humorous.

You have in your board book on pages 30 and 31 a resolution to amend the LSC flexible benefits plan.

I thought it might be helpful to give you a little bit of background information on this plan.

It is a cafeteria plan that's operated under Section 125 of the Internal Revenue Code. We first adopted this plan in 1990, and at that time it was strictly for the purposes of premium conversion, which is to allow our employees to defer from their taxable income an amount equal to their health insurance premiums.

The plan operated for several years with just that component. But as most of you are probably aware, the health care costs have just risen drastically over the last several years, and the most significant component of that increase is due to prescription drugs.

So in 2001, LSC, in an effort to contain health care costs, adopted a three tier for prescription drug plan, which significantly increased the cost of the copays for prescription drugs to our employees.

So in an effort to allow employees to be able to also defer the amounts that they were paying for these out-of-pocket medical expenses, we added to this flexible benefits plan a health care spending account, which allowed employees to defer up to $1500 per year of their income to cover these out-of-pocket expenses.

We also at that time added a dependent care component, which allowed employees to set aside $5,000 a year from their taxable income.

In the year 2002, in January, we again increased the amount of the health care spending account that employees could defer, and we increased that amount to $2,000. As a result of these changes, the plan document has to be amended and restated.

And so what we are asking you here today is to authorize management to take the appropriate steps necessary to amend and to adopt this restated plan.

MR. SMEGAL: These are voluntary contributions on the part of the employee?

MS. DICKERSON: Yes, they are. Yes, they are. We have about 40 employees who participate in this particular plan.

MR. SMEGAL: Is there some ceiling on eligibility? Is there a maximum income you can have, for example, on the dependent care portion of it?

MS. DICKERSON: No. But the ceiling that there is is that, for instance, if there were a married couple, each person could only set aside 2500. It's a maximum of 5,000 per year. But if there were two individuals in our employ who were married, each of them could only set aside 2500.

MR. SMEGAL: But as far as the Internal Revenue Code or the tax code is concerned, isn't there an income level max? Can anybody get this?

MS. DICKERSON: On this, yes. Anybody can get this.

MR. SMEGAL: Really? So, in effect, everyone is eligible, then?

MS. DICKERSON: Everyone is eligible. Actually, because of our aging workforce, we don't have a lot of people who are participating in the dependent care portion. We do have a more significant number who participate in the health care spending account.

CHAIR ROGERS: We prefer to think of it as a mature workforce.

MS. MERCADO: Well, but would the dependent care extend to the reverse, having elderly? A lot of folks have elderly folks that they take care of. Or is it only for children?

MS. DICKERSON: Unfortunately, it doesn't. Yes. It does not cover elder care.

CHAIR ROGERS: Questions?

MR. SMEGAL: I have another question. The reason I asked the questions I just asked is there was a provision in here which looked to me like there was some question what the tax consequences are. And I'm looking at 11.8, which is captioned, "No Guarantee of Tax Consequences."

CHAIR ROGERS: Page 62?

MR. SMEGAL: I am sorry. On page 62, yes. And I came away with a question in my mind as to whether there was some maximum income level above which one could not get this, or otherwise why is this here?

MS. DICKERSON: And you're looking at 11.8?

Is that what you said?

MR. SMEGAL: Right.

MS. DICKERSON: Let me read it. Just a moment.

MR. SMEGAL: And I'm looking halfway through it. It says, "It shall be the obligation of each participant to determine whether each payment under the plan is excludable from the participant's gross income for federal and state income tax purposes."

And I thought maybe that was there because there was some maximum one can make and still get dependent credits. You're an expert on ERISA, I know, but --

MR. ERLENBORN: But not this. Right?

MR. SMEGAL: Not this. Okay.

MR. ERLENBORN: But I would say that it appears to me this is an abundance of caution on the part of the --

MR. SMEGAL: Whoever prepared this boilerplate?

MR. ERLENBORN: Well, this is the company that has been hired to manage the plan. And, of course, they are going to put everything they can in there to keep from any possible adverse consequence to them.

MS. MERCADO: It is under "Miscellaneous."

MR. ERLENBORN: But I agree with you, Alice, that my recollection is this is a cash or deferred benefit situation --

MS. DICKERSON: That's correct.

MR. ERLENBORN: -- where the funds which would otherwise go to the employee as taxable cash compensation go into this tax-free. And I don't believe there is any qualification based on age.

MS. DICKERSON: Yes. The portion that they set aside for this is excluded from income tax.

MR. ERLENBORN: Right.

MS. DICKERSON: But there is no limit on the amount of their income, the amount of income they can have. Now, as the plan sponsor, LSC sets the limit on how much they can set aside. And as I said, initially it was 1500. We have increased that to 2,000.

I think this particular clause that you're talking about may also go more to the kinds of medical expenses, for instance, that are excludable for this purpose. And that may in fact be what this relates to. There are only certain kinds of medical expenses. For instance, doctor copays, prescription drug copays. You have Lasik eye surgery. Those kinds of things are includable for this purpose.

MR. SMEGAL: Well, I was more focused on the dependent care than --

MS. DICKERSON: Oh, on the dependent care?

MR. SMEGAL: Yes. If that was really not income-limited.

MS. DICKERSON: The main thing with that goes to the -- again, the $5,000 limitation. Let me see.

MR. SMEGAL: What does it cost -- I guess I'm hopeful your answer is zero, but what does it cost the Corporation or an employer to set up a plan like this?

MS. DICKERSON: There was a setup fee for it, and my recollection is that initially it was about $800.

MR. SMEGAL: So it's a one-time fee, and

there's nothing after that?

MS. DICKERSON: Well, no. There's a yearly administrative fee.

MR. SMEGAL: Annual fee?

MS. DICKERSON: An annual administrative fee, yes.

MR. SMEGAL: Thank you.

MS. DICKERSON: But the costs are very minimal for the benefit that it provides to employees.

MR. RICHARDSON: The other savings here to the Corporation is the amount of money that is set aside under this particular plan is also not taxable for FICA purposes. So when they set money aside, the money that we're paying for the administrating of the system is offset by the savings in FICA taxes, Social Security.

MR. ERLENBORN: Madame Chairman, I'd say as a sometime practitioner in the employee benefits field that the Corporation is a good employer and we have very good benefits for the employees. But I don't think that in any way they're excessive.

MS. DICKERSON: Oh, no.

CHAIR ROGERS: Thank you, Alice. If there's no further discussion, is there a motion to adopt the resolution that appears on pages 30 and 31?

M O T I O N

MR. ERLENBORN: So move.

MR. SMEGAL: Second.

CHAIR ROGERS: All in favor?

(A chorus of ayes.)

CHAIR ROGERS: Opposed?

(No response.)

CHAIR ROGERS: That completes the formal agenda.

MS. DICKERSON: Thank you.

CHAIR ROGERS: Thank you. Is there any other business to come before the finance committee?

MR. SMEGAL: Well, before we leave the subject, I want to compliment Alice. It was exciting.

MS. MERCADO: Essentially the 64 pages.

CHAIR ROGERS: And is there any public comment?

(No response.)

CHAIR ROGERS: If not, is there a motion to adjourn?

M O T I O N

MR. ERLENBORN: I so move.

MR. SMEGAL: Second.

CHAIR ROGERS: All right. We are adjourned.

(Whereupon, at 2:29 p.m., the meeting was concluded.)

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